Taxation of Global Investments

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THERE ARE TWO TYPES OF TAXATION EVENTS

1. Taxes on Investment Gains:

You will be taxed in India for gains made when your stocks rise. Gains are considered materialised only when you sell. You will not be taxed in any other country except India since Minance only makes investments in countries which whom India has a double taxation avoidance agreement. The amount of taxes you pay in India depends on how long you hold the investment for. 24 months is the long-term capital gain threshold and the tax rate is 20% with indexation benefit (more on this below). If you sell the stock in less than 24 months from the date of purchase it is a short-term capital gain and is taxed according to your income tax slab.

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2. Taxes on Dividends:

Unlike investment gain, dividends will be taxed in the country of origin at a rate of around 30% (25% for USA). Fortunately, we invest only in countries with whom India has a Double Taxation Avoidance Agreement (DTAA), which allows you to offset income tax already paid abroad. The 25% tax you already paid abroad is made available as Foreign Tax Credit (more on this below) and can be used to offset your income tax payable in India.

Are there any tax deductions?

There is no TDS (Tax Deduction at Source) for your stock market gains (capital gains) from abroad. So when you make money and send it back to your Indian bank account, the broker in does not deduct any tax on it.

Dividends can be subject to TDS. For the TDS done on your dividend earnings, you will get a form called W-8-BEN from Interactive Brokers (this is for US stocks). You can use it while filing your taxes in India to show that you have already paid taxes on this income. W-8BEN can be issued whenever you request.

★ ***There is no TDS (Tax Deduction at Source) for your stock market gains***

★ ***Dividends can be subject to TDS.***

Where can I get a W-8BEN form?

You can get the form here: https://www.irs.gov/pub/irs-pdf/fw8ben.pdf

Avoidance of double taxation.

India has double taxation avoidance agreement with 85 countries. This means that you pay tax only once, in just one country. Here's is the list of countries -

China	Cyprus	Czech Republic	Denmark	Egypt
Estonia	Ethiopia	Finland	France	Georgia
Germany	Greece	Jordan	Hungary	Iceland
Indonesia	Ireland	Israel	Italy	Japan
Kazakhstan	Kenya	South Korea	Kuwait	Kyrgyzstan
Libya	Lithuania	Luxembourg	Malaysia	Malta
Mauritius	Mongolia	Montenegro	Morocco	Mozambique
Myanmar	Namibia	Nepal	Netherlands	New Zealand
Norway	Oman	Philippines	Poland	Portugal
Qata	Romania	Russia	Saudi Arabia	Serbia
Singapore	Slovenia	South Africa	Spain	Sri Lanka
Sudan	Sweden	Switzerland	Syria	Tajikistan
Tanzania	Thailan	Trinidad and Tobago	Turkey	Turkmenistan
UAE	Egypt	Uganda	United Kingdom	Ukraine
Mexico	USA	Uzbekistan	Vietnam	Zambia

What is indexation benefit?

Indexation is used to adjust the purchase price of an investment to reflect the effect of inflation on it. A higher purchase price means lesser profits, which effectively means a lower tax.
With the help of indexation, you will be able to lower your long-term capital gains, which brings down your taxable income.

The rate of inflation used for indexation can be taken from the Government's Cost Inflation Index (CII). The Central Government determines the values in the index and is updated on the income tax department's website.

What is Foreign Tax Credit?

Assume a scenario where a taxpayer is a tax resident of Country A (Residence Country) and he is in receipt of income from Country B (Source Country). The Source Country withholds a portion of taxes on the income received by the taxpayer in that country. Further, the Residence

Country, according to its tax laws, would tax the taxpayer on his worldwide income which would include income from the Source State too.

This would result in the taxpayer getting taxed on his income twice i.e. once in the Source Country and once in the Residence Country. To address this, the tax laws in various countries provide for a mechanism whereby the Residence State allows a deduction of taxes paid in the Source Country from the total tax liability in the Residence Country.

The concept of claiming deduction or credit of taxes paid in Source State against tax liability in Residence State is called Foreign Tax Credit.

How to claim Foreign Tax Credit?

If you are a resident Indian as per the income tax rules, the income earned anywhere in the world is taxable in India for you. But how should this income be included in income tax return. Let's find out.

- If you are a Resident, income earned by you anywhere in the world shall be taxable in India and has to be included in your total income.
- Convert your income in foreign currency into Indian Rupees by using the State Bank of India telegraphic transfer buying rate of the last day of the month before the month in which income is due. For example, for converting salary income of June 2014, use the TTBR of the relevant currency for May 2014 and convert your income into Indian Rupees.
- Now, include this income under the head to which it belongs, for example, gains for profit derives from rise in value of shares go under the head 'Income from Capital Gains'.
- You have to treat this income as any other income which is earned by you locally. Minimum exemption of Rs 2,50,000 is allowed on your total income and remaining income is taxable as per income tax slab rates.
- If TDS has been deducted on your income you are allowed to take credit of such taxes. For this purpose, reference has to be made to the relevant Double Tax Avoidance Agreement (DTAA) of the country where such income has been earned. India has entered into DTAAs with several countries. DTAA makes sure that a taxpayer is not doubly taxed for the income earned outside the country of residence. Since income may be taxed at source i.e. from the place it originated and is also usually taxable in the country of residence, the DTAA makes sure that the taxpayer is not adversely impacted. The taxpayer is also allowed to take credit of TDS deducted.
- Taking benefit of a DTAA involves obtaining a Tax Residency Certificate (TRC) that helps identify and certify your tax residency status to make sure the correct DTAA has been applied. This is in line with the tax laws in India.

/ If no DTAA exists between the 2 countries, you may still be able to get tax credit on foreign taxes paid. You may need an expert to assist you.

/ In the latest income tax return forms, several disclosures have been added for income on which DTAA benefit has been claimed.

★ ***If you are a resident Indian as per the income tax rules, the income earned anywhere in the world is taxable in India for you.***

While taking TDS credit, make sure you are referring to the correct DTAA. Under DTAA, there are two methods to claim tax relief – exemption method and tax credit method. By exemption method, income is taxed in one country and exempted in another. In tax credit method, where the income is taxed in both countries, tax relief can be claimed in the country of residence.

If you have earned foreign income on which TDS or any form of tax has been deducted, you may need help from an expert to obtain a TRC and make sure correct DTAA is applied, so you can take credit for the foreign tax deducted.

Documents required to be furnished for claiming FTC

In accordance with Rule 128, in order to claim FTC, the taxpayer is required to file following documents on or before due date of filing of return:

1. A statement of :

- Foreign income offered to tax
- Foreign tax deducted or paid on such income in Form No. 67

2. Certificate or statement specifying the nature of income and the amount of tax deducted therefrom or paid by the taxpayer :

- From the tax authority of the foreign country
- From the person responsible for the deduction of such tax
- Signed by the taxpayer

3. Proof of payment of taxes outside India.

What is Form 67?

Form 67, as mentioned above, is a crucial document that has to be furnished in order to claim FTC by a taxpayer. It is also essential that it be furnished on or before the due date of filing return of income under section 139(1) i.e. the original return of income. You can download Form 67 here.

Procedure for filing Form 67

The CBDT, vide notification no. 9/2017 dated 19 September 2017 has prescribed the procedure for filing Form 67 which have been enumerated here:

- Form 67 is to be prepared and submitted online for taxpayers who are mandated to file their income tax returns electronically;
- This form is available on the e-filing portal of the income tax department in the taxpayer's account.
- Digital Signature Certificate (DSC) or Electronic Verification Code (EVC) is mandatory to submit Form 67
- Submission of Form 67 shall precede the filing of return of income

Filling and submission of Form 67

- Form 67 shall be available to all the taxpayers' logins. The taxpayer is required to login into the e-filing portal using their valid credentials. A link for filing the form has been provided under "E-file-Prepare and submit online forms (Other than ITR)"
- Select Form 67 and the AY from the drop down.
- Instruction to fill the form is enclosed along with Form 67. You can submit the completed form 67 by clicking on the 'submit' button. You can also save the form filled as a draft so that you can make some changes later and then submit it.

You can always reach out to us for help with your taxes. Minance's inhouse chartered accountants are available for your tax planning and filing year round.