Tax Hotline

August 23, 2005

INDIA-MAURITIUS TAX TREATY MAY BE REVIEWED

Foreign Investors routing their investments through Mauritius may face the brunt once again. There is yet another twist in the India-Mauritius ("**I-M**") tax treaty saga. India has proposed a re-negotiation of the existing I-M tax treaty as part of the ensuing negotiations on the I-M Comprehensive Economic Co-operation Agreement ("**CECA**") so as to include safeguards against third country residents from enjoying the I-M tax treaty benefits. The Government of Mauritius, however, has not yet responded to this issue.

India has informed Mauritius that all aspects of the CECA pertaining to preferential trade agreement, free trade agreement, tax treaty, customs co-operation agreement and investment protection agreement should be taken up for discussion soon. If Mauritius agrees to the re-negotiation of the tax treaty with India, India may push to incorporate the "limitation on benefits" clause in the I-M tax treaty to check the usage of conduit companies for claiming treaty benefits.The recently amended India-Singapore tax treaty provides for a limited version of "limitation on benefits" clause.

It remains to be seen whether Mauritius would agree to renegotiate the tax treaty and consent to the inclusion of "limitation on benefits" clause along the lines of the India-Singapore tax treaty, if not a comprehensive one. In any case, this process would involve several rounds of negotiations and even if the I-M tax treaty is amended, it should come into effect only prospectively.

Source: Economic Times - August 20, 2005

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