



INCOME TAX ALERT

N. A. SHAH **BULLETIN**

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EXECUTIVE SUMMARY

- Presently capital gains arising from alienation of shares of Indian company by Mauritian resident is exempt from tax.
- After lot of deliberation on this issue, India and Mauritian Government has Signed a protocol on May 10, 2016 wherein the right to tax capital gains arising to a Mauritius resident from alienation of shares of Indian resident company is given to India.

Highlights of Press Release

- Capital gains arising to a Mauritian tax resident from alienation of shares in a company resident in India acquired on or after 1st April 2017 shall be chargeable to tax in India.
- Capital gains arising during the transition period from 1st April, 2017 to 31st March, 2019, tax shall be charged at 50% of the applicable tax rate of India, subject to the fulfillment of the conditions in the Limitation of Benefits Article.
- Taxation in India at full domestic tax rate will take place from financial year 2019-20 onwards.
- Capital gains arising from sale of shares acquired before 01 April 2017 shall continue to be exempt from capital gains tax in India.

Limitation of benefits (LOB) clause:

- The benefit of the Reduced Tax Rate during the transition period shall only be available to such Mauritius resident who is:
 - Not a shell/conduit company.
 - Satisfies the main purpose and bonafide business test.
 - Having total expenditure on operations in Mauritius more than INR 2,700,000 (Mauritian Rupees 15,00,000) in the immediately preceding 12 months.

Taxation of interest income of banks:

- Interest arising in India to Mauritius resident banks shall be subject to ***withholding tax in India at the rate of 7.5%*** in respect of debt claims or loans made after March 31, 2017.
- However, interest income of Mauritian resident banks in respect of debt-claims existing on or before March 31, 2017 shall continue to be exempt from tax in India.

Exchange of Information

- Presently, the scope of exchange of information Article of the treaty is limited. The Protocol now provides for updation of Exchange of Information Article as per international standard.

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