

Mauritius seeks angel tax clarity

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In May, CBDT issued a notification exempting 21 foreign jurisdictions whose investors will be exempt from the so-called angel tax provisions



Angel tax is levied on the capital raised by unlisted companies (startups) from non-resident investors if the amount raised exceeds the fair market value of the company. (Mint)

NEW DELHI : The Mauritius government plans to take up the issue of angel tax exemption with Indian authorities, with the island nation's minister of financial services, Mahen Kumar Seeruttun, intending to seek clarifications on its exclusion from the list of countries where investors are not required to pay taxes on their investments in Indian startups.

In May, the Central Board of Direct Taxes (CBDT) issued a notification exempting 21 foreign jurisdictions whose investors will be exempt from the so-called angel tax provisions. The list included Australia, France, Germany, and the US. However, Mauritius was excluded from the list, even though it is a key source of foreign direct investment (FDI) into India.

resident investors if the amount raised exceeds the fair market value of the company. The tax was introduced in 2012 to curb money laundering. However, the tax has been criticized by startups and investors, who argue that it discourages investments in startups as it is common practice to sell shares at a steep premium.

Seeruttun added that Mauritius has complied with all the anti-money laundering provisions recommended by the Financial Action Task Force (FATF), and the country has also made it mandatory for all global financial services firms based out of Mauritius to meet "substance" requirement. The substance is a safeguard in anti-tax avoidance laws globally, which requires a firm that sets up shop in a country to possess minimum substance, such as having an office with some local employees.

"So far, we do not understand the rationale around the choice of these 21 countries, but we are seeking clarification from the concerned authorities," Seeruttun said. "You will appreciate that Mauritius is among the very few countries in the world to have complied with all 40 FATF recommendations on AML/CFT (anti-money laundering/countering financing of terrorism) requirements."

Exclusion of Mauritius from the list may impact the prospects of Mauritius as a source for investments into unlisted Indian companies since funds would prefer coming directly into India to avoid angel taxes, experts said.

"Mauritius has strengthened its AML/CFT framework over the past few years and has been removed from the FATF grey list. In this process, it has also strengthened its KYC (know your customer) norms. These factors should work in favour of Mauritius," said Nandini Pathak, leader of investment funds at Nishith Desai Associates.

To be sure, the 21-nation list also excluded other financial services hubs such as Singapore and the Netherlands. Market participants said the law has intentionally excluded jurisdictions offering tax exemptions to ensure that only genuine investors benefit from angel tax exemption.

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