CBDT exempts specified payments to 14 categories of IFSC units from TDS under Income-tax Act, 2025

The Central Board of Direct Taxes (CBDT) has issued Notification No. 80/2026 dated 10 July 2026, providing that no Tax Deducted at Source (TDS) shall be made on specified payments made to eligible units operating in an International Financial Services Centre (IFSC), subject to prescribed conditions. The notification is effective from 1 April 2026.sansalegal+1

Key Highlights

1. Eligible IFSC Units (14 Categories) The exemption covers:

- Banking Units
- Finance Companies
- Finance Units
- Fund Management Entities
- Broker Dealers
- Investment Advisers
- Registered Distributors
- Custodians
- Credit Rating Agencies
- Investment Bankers
- Debenture Trustees
- FinTech Entities
- IFSC Insurance Intermediary Offices
- International Trade Finance Service (ITFS) Unitssansalegal+1

2. Payments Covered Depending on the category of IFSC unit, the exemption applies to:

- Interest income on external commercial borrowings (ECBs) and loans
- Professional fees
- Technical fees

- Investment advisory fees
- Brokerage and referral fees
- Insurance commission
- Distribution fees and commission
- Credit rating fees
- Trusteeship fees
- Dividend income
- Commission on factoring and forfaiting servicescaclubindia+1

3. Conditions to Avail the Exemption

- The IFSC unit must be eligible for deduction under Section 147 of the Income-tax Act, 2025.
- The unit must furnish a Statement-cum-Declaration in Form No. 1(N) to the payer.
- The declaration must specify the 20 consecutive tax years for which the unit opts to claim the deduction.
- A separate declaration is required for each tax year

4. Compliance for the Payer

- Once Form No. 1(N) is received, the payer is not required to deduct TDS on the notified payments.
- However, the payer must continue to report such payments in the prescribed TDS statements.

Practical Impact

- Improves cash flow for IFSC entities by eliminating TDS-related refunds and credit claims.
- Reduces compliance burden and enhances the attractiveness of GIFT City IFSC as a global financial hub.
- Aligns India's IFSC tax framework with competing international financial centres offering tax-efficient structures.

CA/Audit Firm Takeaway

For clients operating in GIFT City IFSC, ensure:

1. Eligibility under Section 147 is confirmed.
2. Form No. 1(N) is submitted timely to payers.
3. Payers maintain proper records and reporting in TDS returns.
4. The benefit is claimed only during the selected 20-year deduction period.

This is a significant facilitative measure for banking, fund management, fintech, insurance, and other financial service entities operating from IFSCs.