

Guidance Note – Form 2

Application for Notification of a Zero-Coupon Bond under Rule 7

Purpose of Form 2:

Form 2 is prescribed under **Rule 7** of the Income-tax Rules and is used by:

- Infrastructure capital companies
- Infrastructure capital funds
- Infrastructure debt funds
- Public sector companies

to apply for **notification of a Zero-Coupon Bond (ZCB)** under **Section 2(112)** of the Income-tax Act, 2025 (earlier Section 2(48) of the ITA, 1961).

Notification of a ZCB is a **mandatory pre-condition** for the bond to qualify as a “zero-coupon bond” for tax purposes. Only notified ZCBs are eligible for the special tax treatment of discount under **Section 32(1)(d)**.

Form 2 ensures that the Central Government can evaluate whether the proposed bond issuance satisfies the statutory conditions relating to:

- Minimum/maximum tenure
- Investment commitments
- Rating requirements
- Listing requirements
- Reporting and compliance undertakings

Who Should File Form 2

Form 2 must be filed by an entity **proposing to issue a Zero-Coupon Bond** and seeking notification from the Central Government. Eligible entities include:

1. **Infrastructure capital company**
2. **Infrastructure capital fund**
3. **Infrastructure debt fund**
4. **Public sector company** (as defined under Companies Act or statute)

When to File

Under Rule 7:

- Form 2 **must be filed at least 3 months before the proposed date of bond issue.**
- Applications **cannot be filed for a bond to be issued beyond two tax years** following the tax year of application.
- The Central Government **must dispose of the application within 6 months** of receipt.

How to File

As per Rule 7:

- Form 2 must be **furnished electronically** using:
 - **Digital Signature**, or
 - **Electronic Verification Code (EVC).**

Supporting documents must be attached electronically with the form.

Filing Count (Illustrative)

The number of Form 2 filed over the past five years is 06.

Structure of Form 2

The Form is structured into **Part A** (Applicant Identification) and **Part B** (Bond and Investment Details).

Part A – Personal / Entity Information

Information includes:

- Tax Year
- Name of Applicant / Entity
- PAN
- Aadhaar (Individuals)
- Address (segregated fields for system uniformity)
- Contact details (phone, mobile linked to Aadhaar, email)

This mirrors the standardization changes also introduced across forms under the new regime.

Part B – Bond Details and Investment Plan

Key fields include:

1. **Category of Applicant**
 - Infrastructure capital company
 - Infrastructure capital fund
 - Infrastructure debt fund
 - Public sector company
2. **Date of Incorporation / Registration** with supporting document.
3. **Additional details for Infrastructure Debt Funds:**
 - Notification number under Schedule VII (Table 46)
 - Approval date under Section 10(47) (now Schedule VII reference)
4. **Objects of the Applicant**
 - Main and ancillary objects supported by Memorandum / Trust Deed.
5. **Nature of Business** (for public sector companies).
6. **Bond Issuance Details**
 - Total number of bonds
 - Amount for which bonds will be issued
 - Amount payable at maturity
 - Discount
 - Period of life of bond (years/months/days)

Rule 7 requires tenure **10 to 20 years**.

7. **Financial / Tax Year of issuance.**
8. **Objects of the Issue**
 - Purpose for raising funds through ZCB.
9. **Detailed Investment Plan**

Includes:

- Name of investee entity
- Nature (public sector / other enterprise)
- PAN / Aadhaar (if applicable)
- Address and project details
- Project commencement and operation dates
- Sources of investment (own funds, borrowings, other bonds, etc.)
- Management team executing the project
- Funds proposed to be invested across **six tax years**

These details help verify compliance with mandatory investment timelines under Rule 7:

- **Infrastructure companies/funds:** 25% in T+1 year, balance within 4 years
- **Public sector companies:** 15% in T+1 year, balance within 6 years

10. **Project Report Availability** – Must be attached if available.
11. **Declaration & Undertakings**

The Form requires an undertaking consistent with Rule 7:

- ZCB proceeds will be invested within statutory timelines
- Infrastructure debt funds will maintain a **sinking fund for interest accrual** invested in government securities.

Verification & Certification Requirements

Form 2 is filed by the **authorized signatory** of the applicant entity.
A Power of Attorney must be attached where applicable.

Additionally, after notification:

- Rule 7 requires the entity to file **Form 3 annually** within 2 months from end of each relevant tax year, certified by an **accountant** as defined in Section 515(3)(b).

Key Legal Framework [Rule 7 Overview]

Rule 7 sets out:

Conditions for Notification

Before a ZCB is notified, the Central Government must verify:

1. **Tenure:** 10–20 years
2. **Credit Rating:** Investment grade from two SEBI-registered credit rating agencies
3. **Listing:** Bond must be listed on a recognized stock exchange
4. **Investment Undertakings**
 - Infrastructure companies/funds: 25% within T+1 year; balance within 4 years
 - Public sector companies: 15% within T+1 year; balance within 6 years
 - Infrastructure debt funds: Sinking fund requirement
5. **Application Timelines**
6. **Submission of annual accountant certificate** in Form 3
7. **Power of Government to withdraw approval** for non-compliance

Functional Enhancements

Form 2 incorporates modern formatting and system-readiness:

- Segregated fields for name, PAN, address, etc. (uniform system structure)
- Dropdowns and tick-boxes for entity category
- Auto-computed tax year sequences for multi-year investment projections
- Structured multi-row project and investment tables
- Attachment-enabled sections (project report, organizational structure, certificates)

Outcome and Usage

For the Applicant (Issuer)

- Notification ensures the bond qualifies as a **Zero-Coupon Bond** under Section 2(112).
- Discount becomes deductible on a **pro rata basis** under Section 32(1)(d).
- Non-notified bonds are **not eligible** for such tax treatment.
- Non-compliance with investment timelines or reporting obligations can lead to **withdrawal of notification**.

For the Central Government

- Ensures that notified ZCBs fund genuine long-term infrastructure development.
- Provides mechanism to track utilization of ZCB proceeds through Form 3.

Practical Guidance for Filing Form 2

1. Prepare **investment plans and project documentation** well ahead of the 3-month filing deadline.
2. Ensure **SEBI-compliant dual credit rating** is obtained before filing.
3. Confirm that the bond can be **listed on a recognized stock exchange**.
4. Attach all mandatory documents:
 - Certificate of incorporation / registration
 - Trust deed (for funds)
 - Project report
 - Organizational structure
 - Notification copies (IDF approvals)
5. Use **consistent project data** across multiple tables.
6. Ensure undertakings are correctly selected (company/fund/IDF/PSC).
7. Maintain internal tracking for mandatory investments in T+1 to T+6 tax years.
8. After notification and issuance, timely file **Form 3** each year.

Conclusion

- Form 2 provides a structured, transparent, and detailed framework to assess eligibility for issuing Zero-Coupon Bonds under Rule 7.
- Correct and timely filing is critical for ensuring recognition of ZCBs and availing tax benefits.
- Entities must meticulously prepare supporting documentation, investment plans, and compliance undertakings to avoid delays or rejection.