Finance ministry, foreign investors discuss GAAR, tax treaties

The finance ministry on Thursday met representatives of foreign portfolio investors (FPI) and deliberated on their concerns over taxation against the backdrop of India signing revised tax treaty with Mauritius this week.

"Met FPIs with (Revenue Secretary Hasmukh Adhia) for an intense discussion on tax concerns such as GAAR, tax treaties' implications,," Minister of State for Finance Jayant Sinha tweeted.

FPIs encompass all foreign institutional investors (FIIs), their sub-accounts and qualified foreign investors.

The meeting came amid concerns being expressed by tax experts about the taxation of Participatory Notes and the impact which the treaty revision can have over investments from other countries, including Singapore, Cyprus, and other low tax jurisdictions.

Tax experts have also flagged the issue of implementation of the General Anti Avoidance Rules (GAAR), which will come into effect from April 2017.

The revision of the Mauritius treaty this week has significant implication for India as bulk of the overseas investment have been routed through the island nation.

The three decade old Double Taxation Avoidance Convention (DTAC) with Mauritius was revised after prolonged negotiations with a view to prevent tax evasion and round tripping of investments.

Under the revised treaty, from April 1, 2017, companies routing funds into India through Mauritius will have to pay short-term capital gains tax at half the rate prevailing during the 24-month transition period. Full rate, currently at 15 per cent, will kick in from April 1, 2019.

(Business Standard)