

Transformational Tax Reform Opens New Chapter for Foreign Investment in India's Bond Market

June 05, 2026

USISPF welcomes the decisive step taken by the Union Cabinet of the Government of India, under the leadership of Hon'ble Prime Minister Shri Narendra Modi, in approving an ordinance to abolish capital gains tax and withholding tax (WHT) on interest earned by Foreign Portfolio Investors (FPIs) from investments in Government Securities (G-Secs). The ordinance has since been promulgated by the Hon'ble President of India and is now in effect, with applicability from 1 April 2026.

Commenting on the landmark reform, Dr. Mukesh Aghi, President & CEO, USISPF believes "This is a strategically calibrated and long-awaited reform that strengthens India's position as an increasingly attractive destination for global capital, particularly in the bond market". He further added that "In an environment marked by global economic uncertainty, the move provides a valuable capital account cushion while reaffirming the Government of India's commitment to fostering a stable, predictable, and globally competitive investment climate."

Reflecting on the implications of the much-awaited reforms, Chairman of USISPF Strategic Working Group on Private Equity and Venture Capital Vishal Mahadevia said that "The reforms would bolster India's case for greater inclusion in global bond indices, supporting sustained capital inflows and deeper integration with global financial markets. In addition to the macro-economic impact, it is also expected to boost the liquidity in G-secs thus enabling appropriate price-discovery across tenors in the Corporate Bond Market - thus supporting its growth and development".

Reacting to this important policy announcement, Chairman of USISPF's US-India Tax Forum, Tarun Bajaj, Former Revenue Secretary of India said, "The abolition of capital gains tax and withholding tax on interest earned on Foreign Portfolio Investments in Indian Government Securities is a timely, forward-looking, and structurally significant reform. It removes a long-standing tax friction that has constrained greater foreign participation in India's sovereign debt market and aligns India more closely with global best practices.

A deeper and more liquid secondary market for Government Securities will strengthen price discovery, and improve market efficiency. At a time when global geopolitical uncertainties, volatile capital flows, and exchange rate pressures are posing challenges for our economy, this reform can provide a meaningful boost to investor confidence.

The measure is also likely to support sustained foreign inflows into the debt market, diversifying India's external capital base and providing an important stabilizing influence for the rupee, particularly when foreign portfolio flows into equities remain susceptible to global risk sentiment. Overall, this is a well-calibrated reform that will strengthen India's financial markets while delivering tangible macroeconomic and fiscal benefits.