Could the new DTAA with India translate into a bigger opportunity?

WE ALL WENT into a mourning period following the announcement of the revised DTAA between the two countries. And rightly so, the livelihood of the financial sector is at stake as a result of its signature; however, its future is very much in our own hands...

The financial sector (most of the players at least) has, up to now, focused its energy on structuring equity investments into India using Mauritius as an investment platform. We have tried to diversify into other markets, mainly into Africa, given our proximity. However, even that has come with all its challenges as we all know. Therefore, today we are being forced to respond with a new vision for our financial sector, which will encourage our youth to pursue careers in this field.

There have been a few voices raised by some operators with regards to the withholding tax rate provided for interest income of Mauritian tax residents in the new treaty, which is clearly a window of opportunity for us. Previously, India could tax Mauritian tax residents (except Government of Mauritius and its agencies and Mauritian resident banks) on interest income arising in India as per India's domestic tax rates; and this could go up to 40% of interest income.

However, now the protocol has amended the tax treaty to limit India's right to tax such interest income by capping the withholding tax rate to 7.5% of the gross amount of interest. Interest income of Mauritius resident banks

by Parik TULSIDAS

in respect of debt claims existing before 1st April 2017 will continue to be exempt from tax in India as is the case currently; however, in a bid to harmonize the tax regime, this will require withholding tax in India at 7.5% post 1st April 2017.

Albeit from a tax perspective, this makes Mauritius a very attractive jurisdiction for debt investments into India. This opens up the following opportunities:

- Investment in Indian Government and state-owned debt issuances
- Debt Structuring
- FPI Investment in unlisted corporate debt and securitized instruments
- Investment in listed and unlisted non-convertible debentures (NCDs) and commercial papers
- Other debt instruments and derivative contracts.

The action plan – create an ecosystem around the setting up of debt structures focusing on India. This would mean that the Management Companies would need to attract debt funds, international asset management companies and other investment vehicles focused on emerging markets to set up in Mauritius (the tax benefit and the proximity of Mauritius to India and Africa are compelling enough reasons). Mauritian banks will need to set up the infrastructure to provide these investors with the suite of debt products available in India. Yes, it will mean hiring experienced traders from abroad, but that can only help diversify the skills of our local workforce. Eventually, this puts us in good stead to start creating liquidity in debt instruments across African and Asian economies out of Mauritius.

We have less than a year to define the future of our financial sector. While using the tax benefits that Mauritius provides as the entry point, we can create a sustainable financial platform for investment across the two continents that surround us.

As the saying goes "Learning and innovation go hand in hand. The arrogance of success is to think that what you did yesterday will be sufficient for tomorrow".

It's time for all the stakeholders to work towards a common goal of carving out a competitive edge for Mauritius in debt capital markets in India and eventually the region...