

Why money flow via Mauritius is drying up

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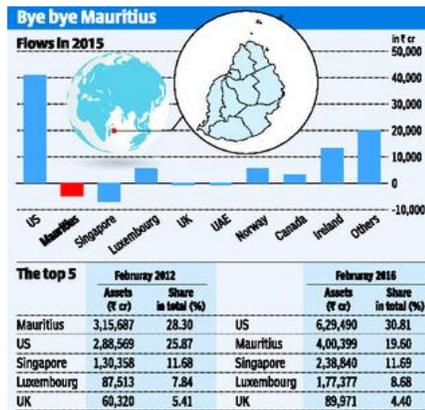
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Investors turning wary of the prospect of India tightening rules on tax treaty/avoidance



BL Research Bureau:

Mauritius, the balmy island-nation in the Indian Ocean, is rapidly losing its allure as the hot conduit of foreign portfolio and direct investments into India.

Today, inflows from the US and Singapore are substantially higher than those from Mauritius, perhaps symbolising the erosion of the latter's reputation as an offshore tax haven.

Indicatively, according to SEBI data, between February 2012 and 2016, Indian equity and debt markets received Rs. 84,712 crore from Mauritius-based Foreign Portfolio Investors (FPIs). That's just a quarter of the incremental flows of Rs. 3,40,921 crore received from US-based investors in the same period. Inflows from other offshore financial centres such as Singapore (Rs. 108,482 crore) and Luxembourg (Rs. 89,864 crore) were also much higher.

Recent trends suggest investors from Mauritius are selling more than they are buying. In 2015, they were net sellers of equity and debt to the tune of Rs. 5,000 crore.

Interestingly, US investors appear to have taken a shine to the Indian markets last year, pumping in net inflows of Rs. 40,000 crore. The healthier US economy compared with other countries could be a reason.

Another could be that investors from the US, who account for about half of the global investment pool, are taking the direct route to investing in India instead of routing it through Mauritius.

Why the shift?

Mauritius emerged as the preferred route to channel foreign money into India largely owing to the double taxation avoidance treaty between the two countries. Under this, capital gains are taxed only in the 'country of residence', and since Mauritius does not tax gains on investment income, the moneybags got away lightly.

But in recent years, there have been reports that the Centre is not happy with the tax evasion taking place through this channel. In 2004, Indonesia revoked its double taxation avoidance treaty with Mauritius citing 'tax treaty abuse'.

Concerns that India may do likewise, or secure an amendment to make it more fool-proof, may also be compelling investors to look at other routes.

Another reason why the Mauritius conduit is becoming less attractive could be the imminent implementation of the General Anti-Avoidance Rule (GAAR) in April 2017, which aims to plug tax avoidance. Under these rules, Indian I-T authorities can take a closer look at 'brass-plate companies' that have been set up in offshore centres solely to evade tax.

Declining share

Mauritius-based investors' holdings of Indian assets too have fallen -- from 28 per cent of FPI assets in India to 19.6 per cent by the end of February 2016. Investors from the US now hold 31 per cent of FPI assets, up from 26 per cent in

February 2012. Portfolio investors from Singapore, Luxembourg and United Kingdom have maintained their share over the past four years.

Similar trend in FDI

Foreign direct investment flows into India are following a similar trend. Incremental flows from Mauritius are declining, with FDI investors shifting their loyalty to Singapore. In 2014-15, India received Rs. 55,172 crore of FDI from Mauritius, against Rs. 41,350 crore from Singapore and Rs. 11,150 crore from the US. But between April and December 2015, FDI flows from Mauritius were Rs. 39,506 crore, while investors from Singapore pumped in Rs. 71,195 crore.

Singapore is also a low-tax jurisdiction and an offshore financial centre. But India's double tax treaty with Singapore is more foolproof, with a Limitation of Benefit clause that checks treaty abuse.

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