INDIA'S $6.4 BILLION TAX ON FOREIGN INVESTMENT

Authors
Nina Krauthamer
Christine Long

Tags
Foreign Portfolio Investors
India
Minimum Alternate Tax

Foreign institutional investors in India have been troubled by the demands from Indi-an tax officials to pay liabilities owed under the newly enforced minimum alternate tax ("M.A.T."). India's Finance Minister, Arun Jaitley, announced that beginning April 1, portfolio investors residing in countries that have tax treaties with India are fully exempt from the tax and will not have to pay the accompanying 20% levy on past capital gains.

The M.A.T. is essentially a minimum corporate tax that creates an overall tax of 20% on capital gains. Previously, foreign investors paid 15% on short term listed equity gains, 5% on bond gains, and nothing on long term gains.

In 2014, India's Finance Ministry began issuing notices to foreign companies for the payment of the M.A.T. on past capital gains amounting to $6.4 billion, collectively. The Finance Ministry has not enforced the M.A.T. on foreign institutional investors for over 20 years, according to the international fund organization, Investment Company Institute Global. Foreign institutional investors have been contending that the M.A.T. should only apply to Indian companies, not foreign entities.

Furthermore, foreign investors claim that the M.A.T. demands issued by Indian tax authorities since 2014 generate economic uncertainty. Since the election of Prime Minister Narendra Mondi last May, foreign investors have made nearly $50 billion of new investments into India. These new investments consist of approximately $20 billion in Indian stocks and $28 billion in bonds. Within the past year, Mondi's government has attracted foreign investment and implemented pro-business policies while ending what his administration calls the "tax terrorism" of the preceding government. However, critics are claiming that Mondi's approach to aggressively reduce India's budget deficit by levying the M.A.T., among other things, undermines the country's new investor-friendly environment.

Officials in India's Finance Ministry have been reassuring foreigners that the country will continue to provide a positive environment for foreign investment and are now demonstrating this reslove by announcing that foreign portfolio investors from tax treaty countries will not have to pay the 20% M.A.T. on past capital gains.