



International Tax Alert

Keeping you informed

Greetings from your tax team at Deloitte Singapore. We are pleased to update you on the following developments:

Phased-out removal of capital gains tax exemption under the India-Mauritius tax treaty

On 11 May 2016, the Indian Central Board of Direct Taxes (CBDT) announced a phased-out removal of capital gains tax exemption under the India-Mauritius tax treaty. The key points emerging from the announcement are summarised below:

Summary of announcement

Source based taxation of capital gains on sale of shares

- Gains from sale of shares of an Indian Company acquired on or after 1 April 2017 will be subject to capital gains tax in India. Shares acquired prior to 1 April 2017 would be protected from taxing rights in India.

- Transition provision – Gains arising during the period 1 April 2017 to 31 March 2019 (in respect of shares acquired after 31 March 2017) will be taxed at 50 percent of the domestic tax rate subject to fulfilment of conditions in the Limitation of Benefit article of the treaty.
- From 1 April 2019, capital gains arising to a Mauritius entity (in respect of shares acquired after 31 March 2017) would be taxed at full domestic tax rates under the Indian tax law.

Source based taxation of interest income earned by banks

- Interest arising in India and paid to Mauritius banks will be subject to withholding tax at 7.5 percent in India in respect of debt claims or loans made after 31 March 2017.
- Interest income of Mauritian resident banks in respect of debt claims existing on or before 31 March 2017 shall be exempt from tax in India.

Other amendments in the treaty

- Other income to be taxed in the source country
- Update of Exchange of Information article as per international standards
- Provision for assistance in collection of taxes

Key impact

- Investments in Indian companies by Mauritius companies up to 31 March 2017 have been grandfathered and will not be subject to capital gains tax in India.
- The India–Singapore tax treaty provides for an exemption of Indian capital gains tax for Singapore tax residents subject to satisfying certain conditions. However, this exemption is linked to the India–Mauritius tax treaty being in force and providing an exemption for Indian capital gains tax under the said treaty. The new Protocol signed between India and Mauritius has amended the India–Mauritius tax treaty to allow India to tax the gains from alienation of shares acquired on or after 1 April 2017 in a company resident in India. With this amendment, the exemption of capital gains tax in India under the India–Singapore tax treaty may also be impacted, as such benefit is linked to the similar exemption under the India–Mauritius tax treaty. It is expected that more clarity would be issued by the relevant authorities in due course.

Should you have any comments or questions arising from the newsletter, please speak to your usual Deloitte contact or any member of the Singapore tax team listed below.

Best regards

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