

Guidance Note on Form 3

Certificate of Accountant under Rule 7 (Zero Coupon Bonds)

Purpose of Form 3

Form 3 is prescribed under **Rule 7** of the Income-tax Rules (as aligned with the Income-tax Bill, 2025). It must be furnished by:

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

that issue **Zero Coupon Bonds (ZCBs)** notified under **Section 2(112)** of the Income-tax Bill, 2025 (formerly Section 2(48) of the ITA 1961).

Purpose:

Form 3 certifies, for each relevant tax year, the **amount of funds actually invested** out of the money realized through the issue of Zero Coupon Bonds, in accordance with the statutory investment timelines prescribed under **Rule 7**.

This form enables verification of compliance with:

- Minimum investment thresholds
- Timelines for utilisation of ZCB proceeds
- Maintenance of a sinking fund (in case of Infrastructure Debt Funds)

It must be certified by an **Accountant** as defined under **Section 515(3)(b)** (analogous to Explanation to Section 288(2) of ITA 1961).

Who Should File Form 3

Every entity that **issues a Zero Coupon Bond notified by the Central Government** must file this form for each tax year where utilization of ZCB proceeds is required to be reported.

This includes:

1. **Infrastructure Capital Company**
2. **Infrastructure Capital Fund**
3. **Infrastructure Debt Fund (IDF)**
4. **Public Sector Company**

When Form 3 Must Be Filed

Rule 7 mandates that Form 3 must be filed:

- **Within two months from the end of every tax year** falling within the investment periods specified under Rule 7.

Those periods are:

For Infrastructure Capital Companies / Funds

- Minimum **25%** of realization → by end of the tax year following the year of issue
- Remaining **75%** → within **four tax years** thereafter

For Public Sector Companies

- Minimum **15%** → by end of the tax year following the year of issue
- Remaining **85%** → within **six tax years** thereafter

For Infrastructure Debt Funds

Must additionally maintain a **sinking fund for accrued interest** and invest it in **Government securities**. Form 3 must certify compliance.

How Form 3 Is Filed

Under Rule 7, Form 3 must be filed:

- **Electronically**, on the Income-tax portal
- **Either** under Digital Signature Certificate (DSC) **or** Electronic Verification Code (EVC)
- Including a **UDIN**, as applicable, for the accountant's certificate

Structure of the Revised Form 3

The revised form is system-aligned, consistent with modern e-filing requirements, and contains the following sections:

A. Particulars of the Issuer

- Name of the Infrastructure Capital Company / Fund / IDF / PSU
- PAN
- Category (tick box format)
- Date and Number of the Notification for the ZCB
- Date of Issue of the ZCB
- Amount realized through ZCB issue

B. Details of Investments Out of ZCB Proceeds

A tabular section requiring:

1. **Name of Entity in which investment is made**
2. **Nature of entity**
3. **PAN / Aadhaar of the entity**
4. **Address of the entity**
5. **Nature of business**
6. **Address / Location of project**
7. **Project commencement dates:**
 - Project commencement
 - Operations commencement
 - Commercial operations commencement
8. **Investment amounts across tax years (Tax Year 1–6)**

The table supports:

- **Multiple entities**
- **Multi-year investment reporting**
- **Public sector companies / other entities / IDFs**

C. Sinking Fund Certification (Applicable Only to IDF)

A mandatory certification (or strike-off) confirming:

- Maintenance of sinking fund
- Interest investment into Government securities

D. Verification

Accountant must certify:

- Examination of books
- Correctness of investment details
- Compliance with Rule 7 timelines

Verification fields include:

- Name
- Registration number
- Address
- UDIN (if applicable)

Legal Framework

Form 3 derives authority from:

Rule 7 – Guidelines for Notification of Zero Coupon Bonds

Key substantive references:

Subject	ITA 1961 Reference	ITB 2025 Reference
Definition of ZCB	Section 2(48)	Section 2(112)
Discount on ZCB	Section 36(1)(iiia)	Section 32(1)(d)
Infrastructure Debt Fund	Section 10(47)	Schedule VII – Sl. 46
Accountant definition	Section 288(2)	Section 515(3)(b)

The rule prescribes:

- Eligibility conditions for ZCB notification
- Investment utilization schedules
- Sinking fund requirement for IDFs
- Annual reporting via Form 3

Key Functional Enhancements in Revised Form 3

System-related improvements:

- **PAN-based pre-filling** for issuer details
- **Dropdowns** for categories and entity types
- **Tax Year-wise investment fields** replacing earlier “financial year” structure
- **Expandable table layout** for multiple investment entities
- **Digital verification** including UDIN

Compliance-related improvements:

- Explicit separation of:
 - Project commencement
 - Operations commencement
 - Commercial operations completion
- Uniform formatting for officer / accountant details
- Mandatory strike-off instructions for IDFs

Practical Guidance for Issuers

To ensure smooth filing:

Documentation to Maintain

- Bank statements for ZCB realizations
- Investment approval documents
- Project progress certificates
- Sinking fund ledger (for IDFs)
- Credit rating records
- Notification copy

Key Compliance Tips

- Align investment schedules strictly with Rule 7
- Maintain year-wise records to populate Tax Year 1–6 accurately
- Ensure accountant’s UDIN is generated before filing
- Maintain consistency across years—discrepancies may trigger scrutiny
- File within **two months** of tax year-end to avoid non-compliance risk

Consequences of Non-Compliance

Failure to file Form 3 or non-fulfillment of Rule 7 conditions may result in:

- **Withdrawal of ZCB notification** under Rule 7
- **Loss of tax benefits** associated with notified Zero Coupon Bonds
- **Exposure to reassessment / scrutiny**
- **Investor impact**, especially for listed bonds

Summary

Form 3 is a critical compliance form that ensures transparent and timely monitoring of how Zero Coupon Bond proceeds are utilized.

The revised structure:

- Improves system compatibility
- Ensures clarity of investment tracking
- Strengthens regulatory controls through accountant verification

Issuers should ensure proper record-keeping and timely annual filing to maintain their ZCB notification status and associated tax advantages.