No TDS on Aircraft and Ship Lease Rent to IFSC Units

CBDT Notifications 74/2026 and 75/2026: cash-flow relief for India's GIFT City leasing hub

IFSC | GIFT CITY | SECTION 147 | SECTION 393 | INCOME-TAX ACT 2025 | EFFECTIVE 1 APRIL 2026

What Changed

Two CBDT notifications remove the TDS drag on aircraft and ship lease payments routed through India's IFSC.

Notification 74/2026 — 3 July 2026

No TDS on aircraft lease rent and supplemental lease rent paid to an IFSC leasing unit.

Notification 75/2026 — 3 July 2026

The same relief extended to ship lease rent and supplemental lease rent.

Effective Date: 1 April 2026

Both notifications are deemed to have come into force on 1 April 2026 (Tax Year 2026-27).

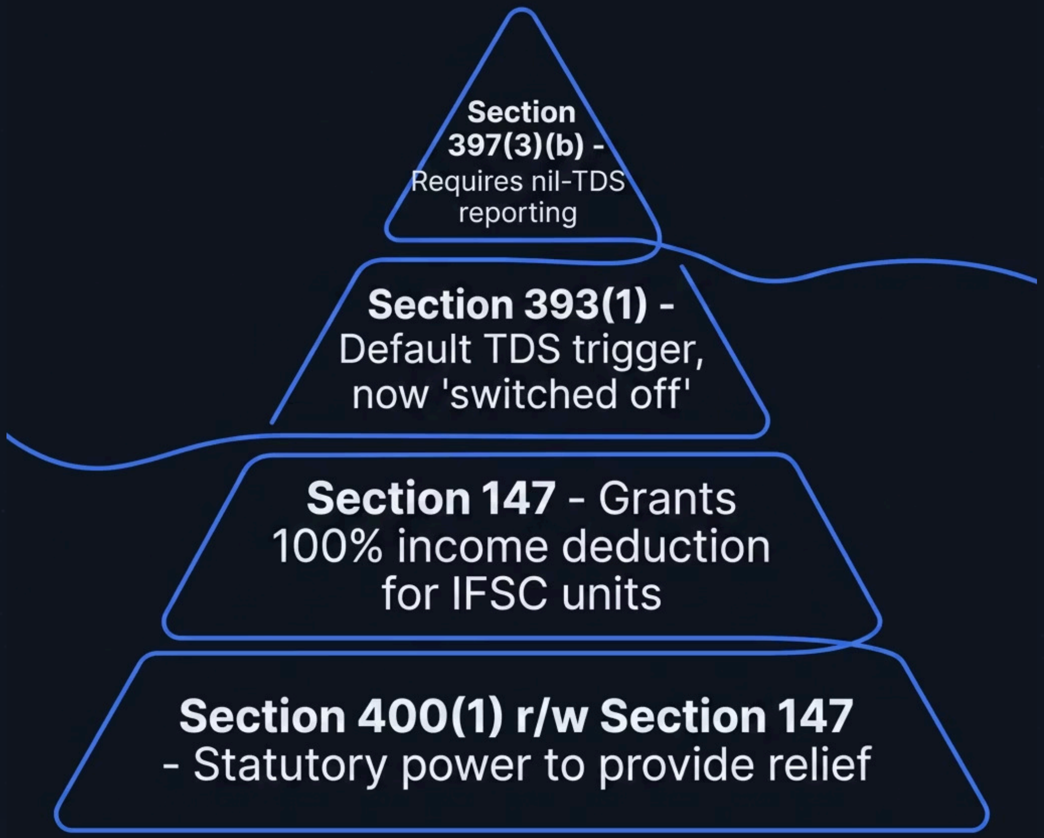
Section 393(1) Switched Off

No deduction under Section 393(1) of the Income-tax Act, 2025 on these payments.

The Legal Architecture

The relief is not a loophole. It sits on four clear pillars of the new Act.

Provision	Role
Section 400(1) r/w Section 147	Statutory power for the notifications
Section 147	100% income deduction for IFSC units and Offshore Banking Units (successor to old Section 80LA)
Section 393(1)	The default TDS trigger on lease payments, now switched off
Section 397(3)(b) r/w Rule 219	Nil-TDS payments must still be reported



The Numbers That Matter

Section 147 is the anchor. The window is now materially longer.

20

Consecutive Tax Years

Of deduction available to an IFSC unit, out of a 25-year block (up from 10-of-15 under Section 80LA).

100%

Deduction on Income

Full deduction on eligible IFSC leasing income during the declared window.

25

Year Block

Total block period within which the 20 consecutive years must be chosen.

0

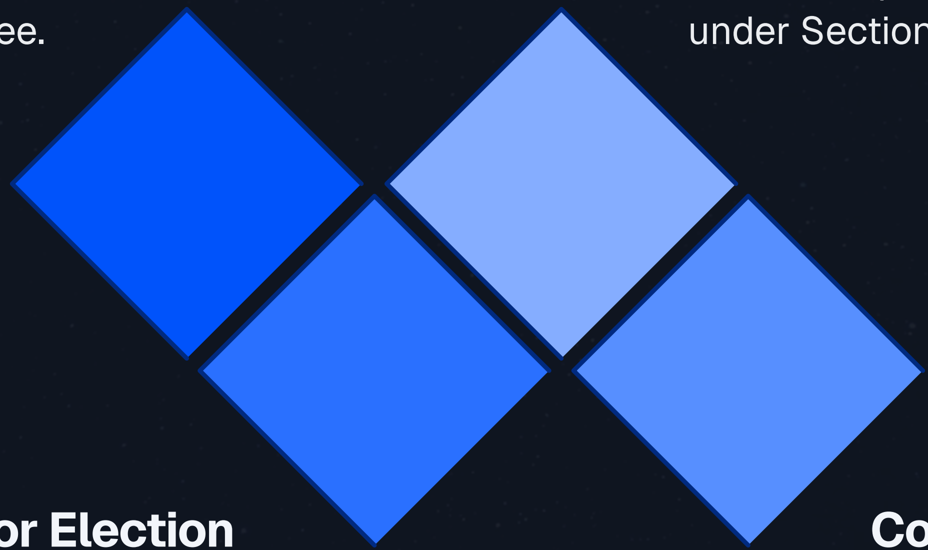
TDS During Window

Zero TDS during declared years, versus the usual withhold-and-refund cycle.

> **Effective Date:** 1 April 2026 — both notifications apply from the start of Tax Year 2026-27.

How the Relief Actually Works: Form 1(N)

Relief is conditional, not automatic. It is switched on by a declaration, in four steps.



Lessor Election

IFSC unit files Form 1N declaring years.

Documentation Transfer

Lessor provides the declaration copy to lessee.

TDS Suspension

Lessee stops deducting under Section 393(1).

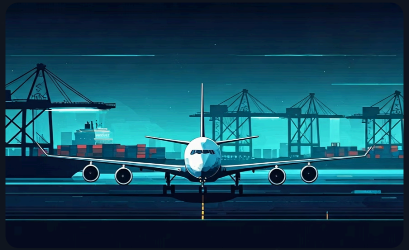
Continued Reporting

Lessee reports nil-TDS under Section 397(3)(b).

The IFSC leasing unit files **Form 1(N)**, a statement-cum-declaration naming the consecutive tax years (up to 20) for which it claims the Section 147 deduction. The lessor then gives the lessee a copy of that declaration. On receiving the copy, the lessee stops deducting under Section 393(1) for the declared period. The lessee still reports the nil-TDS payments under **Section 397(3)(b) read with Rule 219**.

Who This Affects

Three parties, three different jobs.



Lessees — Airlines & Shipping Companies

Immediate cash-flow winners. Must obtain and hold Form 1(N) before the first payment and keep reporting nil-TDS in quarterly returns.

Lessors — IFSC Units

File Form 1(N) accurately, keep Section 147 elections consistent, and issue a declaration to every lessee before payments begin.

Tax Advisers

Verify the lessor's IFSC registration and the exact deduction window, and confirm nil-TDS entries appear in the quarterly statements.

The Traps

Nil TDS does not mean nil obligation. Four ways this goes wrong.

1	**Reporting Still Applies** Nil-deduction payments must be disclosed under Section 397(3)(b) and Rule 219. Omitting these disclosures creates compliance exposure even when no tax is withheld.
2	**No Declaration on File, No Relief** Without the lessee holding Form 1(N), Section 393(1) TDS still bites. The relief is conditional on documentation being in place before the first payment.
3	**Window Discipline** Relief covers only the declared consecutive years. TDS resumes automatically once the window closes — there is no grace period.
4	**Status Check** Confirm the lessor is a validly registered IFSC unit before the first payment. An invalid registration voids the entire relief.

Why India Did This

This is industrial policy, not a giveaway.

Competing with Ireland and Singapore

The goal is to make **GIFT City** a credible aircraft and ship leasing hub, competing with Ireland and Singapore.

Tax Neutrality as the Core Plank

An IFSC leasing unit's rent income is largely exempt in its own hands during the Section 147 window, creating genuine parity with offshore leasing centres.

Eliminating Working-Capital Drag

Without the carve-out, lessees withheld tax on income the lessor would only reclaim later, creating a pure working-capital drag through refund cycles.

Cost-Competitive Leasing

Removing the TDS friction makes India-domiciled leasing genuinely cost-competitive for both aircraft and ship lessors choosing where to domicile their leasing entities.

Your Action Plan

Five moves before your next lease payment.

01

Confirm IFSC Status

Confirm the counterparty is an IFSC leasing unit claiming Section 147.

02

Obtain Form 1(N)

Obtain **Form 1(N)** and record the exact declared tax years before the first payment.

03

Stop Section 393(1) TDS

Stop Section 393(1) TDS only for those declared years — not beyond.

04

Keep Reporting

Keep reporting the nil-TDS payments in every quarterly statement under Section 397(3)(b) and Rule 219.

05

Diarise the Window Expiry

Diarise the window expiry, and resume TDS the moment it lapses.

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