

Liaison Office in India – An Overview

A Liaison Office 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. The 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
- Acting as a communication channel between the parent company and Indian companies

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.

Suitability of a Liaison Office

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.

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.

Since 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.

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To open a Liaison office, the parent company has to apply to the Reserve Bank of India and is normally granted permission within 2 to 4 weeks.

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.

The following documents are required for applying to RBI for setting up the Liaison Office in India:

- 1) [Form FNC 1](#) *- 3 Copies
- 2) [Letter from the Principal officer of the Parent Company to RBI](#)*
- 3) [Letter of Authority from the Parent Company in favour of local representative](#)*.
- 4) Two copies of the English version of the Memorandum and Articles of Association (Charter Documents) of the Parent Company attested by Indian Embassy/Notary Public in the country of registration.
- 5) The latest audited Balance Sheet of the Parent Company.

* These documents would need to be signed by the Principal Officer of the Company that intends to set up the Liaison Office in India.

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