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INTERNATIONAL TAX UPDATE

Mauritius Ratifies India-Mauritius DTAA Protocol : A Step Closer to PPT Becoming Effective

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- The Mauritian Cabinet, at its meeting held on 17 July 2026, has approved the ratification of the Protocol signed on 7 March 2024 to amend the India–Mauritius Double Taxation Avoidance Agreement (DTAA). The Protocol, once notified by both India and Mauritius, will introduce BEPS minimum standards, including the Principal Purpose Test (PPT) and a revised treaty preamble aimed at preventing treaty abuse.

Background

- Although the Protocol was signed on 7 March 2024, it was not brought into force, as ratification was deferred following concerns raised by investors and stakeholders regarding the potential impact of the PPT on existing investments and treaty benefits.

Latest Development

- The Mauritian Cabinet has now decided to proceed with ratification after noting India's assurance that the treaty benefits available to Mauritius would not be undermined and acknowledging the clarification issued by the Indian tax authorities. The Protocol will enter into force only after both countries complete their domestic ratification procedures and formally notify each other.

Key Takeaways

- Introduction of the Principal Purpose Test (PPT) into the India–Mauritius DTAA.
- Treaty preamble aligned with OECD BEPS minimum standards to curb treaty abuse.

- As the text of the Protocol and the related details are not yet completely available, further clarity is awaited regarding its precise scope, extent, and the date from which it will become applicable.
- The Protocol is not yet effective and will come into force only after completion of the notification process by both countries.
- From India's perspective, it is pertinent to note that the Government has issued the following clarifications providing certainty on the applicability of the Principal Purpose Test (PPT) and the General Anti-Avoidance Rules (GAAR):
    - The **CBDT issued Circular No. 1/2025** dated 21 January 2025, providing significant clarity by stating that:
        - PPT provisions will apply prospectively from the date the relevant treaty or protocol enters into force.

- The grandfathering benefit available under the India–Mauritius DTAA for shares acquired before 1 April 2017 remains outside the scope of the PPT and will continue to be governed by the specific treaty provisions.

- **Notification No. 54/2026** amends the GAAR grandfathering provisions to clarify that the consequences of GAAR shall not be invoked in respect of income arising from the transfer of investments made prior to 1 April 2017.

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