

KPMG

Tax Alert

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Ratification of the New Protocol to the Mauritius-India Tax Treaty – 2026

Executive summary

On 7 March 2024, the Protocol amending the Mauritius-India Double Taxation Avoidance Agreement (DTAA) was signed by Mauritius and India, seeking to align the DTAA with international standards. However, ratification had been deferred by the Mauritian side following concerns expressed by stakeholders and investors both in Mauritius and in India. During recent bilateral meetings, the Prime Minister of India gave the assurance of the continued stand of India of not taking any action that would undermine the benefits of Mauritius under the DTAA.

Subsequently, the Indian authorities have clarified their stand which is now favourable to Mauritius, thus the decision to ratify the Protocol. On 8 August 2026, the Protocol was gazetted in Mauritius and has entered into force on 10 August 2026.

What has changed under the Protocol?

The Protocol introduces two main changes to the Mauritius-India DTAA:

- **Amendment to the preamble:** The Protocol clarifies that the countries intend to eliminate double taxation with respect to taxes on income and capital without creating opportunities for non-taxation or reduced taxation through tax evasion or avoidance (including through treaty-shopping arrangements aimed at obtaining reliefs provided in the DTAA for the indirect benefit of residents of third states).
- **Introduction of the Principal Purpose Test (PPT):** The Protocol provides that a benefit under the DTAA will not be granted in respect of an item of income if it is reasonable to conclude, having regard to all relevant facts and circumstances, that obtaining that benefit was one of the principal purposes of any arrangement or transaction that resulted directly or indirectly in that benefit, unless it is established that granting that benefit in these circumstances would be in accordance with the object and purpose of the relevant provisions of the DTAA.

KPMG comments

Mauritius ratified the OECD Multilateral Instrument (MLI) in 2019, which amended most of its tax treaties to incorporate the BEPS minimum standards. The Mauritius-India and Mauritius-Australia DTAAs were excluded from the MLI. This Protocol implements the BEPS Action 6 minimum standard on the prevention of treaty abuse to the Mauritius-India DTAA, through the revised preamble and the introduction of the PPT.

Indian Government has issued Circular No. 1/2025 on 21 January 2025 which states that PPT provisions are intended to apply prospectively and that the grandfathering provisions under the India-Mauritius DTAA remain outside the purview of the PPT. The Mauritian Cabinet has also referred to assurances received from the Indian authorities regarding the continued preservation of Mauritius treaty benefits.

India also has domestic General Anti-Avoidance Rules (GAAR). However, these rules do not apply to investments made before 1 April 2017.

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KPMG comments (continued)

While PPT and GAAR may not apply to income by way of capital gains arising from shares acquired prior to 1 April 2017, they can apply to other income streams (like dividend, interest, royalty, fees for technical services, etc) arising after the PPT becomes effective, even vis-à-vis investments made prior to 1 April 2017.

The introduction of the PPT reinforces the importance of commercial rationale, governance, decision-making and substance in Mauritius. As noted in Circular No. 01/2025, the application of the PPT should be based on an objective assessment of the relevant facts and circumstances and is intended to preserve treaty benefits in respect of bona fide commercial and investment activities.

It is recommended that the authorities come up with more guidance on the application of PPT and the level of substance required by Mauritius entities to meet the PPT.

The favourable articles such as the dividend and the interest articles, where the rates of withholding taxes are amongst the lowest compared to the rates under other Indian DTAAs, remain unchanged. Taxing rights on gains arising from sale of securities (except shares) such as forward contracts remain with Mauritius and hence remain non-taxable, subject to meeting PPT and other relevant tests under the DTAA.

What should investors do now?

Investors that have invested in India through the Mauritius International Financial Centre (IFC) are advised to review their structures if necessary, and to adequately document the commercial rationale for their investment structures, to ensure they have adequate economic substance in Mauritius. A range of incentives and products within the Mauritius IFC can support substance requirements.

How may we help?

Our Tax specialists are available to discuss the relevance and impacts of the Protocol to your business. Please do not hesitate to contact:



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This document is based on our interpretation of the current tax laws and international tax principles. These laws and principles are subject to change occasioned by future legislative amendments and court decisions. You are therefore cautioned to keep abreast of such developments and are most welcome to consult us for this purpose.

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