DIRECT TAX UPDATE

Issue	**:**	**Amendment to Double Taxation Avoidance Agreement (DTAA) between India and Singapore**
Press Release	**:**	Dated 30th December, 2016
Issued By	**:**	Central Board of Direct Taxes

Availability of skilled labour at low cost, abundant natural resources and huge consumer base, makes India an attractive destination for Foreign Direct Investment (FDI), however, equity caps limit the prospective inflow. Singapore and Mauritius has always topped the list of FDIs in India. As per the FDI Report, in FY 2016 Singapore takes the lead over Mauritius in FDI as it accounts for nearly 55% of the investments. Past trend shows that foreign investors channelled higher share of their investments into India through Singapore as compared to Mauritius.

In continuation of renegotiation of DTAAs with Cyprus and Mauritius, a Third Protocol was signed to amend the Treaty between India and Singapore to prevent double non-taxation, curb revenue loss and streamline the flow of investments.

SALIENT FEATURES OF THE NEW DTAA

1. **Source Based Taxation of Capital Gains on alienation of shares**:

   The amendment in the DTAA provides for source based taxation of Capital gains arising on transfer of shares in a company. In order to provide certainty to investors, investments in shares made before 1st April, 2017 have been grandfathered subject to fulfillment of conditions in Limitation of Benefits clause as per 2005 Protocol.

   Further, a two year transition period from 1st April, 2017 to 31st March, 2019 has been provided during which capital gains on shares will be taxed in source country at half of normal tax rate, subject to fulfillment of conditions in Limitation of Benefits clause.

2. **Relieving of economic double taxation in Transfer Pricing :**

   This is a taxpayer friendly measure and is in line with India's commitments under Base Erosion and Profit Shifting (BEPS) Action Plan to meet the minimum standard of providing Mutual Agreement Procedure (MAP) access in transfer pricing cases. This Protocol also enables application of domestic law and measures concerning prevention of tax avoidance or tax evasion.

Provisions of the new DTAA will enter into force in respect of income derived in fiscal years beginning on or after 1st April 2017.

For further clarification, please contact:
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Dated: 2nd January 2017