

Press Release

SINGAPORE AND INDIA SIGN NEW PROTOCOL TO UPDATE BILATERAL AVOIDANCE OF DOUBLE TAXATION AGREEMENT (DTA)

1. Singapore and India today signed a Protocol to amend their bilateral Avoidance of Double Taxation Agreement (DTA) in New Delhi. The Protocol was signed between H.E. Mr Lim Thuan Kuan, Singapore's High Commissioner to India and Shri Sushil Chandra, Chairman of the Central Board of Direct Taxes, India.
2. Following a meeting between Prime Minister Lee Hsien Loong and Prime Minister Narendra Modi in October 2016, Deputy Prime Minister and Coordinating Minister for Economic and Social Policies of Singapore Mr Tharman Shanmugaratnam and Minister of Finance and Corporate Affairs of India H.E. Shri Arun Jaitley met today to finalise the terms of the revised DTA as well as discuss steps to sustain and deepen bilateral economic ties between Singapore and India, including facilitating investment flows. Singapore was the largest foreign direct investor into India for the period April 2015 – March 2016 and one of the largest portfolio investors in India markets.
3. With the revision to the India-Mauritius DTA to phase out capital gains tax exemption, the capital gains tax exemption for shares in the Singapore-India DTA, which had been pegged to the India-Mauritius DTA, has had to be similarly amended. Singapore and India have reached agreement to phase out the capital gains tax exemption gradually, and have also committed to find new ways to promote bilateral investments.
4. The updated DTA **preserves the existing tax exemption on capital gains for shares acquired before 1 April 2017**, while providing a transitional arrangement for shares acquired on or after 1 April 2017. **For shares acquired on or after 1 April 2017, there will be a two-year transition period, during which the capital gains from such shares will be taxed at 50% of India's domestic tax rate** if the capital gains arise during 1 April 2017 to 31 March 2019. The new Protocol will continue to be underpinned by the stringent substance requirements which are unique to the Singapore-India DTA, and which ensure that the Protocol can only be enjoyed by tax residents with substantive economic activities. Details can be found in the Annex.
5. DPM Tharman and Minister Jaitley also agreed on steps towards a set of **new initiatives for joint promotion of bilateral investments** with a view to concluding an agreement in the second half of 2017.

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About Ministry of Finance

The Ministry of Finance aims to advance the well-being and development of Singapore through Finance. The Ministry strives to achieve a balanced budget through prudent fiscal policy, foster a regulatory environment conducive to business and enterprise, ensure prudent investment of the Government's reserves and other public funds, and sets policies for government procurement, e-government, customs regulation, accounting standards and business regulation.

We achieve this together with our departments (Accountant-General's Department, Centre for Public Project Management, Singapore Customs and Vital.org – Centre for Shared Services), and statutory boards (Accounting & Corporate Regulatory Authority, Inland Revenue Authority of Singapore and Tote Board).

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Annex: Summary of key changes in new Protocol to update the Singapore-India DTA

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(1) Taxation of capital gains

Shares acquired	Tax treatment for gains arising from the alienation of such shares
(a) Before 1 April 2017	<ul style="list-style-type: none">• Remain taxable only in the residence State of the alienator• Subject to specified conditions including expenditure on operations of the alienator in its residence State of at least S\$200,000 in Singapore or Indian Rs5,000,000 in India, as the case may be, for each of the 12-month periods in the immediately preceding period of 24 months from the date on which the gains arise• Status quo prevails
(b) On or after 1 April 2017	<p>For gains that arise during the period 1 April 2017 to 31 March 2019</p> <ul style="list-style-type: none">• Tax rate imposed on such gains will be limited to 50% of the tax rate applicable on such gains in the State in which the company whose shares are alienated is resident• Subject to specified conditions including expenditure on operations of the alienator in its residence State of at least S\$200,000 in Singapore or Indian Rs5,000,000 in India, as the case may be, for the immediately preceding period of 12 months from the date on which the gains arise <p>For gains that arise after 31 March 2019</p> <ul style="list-style-type: none">• Will be taxable in the State in which the company whose shares are alienated is resident

Illustration

Example: Company A is a Singapore tax resident. It acquires shares in an Indian tax-resident company B. A meets the specified conditions including the expenditure on operations.

Scenario 1: A acquires B's shares before 1 April 2017. When A disposes these shares eventually, the capital gains will not be subject to capital gains tax in India. This applies irrespective of when the gains arise.

Scenario 2: A acquires B's shares on or after 1 April 2017.

- Scenario 2A: When A disposes these shares during the period 1 April 2017 to 31 March 2019, the capital gains arising during this period will be taxed at 50% of India's domestic tax rate.

- Scenario 2B: When A disposes these shares on or after 1 April 2019, the capital gains will be taxed at India's full domestic tax rate.

(2) Article 9 on Associated Enterprises

The new Protocol also updates Article 9 on Associated Enterprises to provide for both countries to enter into bilateral discussions for elimination of double taxation arising from transfer pricing or pricing of related party transactions.