

TAX FREE MUNICIPAL BONDS

In 2000-01, the Government inserted a new clause (vii) in Section 10(15) of the Income Tax Act, 1961, exempting interest income from bonds issued by local authorities. Funds raised from Tax Free Municipal Bonds are to be used only for capital investments in urban infrastructure for providing one or more of the following:-

- i. Potable Water Supply
- ii. Sewerage or Sanitation
- iii. Drainage
- iv. Solid Waste Management
- v. Roads, Bridges and Flyovers; and
- vi. Urban Transport (if this is a municipal function under respective state legislation)

2. Ministry of Urban Development has been designated as the nodal agency for processing applications for issue of tax free bonds.

3. Guidelines for issue of municipal tax free bonds have been revised in consultation with the Ministry of Finance and circulated to all the State Governments and UT Governments on 7th March, 2006.

4. A statement showing the ULBs/Corporations that have been granted permission to raise funds through issue of Tax Free Municipal Bonds is enclosed at **Annexure-I**.