The Mauritius route of Tax Evasion

What is the issue?

The Financial Action Task Force (FATF) has removed Mauritius from its 'grey list' of countries which may indirectly lead to higher investment to India from the Island nation.

What is FATF ?

- FATF a global terror financing watchdog headquartered in Paris, was set up in 1989 by the G7 countries.
- Objective - FATF acts as an international watchdog on issues of money laundering and financing of terrorism.
- It is empowered to curtail financing of UN-designated terrorist groups.
- It can limit the concerned countries from sourcing financial flows internationally and thereby constraining them economically.
- Members - FATF has 39 members, which comprise 37 member jurisdictions and 2 regional organisations.
- India became a full member in 2010.

FATF has 2 types of lists

Black List - Countries known as Non-Cooperative Countries or Territories (NCCTs) are put in the blacklist. These countries support terror funding and money laundering activities.

Grey List - Countries that are considered safe haven for supporting terror funding and money laundering are put in the FATF grey list. This inclusion serves as a warning to the country that it may enter the blacklist.

What is the status of Mauritius in FATF's list?

- Mauritius was put on the list in February 2020 for its weak system to counter money laundering and terror financing.
- Mauritius has been one of the largest contributors of FDI to India but due to this restriction RBI had last year directed that financial firms should not

be set up with funds from Mauritius.
- Mauritius has strengthened its anti-money laundering and terror financing process and has addressed related technical deficiencies to meet the commitments in its FATF action plan.
- FATF, therefore, informed that Mauritius is no longer subject to its increased monitoring process.

Why was Mauritius preferred for routing foreign investments into India?

- **India-Mauritius double tax avoidance agreement (DTAA)**– DTAA is a tax treaty signed between India and another country so that taxpayers can avoid paying double taxes on their income earned from the source country as well as the residence country.
- This allowed foreign investors to avoid capital gains tax on investments.
- **Weak regulatory system in Mauritius** - Loose regulations have made it easy for companies to round-trip money into India through name-plate entities.
- But with the adoption of the General Anti Avoidance Rules in 2017 and changing of the DTAA which removed the tax benefits, the Mauritius route has become less attractive.
- Towards the beginning of 2012, FPIs from Mauritius were the largest holders of Indian equity and debt instruments but Mauritius has slipped to second position in the last five years.
- Foreign direct investors are also increasingly preferring the Singapore route where the regulations are tighter.

After the US, Mauritius is the second largest route for inflow from foreign portfolio investors.

What will be the implications of removing Mauritius from the grey list?

- Removal of Mauritius from grey listing will help regain its status as a financial centre.
- This would enable Indian non-banking and other financial services companies to receive FDI from funds and vehicles incorporated by international investors in Mauritius.
- It is also expected that now there would be less scrutiny by custodian banks on the 'beneficial ownership' (BO) of Mauritius vehicles coming in as FPI and FDI.

- Many offshore funds continue to prefer Mauritius which is comparatively inexpensive and serves as a gateway for investments in African countries.

Reference

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