

# Note on setting up a Liaison Office In India

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## 1. Introduction to Liaison Office

A Liaison Office (LO) is in the nature of a representative office set up primarily to explore and understand the business and investment climate. A Liaison Office is not permitted to undertake any commercial /trading / industrial activity, directly or indirectly, and is required to maintain itself out of inward remittances received from parent company through normal banking channels. A Liaison Office is permitted to undertake following activities only:

- Representing the parent Company in India
- Promoting export/ import from/ to India
- Promoting technical / financial collaborations between the parent companies and companies in India

## 2. What are the permissions required for opening of a Liaison Office

Any foreign company intending to open a Liaison Office in India is required to obtain prior approval from the RBI, the apex bank in India. Approval is usually granted for one to three years and can be renewed on expiry thereof.

## 3. What are the activities a Liaison Office can do

The Liaison Office generally acts as a communication channel between the parent company-overseas and its present or prospective customers in India. The Liaison Office can also be set up to establish business contacts or gather market intelligence to promote the products or services of the overseas parent company.

## 4. What are the restrictions on a Liaison Office

*The Liaison Office cannot undertake any business activity in India nor earn any income in India.*

At the time of closure of the Liaison Office, RBI grants permission to repatriate the balance in the Indian bank account to the parent company subject to fulfilment of prescribed conditions.

A Liaison Office is subjected to few restrictions; some of them that deserve to be well understood are reproduced here:

- It cannot carry out any commercial operations in India.
- It must maintain a QA22C account with the bank. This is a special account that only allows inflows from abroad.
- It can neither borrow, nor lend money
- All expenses of the office must be met through inward remittances to the office from abroad (parent company) through the bank. It is not subject to taxation in India
- However, the office must file regular returns to the RBI. Such returns must include Audited Annual accounts and an activity report for the year.

## 5. What are the tax liabilities for a Liaison Office

As the Liaison Office is not permitted to earn any income, it should not constitute a taxable entity in India. However, the Liaison Office would be required to withhold tax from certain payments and hence is expected to comply with the requisite “tax withholding” obligations under the domestic tax law.

## 6. What is the process for setting up a Liaison Office

To open a Liaison Office, the parent company has to apply to the Reserve Bank of India and is normally granted permission within 6 to 8 weeks. The Process of setting up entails following steps:-

- An application in a prescribed format will be submitted to the banker we choose. They will scrutinize the proposal and forward the same to Reserve Bank of India (RBI). In case they have any queries, the same will be sorted out in consultation with service provider.
- RBI will scrutinise the papers and issue a letter giving permission for the Liaison Office. This permission is typically valid for a period of three years.
- We need to approach the bankers with a copy of this letter and relevant documents or opening of Bank account and on scrutiny of documents, bank account is established.
- We are expected to obtain following registrations -
  - a) Permanent Account Number (PAN)
  - b) Tax Account Number (TAN)
  - c) Registration with House of Companies (Locally called Registrar of Companies- ROC)
  - d) Unique Identification Number (UIN)
  - e) Obtain Import Export Code (IEC) - This is not mandatory

We are now ready to start operations in India.

## 7. Are there any eligibility criterion for setting up a Liaison Office in India

As per recent circulars of Reserve Bank of India, a Foreign Company wishing to set up a Liaison Office (LO) needs to fulfill following requirements:

**Reserve Bank Route** — Principal business of the foreign entity falls under sectors where 100 per cent foreign direct investment (FDI) is permissible under the automatic route.

**Government Route** — Principal business of the foreign entity falls under the sectors where 100 per cent FDI is not permissible under the automatic route. Applications from entities falling under this category are considered by the Reserve Bank, in consultation with the Government of India, Ministry of Finance.

**Track Record** — a profit making track record during the immediately preceding three financial years in the home country.

**Net Worth** — not less than USD 50,000 or its equivalent. [total of paid-up capital and free reserves, less intangible assets as per the latest Audited Balance Sheet or Account Statement certified by a Certified Public Accountant or any Registered Accounts Practitioner by whatever name].

Applicants that do not satisfy the eligibility criteria and are subsidiaries of other companies may submit a Letter of Comfort from their parent company subject to the condition that the parent company satisfies the eligibility criteria as prescribed.

## 8. What is the documentation requirement for setting up a Liaison Office

Following documents are required for applying to RBI for setting up the Liaison Office (LO) in India:

- You need to choose a banker in India with whom you would bank once the LO is formed. It may be noted that the application for setting up is to be forwarded to RBI through this bankers.
- Application in Relevant Forms, duly completed in all respects and signed by the authorized signatory of the foreign entity in the home country may be submitted along with the Letter of Comfort, wherever applicable, to the designated AD Category - I banking for onward transmission to the Reserve Bank, along with their comments and recommendations and the prescribed documents.
- Copy of the Certificate of Incorporation / Registration attested by the Notary Public in the country of registration [If the original Certificate is in a language other than in English, the same may be translated into English and notarized as above and cross verified/attested by the Indian Embassy/ Consulate in the home country].
- Latest Audited Balance sheet of the applicant company. [If the applicants' home country laws/regulations do not insist on auditing of accounts, an Account Statement certified by a Certified Public Accountant (CPA) or any Registered Accounts Practitioner by any name, clearly showing the net worth may be submitted]
- KYC i.e. Bankers' Report from the applicant's banker in the host country / country of registration showing the number of years the applicant has had banking relations with that bank.
- Note on the activities proposed to be undertaken along with literature of the parent company.
- In addition to this there may be some forms that need to be signed and other requirements that the RBI may seek at the time of scrutiny.

## How can we help !

Our core team comprises of professionals who have wide and extensive experience in structuring India entry strategy and liaison office for many corporate's and in advising and assisting on various such matters

Our range of services includes :

- Advising on/formulating the entry strategy for India
- Obtainment of approval from the Reserve Bank of India
- Advising on the various compliance procedures under relevant laws, rules and regulations including industry specific legal issues
- Acting as representative office of a foreign entity to in India to promote its business development and interests in India

**For any tax or regulatory support you may contact ashwani & associates at any the following coordinates:**

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