GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:1006
ANSWERED ON:05.08.2011
DTAA WITH MAURITIUS
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Will the Minister of FINANCE be pleased to state:

(a) whether the Government has found out some loopholes and revenue leakages in the Double Taxation Avoidance Agreement (DTAA) with Mauritius;

(b) if so, the details in this regard;

(c) whether the Union Government has taken the matter with the Government of Mauritius;

(d) if so, the details thereof and the reaction of the Government of Mauritius thereon; and

(e) the percentage of FDI inflow coming from Mauritius during each of the last three years in the country?

Answer

MINISTER OF STATE IN THE MINISTRY OF FINANCE(SHRI S. S. PALANIMANICKAM)

(a) & (b) India-Mauritius Double Taxation Avoidance Convention(DTAC) provides for taxation of income from capital gains arising from sale of shares only in the country of residence of the investor. Thus, an investor routing his investments through Mauritius into India does not pay tax on capital gains in India. There is no tax on income from capital gains on sale of shares in Mauritius. Hence, such investor routing his investments through Mauritius into India does not pay any capital gains tax either in India or in Mauritius. Mauritius, thus became an attractive route for investment into India for residents of countries other than Mauritius. Accurate estimation of the volume of alleged `revenue loss` is difficult as the tax on capital gains depends on the difference between the sale and purchase price, factor of cost inflation index, cost of transfer, the set off of los suffered in one transaction against the gains in the other and the carried forward losses of earlier years. Since, the tax on capital gains for Mauritius based entities was exempt, a large number of them did not file the returns unless they had other streams of income as well. The exact amount of revenue loss due to non taxation of capital gains cannot be quantified.

(c) & (d) Government has proposed to review the India-Mauritius Double Taxation Avoidance Convention (DTAC) to incorporate appropriate changes in the DTAC for prevention of treaty shopping and to strengthen the mechanism for exchange of information on tax matters between India and Mauritius. A Joint Working Group (JWG) comprising members from the Government of India and the Government of Mauritius was constituted in 2006 to inter-alia, put in place adequate safeguards to prevent misuse of the India-Mauritius DTAC. Six rounds of discussions have taken place so far. There was unwillingness on the part of Mauritius to co-operate in addressing this problem. However, recently it was agreed to convene the next meeting of the Joint Working Group on the Double Taxation Avoidance Convention. We have now proposed next round of discussion to which Mauritius is yet to respond.

(e) The percentage of FDI inflow coming from Mauritius during 2008-09, 2009-10 and 2010-11 is 41.01%, 40.16% and 35.96% respectively.