Mauritius loses edge on equity inflows

Tighter regulatory oversight

According to Vanvari, it is easier to establish regional headquarters in Singapore and the Netherlands, and show evidence of a presence there to the tax authorities in India. (Image: Reuters)

Mauritius is fast losing its relevance as being the preferred destination for equity investments into India given the greater regulatory oversight over the island nation and the perception of it being a tax haven.

Investments from Mauritius as gauged by the equity assets under custody have dipped 46% to Rs 2.5 trillion in February from Rs 4.67 trillion last year, with the last few months seeing a significant decline.

"Old investments made through Mauritius which were grandfathered are getting sold. Buying into Indian equities is happening through better and safer jurisdictions such as Singapore and the Netherlands because there is no treaty benefit for equity investments from Mauritius," said Girish Vanvari, founder, Transaction Square, a tax consultancy firm.

According to Vanvari, it is easier to establish regional headquarters in Singapore and the Netherlands, and show evidence of a presence there to the tax authorities in India.

The tax treaty between India and Mauritius was renegotiated in 2016 post which capital gains on sale of shares was made taxable. Shares acquired prior to April 1, 2017, were to be grandfathered under the amended treaty agreements. The tax rate for capital gains arising during the transition period from April 1, 2017, and March 31, 2019, were to be limited to 50% of the domestic tax rate in India.

The benchmark Nifty 50 has risen 7.6% in the past year and 96% in the last six years.

"From an India inbound standpoint, Mauritius has lost relevance. Not only has the treaty between India and Mauritius been renegotiated, Indian tax authorities are challenging even grandfathered positions. Also from a credibility standpoint, Singapore is offering tough competition. It is easier to relocate people to Singapore than to Mauritius," said a person who deals with FPIs.

Structures set up in Mauritius can be tested by tax authorities from a GAAR (general anti-avoidance rule) perspective, where the fund will have to prove it has substance to claim treaty benefits.

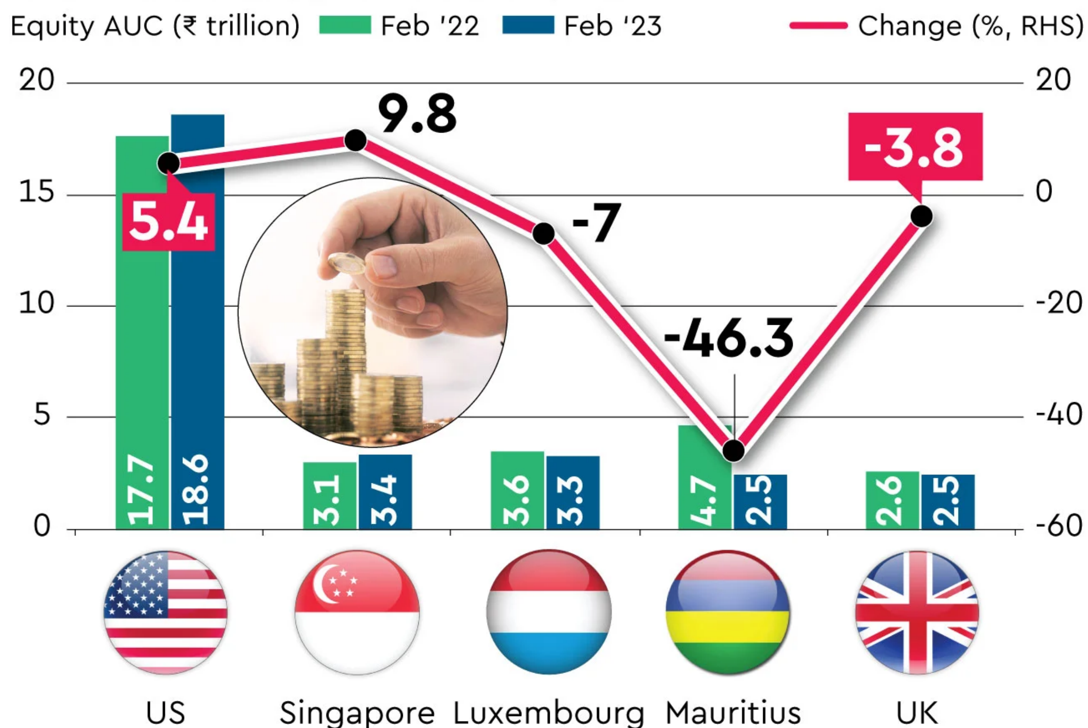
"Investors now prefer to invest directly from the host country and a lot of fund houses have also set up regional base in Singapore leading to increased capital flow from Singapore. While investments prior to April 1, 2017, are grandfathered under the India Mauritius treaty, these are however not free from scrutiny of the tax authorities," added Vivek Mimani, partner, Khaitan & Co.

Mauritius was put on the grey list by FATF in February 2020, and that had a significant impact on its credibility as a prudent and compliant jurisdiction. Jurisdictions under increased monitoring actively work with the FATF to address strategic deficiencies. The island nation, however, managed to make its way out of the grey list in October 2021.

"With the tightening of KYC norms as per FATF standards and Singapore introducing the VCC regime around the same time, FPIs from Mauritius are now trying to shift base to other jurisdictions by exiting from the Indian capital market," said Dhaval Jhariwal, partner with P N D J & Associates.

Singapore has succeeded with the VCC model, with more than 300 VCCs set up since January 2020.

A part of the selling could also be attributed to the decline in the Indian rupee, which has depreciated more than 8% in the last one year, eating into the returns of the FPIs. The current tax season could also coax FPIs to book losses and set it off in the books of account. The increased scrutiny on Mauritius funds in the light of the Adani issue could have also prompted some selloff, said experts.



However, debt investments from Mauritius have remained stable as capital gains on debt investments are protected under the India-Mauritius tax treaty. Mauritius also continues to remain the top 3 destination for FDI investment into India as of December last year.