

FREQUENTLY ASKED QUESTIONS (FAQs) ON FIIs EXEMPTION

1. How were FIIs taxed on Government Securities under the Income-tax Act, 1961?

Ans Under the Income-tax Act, 1961, interest on certain Government Securities was exempt under section 10(15) till 2002. Subsequently, concessional taxation at 5% was provided under section 115AD read with section 194LD for specified periods between 2013 and 2023. In the absence of any exemption, interest income and capital gains from Government Securities are taxable under the normal provisions applicable to FIIs under section 115AD of the Income-tax Act, 1961.

2. How are FIIs taxed in the Income-tax Act, 2025?

Ans Section 210 of the Income-tax Act, 2025 provides a specific taxation framework for Foreign Institutional Investors (FIIs) in respect of income from securities and capital gains arising from their transfer.

3. What is the definition of a “Foreign Institutional Investor” (FII)?

Ans Under section 210(6)(a) of the Income-tax Act, 2025, “Foreign Institutional Investor” means such investor as the Central Government may specify by notification. Among others, the Foreign Portfolio Investors (FPIs) registered with Securities and Exchange Board of India under the SEBI FPI Regulations were notified as FIIs vide notification dated 22.01.2014.

4. What are the tax rates applicable to FIIs under section 210 of the Income-tax Act, 2025?

Ans Under section 210(1), income in respect of securities is taxable at 20%. Short-term capital gains not covered under section 196 are taxable at 30%, while short-term capital gains covered under section 196 are taxable at 20%. Long-term capital gains not covered under section 198 are taxable at 12.5%. Long-term capital gains covered under section 198 exceeding ₹1,25,000 are also taxable at 12.5%.

5. What are the changes proposed in the present ordinance regarding investments made by FIIs?

Ans: The following income of FIIs are proposed to be exempted:

- Interest income earned from Government Securities; and
- Capital gains arising on transfer or redemption of Government Securities.

6. Can Government Securities be listed or unlisted?

Ans Government Securities may be listed on a recognised stock exchange in India or may remain unlisted. Most actively traded Central Government securities are listed.

7. Are Government Securities subject to Securities Transaction Tax (STT)?

Ans No, transactions in Government Securities generally do not attract Securities Transaction Tax (STT) under Chapter VII of the Finance (No. 2) Act, 2004.

8. Does the absence of STT affect taxation of capital gains?

Ans Yes. Sections 196 and 198 of the Income-tax Act, 2025 provide concessional tax treatment only where the specified conditions relating to STT are satisfied. Since STT is generally not payable on Government Securities, concessional provisions under sections 196 and 198 are ordinarily not applicable to transfers of Government Securities by FIIs.

9. How is a Government Security classified as a short-term or long-term capital asset?

Ans Under section 2(101) of the Income-tax Act, 2025, a listed Government Security becomes a long-term capital asset if held for more than 12 months, whereas an unlisted Government Security becomes a long-term capital asset if held for more than 24 months. Accordingly, listed Government Securities held for 12 months or less and unlisted Government Securities held for 24 months or less are treated as short-term capital assets.

10. What is the current tax treatment of short-term capital gains (STCG) on Government Securities?

Ans In the absence of the proposed exemption, short-term capital gains arising from transfer of Government Securities by FIIs are taxable at 30% under section 210(1), since such gains are generally not covered under section 196.

11. What is the current tax treatment of long-term capital gains (LTCG) on Government Securities?

Ans In the absence of the proposed exemption, long-term capital gains arising from transfer of Government Securities by FIIs are taxable at 12.5% under section 210(1), since such gains are generally not covered under section 198.

12. What are the routes by which FIIs invest in Government Securities?

Ans FIIs/FPIs may invest in Government Securities through the General Route and the Fully Accessible Route (FAR).

13. What is the definition of “Government security” for the purpose of the proposed exemption?

Ans Under the Income-tax Act, 2025, “Government Security” shall have the meaning assigned to it in section 2(b) of the Securities Contracts (Regulation) Act, 1956 (42 of 1956). Under section 2(b) of the said Act, “Government security” means a security created and issued, whether before or after the commencement of this Act, by the Central Government or a State Government for the purpose of raising a public loan and having one of the forms specified in clause (2) of section 2 of the Public Debt Act, 1944 (18 of 1944);

15. What are the current levels of FII investments in G-Secs in each of the routes both in % of the outstanding Stock and absolute amount.

Ans As on 12.5.2026---

- (i) FPI holding in general route -- Rs. 54091 Crore out of total Rs. 64.78 lakh crore i.e. 0.83%
- (ii) FPI holding in FAR – Rs. 321080 Crore out of total Rs. 47.63 lakh crore i.e. 6.74%

Combined holding in both routes – Rs. 375171 Crore out of total Rs. 112.42 lakh Crore i.e. 3.34%.

NB/KMN