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Tax alert: Interest and capital gains income on government securities to be exempt for FIIs, Bank for International Settlements

5 June 2026
The government has issued an ordinance on 5 June 2026 amending Schedule IV of the Income-tax Act, 2025 to provide exemption to Foreign Institutional Investors and Bank for International Settlements, from interest and capital gains income earned on government securities.

Background:

- Schedule IV of the Income-tax Act, 2025 (Schedule IV) relates to "Income not to be included in total income of eligible non-residents, foreign companies and other such persons".
- The Ministry of Law and Justice has released an Ordinance called Income-tax (Amendment) Ordinance, 2026 [Ordinance 2026] on 5 June 2026 to amend Schedule IV of the Income-tax Act, 2025 (ITA). The amendment provides exemption to certain non-resident taxpayers from interest and capital gains income earned on government security, subject to satisfaction of certain conditions.

  The President of India has promulgated the aforesaid Ordinance 2026 in exercise of the powers conferred under Article 123 of the Constitution.

Amendment in Schedule IV of the ITA through the Ordinance 2026

- Two new entries by way of Sr. nos. 13D and 13E have been added in Schedule IV of the ITA.

  As per the same, **interest income** on **government security**[1] **or capital gains** earned on sale/exchange/transfer of such government security by a **Foreign Institutional Investor**[2] **or a Bank for International Settlements**[3], shall not be included in computing the total income of such taxpayers.
- The above-mentioned exemption shall be subject to furnishing of information in certain form and manner, as would be prescribed.

Comments:

- The aforesaid amendment pursuant to the Ordinance 2026 shall be deemed to have come into force retrospectively from 1 April 2026.
- The measure may boost investments in government securities by the identified category of taxpayers.

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[1] "Government security" shall have the same meaning as assigned to it in section 2(f) of the Government Securities Act, 2006.'.

2 "Foreign Institutional Investor" means such investor as specified in a notification by the Central Government

[3] 'Bank for International Settlements' means the Bank for International Settlements established at the Hague Conference in 1930 and headquartered at Basel, Switzerland.