

Top FDI source to India: Singapore replaces Mauritius

Singapore has replaced Mauritius as the top source of foreign direct investment to India, accounting for about 25 per cent of foreign direct investment (FDI) inflows in 2013-14.

During the previous financial year, India attracted \$5.98 billion in FDI from Singapore, whereas it was \$4.85 billion from Mauritius, according to the data of the department of industrial policy and promotion.

According to experts, the Double Taxation Avoidance Agreement with Singapore incorporates a Limit-of-Benefit (LoB) clause which has provided comfort to foreign investors based there.

An expert on FDI with corporate law firm Amarchand & Mangaldas, Krishan Malhotra, said, "The LoB clause in India-Singapore treaty justifies the substance in Singaporean entities, bringing certainty and avoiding chances of litigations." , Head of Tax and expert on FDI with corporate law firm Amarchand & Mangaldas Krishan Malhotra said.

FDI inflows from Mauritius have started drying up on fears of the impact of General Anti Avoidance Rules (GAAR) and possible re-negotiation of the tax avoidance treaty, he added.

The inflows from Mauritius in the last fiscal are lowest since 2006-07. On the other hand, FDI inflow of \$5.98 billion in 2013-14 is the highest ever received from Singapore since 2006-07.

The controversial General Anti Avoidance Rules provision, which seeks to check tax avoidance by investors routing their funds through tax havens, will come into effect from April 1, 2016 in India.

The GAAR provision will apply to entities availing tax benefit of at least Rs 3 crore.

It will apply to Foreign Institutional Investors that have claimed benefits under any DTAA.

The India-Mauritius DTAA is being revised amid concerns that Mauritius is being used for round-tripping of funds into India even though that country has always maintained that there have been no concrete evidence of any such misuse.

Foreign investments are crucial for India, which needs about \$1 trillion by March 2017 to overhaul infrastructure such as ports, airports and highways and boost growth.

Overall FDI into India grew by 8 per cent year-on-year to \$24.3 billion in 2013-14.

(Business Standard)