Government for reviewing DTA with Mauritius for better tax info

The government is working to review the Double Taxation Avoidance Convention (DTAC) with Mauritius to further strengthen its provisions and have better exchange of information on tax matters with the island nation, which accounts for almost 36 per cent of FDI inflow to India.

In a written reply to the Lok Sabha, Minister of State for Finance S S Palanimanickam said the Government has proposed to review the India-Mauritius DTAC to incorporate appropriate changes in the agreement for prevention of treaty shopping and to strengthen the mechanism of exchange of information of tax matters between the two countries.

A joint working group was formed by the two countries in 2006 to put in place adequate safeguards to prevent misuse of the India-Mauritius DTAC. The working group has held six rounds of discussions so far.

"There was unwillingness on the part of Mauritius to cooperate in addressing this problem. However, recently it was agreed to convene the next meeting of the joint working group on the DTAC. We have now proposed next round of discussion to which Mauritius is yet to respond," Palanimanickam said.

Mauritius contributed to 35.96 per cent of the total Foreign Direct Investment (FDI) that came to India in 2010-11. It was 40.16 per cent in 2009-10 and 41.01 per cent in 2008-09.

The minister, however, said that there was no estimate of the revenue leakage on account of the Double Taxation Avoidance Agreement (DTAA) between India and Mauritius.

"Accurate estimate of the volume of alleged 'revenue loss' is difficult as the tax on capital gains depends on the difference between the sale and purchase prices, factor of cost inflation index, cost of transfer, the set off of loss suffered in one transaction against the gains in the other and the carried forward losses of earlier years," he said.

He was replying to a question of whether the Government had found some loopholes and revenue leakages in the DTAA with Mauritius.

"Since the tax on capital gains from 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," Palanimanickam said.

The India-Mauritius DTAA provides for taxation of income from capital gains arising from sale of shares only in the country of residence of the investor.

Therefore, an investor routing his investments through Mauritius into India does not pay tax on capital gains here.

As there is no tax on income from capital gains on sale of shares in Mauritius, any investor routing his or her investments through the Indian Ocean island nation does not pay any capital gains tax in either country.

"Mauritius thus became an attractive route for investment into India for residents of countries other than Mauritius," Palanimanickam said. (PTI)