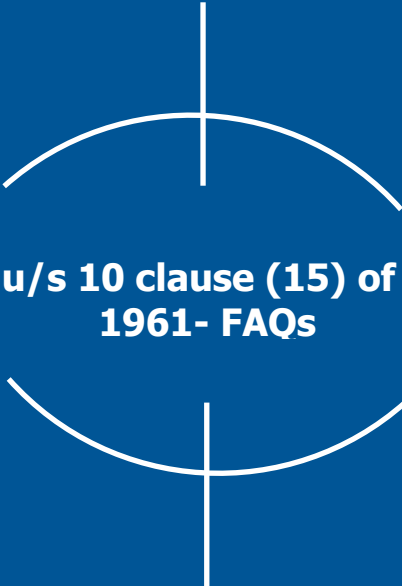




A.K. Stockmart Pvt. Ltd.

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**Tax Free Bonds u/s 10 clause (15) of Income Tax Act,
1961- FAQs**

Background:

- In exercise of the powers conferred by item (h) of sub-clause (iv) of clause (15) of Section 10 of the Income Tax Act, 1961 (43 of 1961), the Central Government authorizes specified public sector entities to come up with tax-free bonds every year
- In order to boost the infrastructure development in railways, ports, housing and highways development, the Union Budget 2011 allows the public sector infrastructure companies to issue tax free bonds up to Rs 30,000 crore during 2011-12
- Of the proposed Rs 30,000 crore, Indian Railway Finance Corporation would issue bonds worth Rs 10,000 crore, National Highway Authority of India Rs 10,000 crore, HUDCO Rs 5,000 crore and PFC Rs 5,000 crore.

Salient Features of these Bonds:

- There will be no deduction of tax at source from the interest, which accrues to the bondholders in these bonds irrespective of the amount of the interest or the status of the investors
- Wealth Tax is not levied on investment in Bond under section 2(ea) of the Wealth-tax Act, 1957
- Tax free bonds are issued by Government Owned Undertakings and carry high credit rating
- Bonds to be allotted on first-cum-first serve basis up to the issue size of relevant tranches
- Bonds are likely to be issued either in Demat form or physical form at the option of bondholders.
- Bonds are listed on the WDN segment of the BSE and the NSE

FAQs on Tax Free Bonds:**1. What is the Tax Treatment of interest on these Bonds? Are these Bonds Tax Free?**

Yes, the interests on these bonds are tax free.

2. Who can apply in to these kinds of bonds?

Category Of Investors		
Category I	Category II (Above Rs. 5 Lakh)	Category III (Below & including Rs. 5 Lakh)
Public Financial Institutions, Statutory Corporations, Commercial Banks,	Resident Indian individuals;	Resident Indian individuals;
Co-operative Banks and Regional Rural Banks, which are authorised to invest in the Bonds;		
Provident Funds, Pension Funds, Superannuation Funds and Gratuity Fund, which are authorised to invest in the Bonds;	Hindu Undivided Families through the Karta	Hindu Undivided Families through the Karta
Foreign Institutional Investors (including sub-accounts)	Non Resident Indians on repatriation as well as non-repatriation basis	Non Resident Indians on repatriation as well as non-repatriation basis
Insurance Companies registered with the IRDA;		
National Investment Fund; and		
Mutual Funds		
Companies; bodies corporate and societies registered under the applicable laws in India and authorised to invest in the Bonds		
Public/private charitable/religious trusts which are authorised to invest in the Bonds;		
Scientific and/or industrial research organizations, which are authorised to invest in the Bonds		
Partnership firms in the name of the partners		
Limited liability partnerships formed and registered under the provisions of the Limited Liability Partnership Act, 2008 (No. 6 of 2009)		

3. Can a minor apply to these bonds?

Yes, a minor can apply for these bonds, but only through a guardian.

4. What is the face value of each bond?

Rs. 1,000/- per Bond

5. Can one apply in joint names?

Yes, In case of Application Form being submitted in joint names, the applicants should ensure that the de-mat account is also held in the same joint names, and the names are in the same sequence in which they appear in the Application Form.

6. Who will get the interest in case of joint application?

In case of joint application, interest will be accounted to the first holder only.

7. My Demat account is in joint name, but I want to apply in a single name?

In case of a single application, Demat account of the same single applicant would be necessary. Joint Demat account would not do.

8. If I'm an NRI can I invest in these bonds?

Yes. NRI's can invest in bonds through Repatriable as well as Non-Repatriable basis.

1. In case of NRIs applying under repatriation basis: If it is received either by inward remittance of freely convertible foreign exchange through normal banking channels i.e. through rupee denominated demand drafts/cheque drawn on a bank in India or by transfer of funds held in the investor's rupee denominated accounts i.e. Non-resident Ordinary (NRO) account maintained with an RBI authorised dealer or a RBI authorised bank in India.

2. In case of NRIs applying under non-repatriation basis- If it is received either by inward remittance of freely convertible foreign exchange through normal banking channels i.e. through rupee denominated demand drafts/cheque drawn on a bank in India or by transfer of funds held in the investor's rupee denominated accounts i.e.. Non-resident Ordinary (NRO) account and Non Resident External (NRE) maintained with an RBI authorised dealer or a RBI authorised bank in India.

9. Is there TDS on the interest?

There will be no deduction of tax at source from the interest, which accrues to the bondholders in these bonds irrespective of the amount of the interest or the status of the investors.

10. I don't have a PAN card. Can I still apply for subscription?

PAN card is mandatory for subscribing to these bonds.

11. Are these bonds listed anywhere?

Yes, these bonds are ideally listed on the Capital Market Segment of the National Stock Exchange of India Ltd. (NSE) and the Bombay Stock Exchange (BSE).

12. What is the interest on application money on such bonds prior to the date of allotment?

The interest on application money is the respective coupon rate (subject to deduction of tax at source, as applicable) will be paid to the eligible investors from the date of realization of subscription money up to one date prior to the Deemed Date of Allotment.

13. Does this bond carry buyback options?

No. Neither "Put Option" shall be available to the Bondholder(s), nor would "Call Option" be available to the Company to redeem the Bonds prior to maturity

14. Who cannot apply for this issue?

- Minors without a guardian name;
- Foreign nationals;
- Persons resident outside India other than NRIs ;
- Overseas Corporate Bodies

15. What are the previous issuances on this tax-free segment?

Issuer	Option I	Option II
PFC (Private Placement)	8.09% p.a. tax free coupon	8.16% p.a. tax free coupon
Tenure/(Buyback)	10 Yr/(N.A)	15 Yr/(N.A)
IRFC (Private Placement)	7.55% p.a. tax free coupon	7.77% p.a. tax free coupon
Tenure/(Buyback)	10 Yr/(N.A)	15 Yr/(N.A)
PFC (Private Placement)	7.51% p.a. tax free coupon	7.75% p.a. tax free coupon
Tenure/(Buyback)	10 Yr/(N.A)	15 Yr/(N.A)

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