

Tax Hotline

January 15, 2003

MAJOR ANNOUNCEMENTS DIRECTED TOWARDS CONVERTING INDIA INTO A GLOBAL DYNAMO

India celebrated January 9 as 'Pravasi Bharatiya Divas' (Indian Diaspora Day) to commemorate, Mahatma Gandhi's return to India from South Africa on January 9, 1915. A brainchild of the Indian Prime Minister, A B Vajpayee, this event was a result of a 2-year study of the Indian Diaspora by a Committee headed by L.M. Singhvi, former High Commissioner to UK. Among the recommendations in its 600-page report, the Committee suggested that the government host such a celebration to rejuvenate its ties with the 20 million strong diaspora worldwide.

At the celebrations, the Indian Finance Minister, Jaswant Singh announced major relaxations in capital controls aimed at full convertibility of the Indian rupee. Some of the announcements include:

- Indian companies would be allowed to retain entire American Depository Receipt ("ADR") / Global Depository Receipt ("GDR") proceeds abroad for future foreign exchange requirements. At present the limit is USD 10,000. In the case of funds already raised through ADR/GDR issues, permission from the government will be required;
- Existing limit of USD 20,000 remittance under the Employees Stock Option scheme would be removed;
- Proceeds of upto USD 1 million from asset transfer in India would be allowed to be remitted abroad by non residents;
- Indian residents would be allowed to invest in the equity of companies listed on recognized overseas stock exchanges, provided these companies have at least 10% shareholding in a company listed on an Indian exchange. There is no limit on individual investments however for corporates the limit has been pegged at 25% of the networth of the investee company and in the case of mutual funds the limit is set at USD 1 billion;
- Indian corporate with branches and offices abroad would be permitted to acquire immovable property overseas for their business/staff residential purposes;
- Limits on trade related loans and advances by export earners and foreign currency account holders would be discontinued. However, transactions would continue to be reportable to the Reserve Bank as at present.

However, it is pertinent to note, that these are announcements made by the Finance Minister and one needs to await formal notifications by the respective Ministries stating the terms and conditions subject to which these announcements would become effective.

Another important announcement at the Pravasi Bharatiya Divas celebrations was the Prime Minister's announcement of India exploring the idea of passing an enactment to permit holding of dual citizenship by Persons of Indian Origin ("PIO"). Under the present law, Indian citizenship is automatically forfeited when an Indian acquires the passport of a foreign country. Dual citizenship would offer a wide range of benefits to the PIOs living abroad, including a free visa entry, permission to stay longer in India, eligibility to purchase agricultural land and access to housing schemes of state-run Life Insurance Corporation, but PIOs would not be allowed to contest or vote in elections.

Source: *The Economic Times*, dated January 11, 2003

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