Government of India
Ministry of Finance
Department of Revenue
Central Board of Direct Taxes

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Press Release

India and Singapore Sign a Third Protocol for Amending the Double Taxation Avoidance Agreement (DTAA)

India and Singapore have amended the DTAA for the avoidance of double taxation and prevention of fiscal evasion with respect to taxes on income, by signing a Third Protocol today. This is in line with India's treaty policy to prevent double non-taxation, curb revenue loss and check the menace of black money through automatic exchange of information, as reflected in India's recently revised treaties with Mauritius and Cyprus and the joint declaration signed with Switzerland.

The Protocol for amendment of the India-Mauritius Convention signed on 10th May, 2016, provides for source-based taxation of capital gains arising from alienation of shares acquired from 1st April, 2017 in a company resident in India. Simultaneously, investments made before 1st April, 2017 have been grandfathered and will not be subject to capital gains taxation in India. Where such capital gains arise during the transition period from 1st April, 2017 to 31st March, 2019, the tax rate will be limited to 50% of the domestic tax rate of India. However, the benefit of 50% reduction in tax rate during the transition period shall be subject to the Limitation of Benefits Article. Taxation in India at full domestic tax rate will take place from financial year 2019-20 onwards.

The revised DTAA between India and Cyprus signed on 18th November, 2016, provides for source based taxation of capital gains arising from alienation of shares, instead of residence based taxation provided under the DTAA signed in 1994. However, a grandfathering clause has been provided for investments made prior to 1st April, 2017, in respect of which capital gains would continue to be taxed in the country of which taxpayer is a resident. It also provides for assistance between the two countries for collection of taxes and updates the provisions related to Exchange of Information to accepted international standards.

Fighting the menace of Black Money stashed in offshore accounts has been a key priority area for the Government. To further this goal, the 'Joint Declaration' for the implementation of Automatic Exchange of Information (AEOI) between India and Switzerland was signed in November, 2016. It will now be possible for India to receive from September, 2019 onwards, the financial information of accounts held by Indian residents in Switzerland for 2018 and subsequent years, on an automatic basis.

The India-Singapore DTAA at present provides for residence based taxation of capital gains of shares in a company. The Third Protocol amends the DTAA with effect from 1st April, 2017 to provide for source based taxation of capital gains arising on transfer of shares in a company. This will curb revenue loss, prevent double non-taxation and streamline the flow of investments. 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.

The Third Protocol also inserts provisions to facilitate relieving of economic double taxation in transfer pricing cases. 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. The Third Protocol also enables application of domestic law and measures concerning prevention of tax avoidance or tax evasion.

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