



## Singapore is India's Top FDI Source

**Foreign direct investment (FDI) inflows from Singapore were twice that from Mauritius during the last financial year** (1<sup>st</sup> April, 2018 to 31<sup>st</sup> March, 2019) as companies opted to route funds into the country via the southeast Asian city-state, instead of the island nation in the Indian Ocean, the most preferred route for overseas flow so far, after the tax treaty with both the countries was reworked.

- In 2018-19, inflows from Singapore are estimated at \$16.2 billion, compared with \$8.1 billion from Mauritius. This is only the **third time** that inflows from Singapore have topped those from Mauritius with investment advisers **attributing the change to the revamped tax treaty that has led to parity in tax treatment. Also, Singapore offers other advantages on the ease of doing business front like zero tax on capital gains received from overseas sources.**

### Tax Treaty

- A bilateral tax agreement, also called a tax treaty, is an **agreement between two jurisdictions** (for example, two countries) that **addresses conflicts** or duplication regarding issues of **taxation**.
- Such tax agreements commonly concern the **problem of double taxation** when an individual or company resides in more than one jurisdiction. It is quite possible that the income that may flow between the two countries gets taxed twice.
- The agreement may also involve an exchange of information and mutual assistance in tax collection.

### Foreign direct investment (FDI)

- It is an **investment from a party in one country into a business or corporation in another country with the intention of establishing a lasting interest.**
- Lasting interest **differentiates FDI from foreign portfolio investments**, where investors passively hold securities from a foreign country.
- A foreign direct investment can be made by expanding one's business into a foreign country or by becoming owner of a company in other country.

## Agreement Between India and Singapore

- **The Avoidance of Double Taxation Agreement (DTA) between Singapore and India came into effect in 1994.** The provisions of this agreement were modified by a protocol signed on June 29, 2005.
- Its **second protocol was signed on June 24, 2011** coming into force on September 1, 2011. The agreement **eliminates the double taxation of income between Singapore and India** and reduces the overall tax burden of the residents of both countries.
- The third protocol amending the existing India-Singapore Double Taxation Avoidance Agreement (DTAA) came into force on 27th February 2017.
- **The Third Protocol amends the DTAA with effect from 1<sup>st</sup> April, 2017 to provide for source based taxation of capital gains arising on sale of shares in a company.** This curbs

revenue loss, prevents double non-taxation and streamline the flow of investments.

- It is expected that Indian and multinational companies will now no longer be able to misuse the agreement to avoid paying tax or to route illicit funds.

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