

Revised Tax Treaty between India and Mauritius

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Context

A **revised tax treaty between India and Mauritius** will come into effect after the two countries sign the agreement and will not be applied retrospectively.

About

- The new provisions in the treaty consist of a major purpose test, with a view to be used to choose whether tax services under the treaty will apply to investments or not.
- As per the amended treaty, tax benefits for investments will not be granted if it is ascertained that availing tax benefits was one of the motives for the transaction.

Overview of India and Mauritius Relations

- India has close, long standing relations with Mauritius, an island country in the Western Indian Ocean.
- **Diplomatic Relations:** India and Mauritius established diplomatic relations in 1948 and have emerged as key trading partners in the Asian continent.
 - As a tribute to Gandhiji and the Indian freedom struggle, the National Day of Mauritius is widely known every year on March 12 (the date of launch of **Dandi Salt March**).

- Indian starting place human beings include about 70% of the island's population of 1.2 million (28% Creole, 3% Sino-Mauritian, 1% Franco-Mauritian).
- **Commercial Relations:** Since 2005, India has been among the largest trading partners of Mauritius.
 - For the FY 2022-2023, Indian exports to Mauritius was USD 462.69mn, Mauritian exports to India was USD 91.50 mn and total trade was USD 554.19 mn.
 - Cumulative FDI worth USD 161 billion came from Mauritius to India in the many years from 2000 – 2022 (26% of total FDI inflows into India), largely because of the Double Taxation Avoidance Convention (DTAC).
 - India and Mauritius entered into the Double Taxation Avoidance Agreement in 1982 so non-citizens traders can keep away from paying double taxes.
 - Mauritius and India signed the **Comprehensive Economic Cooperation and Partnership Agreement (CECPA)** in 2021, and is the first trade agreement signed by India with an African country.
- **Defence Relations:** India is the preferred defence accomplice of Mauritius for obtaining platforms/gadget, capacity building, joint patrolling, hydrological services, etc.
 - The first agreement relates to the transfer of a Dornier aircraft and an Advanced Light Helicopter, Dhruv, on lease to Mauritius.
 - The second agreement pertains to a \$100 million Line of Credit (LoC), to enable the procurement of defence equipment by Mauritius.
- **SAGAR:** The term SAGAR – ‘Security and Growth for All inside the Region’ was coined by PM in 2015 during his Mauritius visit with a focus on the blue economy.
 - It is a maritime initiative that offers precedence to the Indian Ocean place for ensuring peace, balance and prosperity of India in the Indian Ocean area.

Areas of Concern

- **Tax Treaty Misuse:** The Double Taxation Avoidance Agreement (DTAA) between India and Mauritius was a factor of difficulty due to its misuse for illicit activities like money laundering and round-tripping of budget.
- **Security Concerns:** With Mauritius emerging as an important maritime entity in the Indo-Pacific region, security concerns are paramount.
 - India and Mauritius have a strong defence partnership, but keeping and enhancing this partnership in the face of evolving local dynamics can be hard
- **Economic Challenges:** Despite being most important financial partners, there are concerns concerning trade imbalances and the need to diversify the trade basket.
 - Both countries may additionally need to discover new avenues for trade cooperation and cope with any boundaries that restrict the flow of goods and services.
- **Presence of China:** In recent years, several external powers, which include China, have made increasing inroads in Africa and through the Indian Ocean.
 - In 2021, China's Free Trade Agreement (FTA) with Mauritius came into effect.
 - This agreement will help China amplify the Belt and Road initiative in Africa.
 - China's growing presence in the region will pose issues for India.

Way Ahead

- The relation between India and Mauritius is multifaceted and has grown more potent over the years. The countries retain to work collectively in various fields, which includes infrastructure, FinTech, lifestyle, and more.
- While India and Mauritius share cultural contiguity relationship again to the colonial instances and a special partnership in recent years, India can't take its effect in Mauritius with no consideration and must retain to enhance its engagement with the essential island country.

Source: *The Business Standard*

UPSC Mains Practice Question

Q. Critically analyse the India-Mauritius Bilateral Tax treaty and its role in avoiding tax evasion and profit shifting by Multinational Corporations in the backdrop of recent Mauritius leaks.