

**GOVERNMENT OF INDIA
FINANCE
LOK SABHA**

STARRED QUESTION NO:357
ANSWERED ON:05.09.2012
DOUBLE TAXATION AVOIDANCE AGREEMENT
Singh Alias Pappu Singh Shri Uday

Will the Minister of FINANCE be pleased to state:

- (a) whether the Government has taken note of gross misuse of India - Mauritius Double Taxation Avoidance Agreement (DTAA);
- (b) if so, the details thereof;
- (c) the corrective steps Government proposes to take in this regard;
- (d) whether differences have cropped up between the Department of Revenue and the Foreign Investment Promotion Board over Foreign Direct Investment (FDI) coming through Mauritius route; and
- (e) if so, the details thereof along with reaction of the Government thereto and action taken to resolve the matter?

Answer

MINISTER OF THE STATE IN THE MINISTRY OF FINANCE (SHRI P. CHIDAMBARAM)

(a) to (e): A statement is laid on the table of the House.

Statement referred to in reply to parts (a) to (e) of the Lok Sabha Starred Question No.357 regarding 'Double Taxation Avoidance Agreement', raised by SHRI UDAY SINGH, for answer on 5th September, 2012.

(a) & (b) The existing Double Taxation Avoidance Convention (DTAC) between India and Mauritius was notified in 1983. India - Mauritius DTAC provides for taxation of capital gains arising from alienation of shares only in the country of residence of the investor. Capital-gains is fully exempt from taxation in Mauritius under their domestic law. Thus an investor routing his investments through Mauritius into India does not pay capital gains tax either in India or in Mauritius. Mauritius thus became an attractive route for investment by third country residents into India through treaty abuse.

(c) Government has proposed to review the India-Mauritius Double Taxation Avoidance Convention (DTAC) bilaterally to incorporate appropriate changes in the DTAC for prevention of treaty abuse 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. Eight rounds of discussions have taken place so far. Consistent efforts are being made by the Indian Government to find mutually acceptable solution for addressing India's concerns.

(d) No Madam. For the Foreign Direct Investment (FDI) proposals listed in the Agenda for each Foreign Investment Promotion Board (FIPB) meeting, Department of Revenue (DOR) furnishes its comments on the proposal from DOR's perspective. FIPB Secretariat in Department of Economic Affairs examines the proposal from FDI Policy perspective. Keeping in view the merits of each proposal as also comments of the concerned Administrative Ministries including DOR, FIPB deliberates and makes recommendations in accordance with FDI policy of the Government.,

(e) Not Applicable.