Mauritius slips out of top 3 sources for FPIs in India

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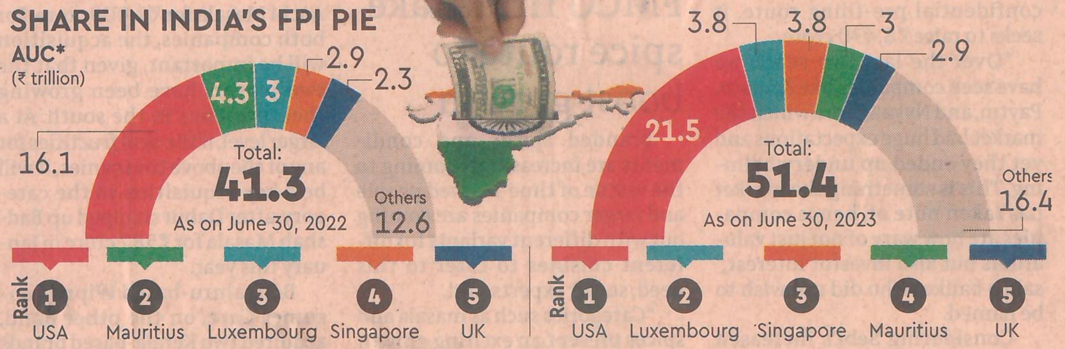
LUXEMBOURG AND SINGAPORE have overtaken Mauritius among source nations for Foreign Portfolio Investments (FPIs) into India, now ranking second and third, respectively.

Data by Primeinfobase shows that as of June 30, Mauritius has fallen to fourth place.

Changes to tax treaties and increased scrutiny by regulators have led to a decline in foreign money coming through Mauritius.

Experts say changes to the Double Tax Avoidance Agreement (DTAA) between India and Mauritius in 2016, implementation of GAAR from April 2017, and ratification of a treaty to prevent base erosion and profit shifting by India have all made the Mauritius route undesirable.



*Assets under custody; Source: Primeinfobase; CDSL/NSDL

Luxembourg accounted for 7.37% of India's FPI pool, with AUC (assets under custody) of ₹3.78 trillion, while Singapore accounted for 7.34% with AUC of ₹3.77 trillion. In 2022, the figure stood at 7.34% (₹3.03 trillion) for Luxembourg and 7.07% (₹2.92 trillion) for Singapore.

The US remains first by miles, with a near 42% share in the pie and ₹21.5 trillion in AUC.

Mauritius has taken a significant hit, with AUC dropping from ₹4.29 trillion to ₹3.01 trillion over the past year. It's share, too, has almost halved from 10.4% to 5.86%.

The DTAA brought the concept of source-based taxation of capital gains on shares, said Manmeet Kaur, principal associate, Karanjawala & Co. "In terms of the amendments to the DTAA, taxation for gains arising between April 1, 2017, and March 31, 2019, were limited to 50% of the domestic tax rate in India. From FY20, the taxation was kept at the full domestic tax rate. Hence, investments through the Mauritian route gradually lost sheen," Kaur said.

Moreover, the concessionary tax rates of Singapore for regional and international headquarters also seem to make it an attractive alternative to Mauritius.

Indeed, in June 2020, Mauritius was comfortably second, with an 11.3% share of FPI inflows into India and AUC of ₹2.93 trillion.

In recent months, several global custodian banks are said to have classified Mauritius as a "high-risk jurisdiction".

The Securities and Exchange Board of India is also said to have directed custodian banks to furnish links between entities operating out of Mauritius, and FPIs investing in India.

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"Mauritius in not really kosher in terms of financial regulations. On the other hand, Singapore and Luxembourg are well-regulated. Many of the investments have caught the attention of the tax authorities," said U R Bhat, co-founder and director at Alphaniti Fintech.

In the case of Mauritius, Bhat said, investors use the jurisdiction to route their investments despite operating out of elsewhere. "In Singapore, on the other hand, these entities have a set-up and offices, thus adding to credibility," he added.

A partner at a law firm, who did not wish to be named, said that while Mauritius was not exactly popular given its secrecy laws, issues around the Adani Group crisis have added fuel to fire.

"FPIs have come under regulatory glare, with questions being raised on their beneficial owners. As a precautionary measure, many of them are exiting before the framework gets implemented, in order to avoid an embarrassing situation," said the partner.

Among other source nations, France has made its way into the top 10 over the last one year, with the Netherlands no longer in the top 10. France accounts for a 2.6% share with ₹1.3 trillion.