

(b) if so, the details thereof; and

(c) whether any initiative has been taken to arrive at a consensus or broad agreement in principle to proceed further as these sensitive reforms may result in reduction of State tax revenues?

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI S.S. PALANIMANICKAM): (a) and (b) Yes, Sir. There is a proposal to introduce Goods and Services Tax (GST). It will subsume a large number of indirect taxes levied by the Central and State Governments.

(c) Through a series of meetings of the Empowered Committee of State Finance Ministers, broad agreement has been reached between the Centre and the States on various design parameters of the proposed GST. The Union Government has assured the States that compensation would be provided to them, if they lose revenue because of introduction of GST.

#### **Renegotiation of India-Mauritius Avoidance of Double Taxation Agreement**

912. SHRI MANI SHANKAR AIYAR: Will the Minister of FINANCE be pleased to state:

(a) whether India-Mauritius Avoidance of Double Taxation Agreement is running in conformity with aims and objectives that Government had in mind when they entered into this agreement in 1983;

(b) whether the outcome was then envisaged of the agreement enabling Mauritius to emerge as the single most important global source for the flow of Foreign Institutional Investment (FI) into our capital markets;

(c) if not, the reasons for Mauritius emerging target foreign source of funding in the country;

(d) whether Government is satisfied with measures put in place by both Governments to avoid "round-tripping" of black money originating in India or parked in foreign banks and tax havens; and

(e) whether Government proposes to renegotiate the terms of the agreement?

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI S.S. PALANIMANICKAM): (a) Yes, Sir.

(b) No, Sir.

(c) In early nineties; Mauritius enacted the Mauritius Offshore Business Activities Act (MOBAA), 1992 (later succeeded by the Financial Services Development Act, 2001 (FSD Act), and the Financial Services Act of 2007) which allowed the setting up of Global Business Category 1 (GBC-1) companies, on payment of a certain license fee in Mauritius. These GBC 1 Companies though owned by persons resident outside Mauritius and operating outside Mauritius are allowed to be registered in Mauritius and become its tax residents. These companies are

subjected to minimal or nil taxes in Mauritius. Capital gain is fully exempt from taxation in Mauritius. India-Mauritius Double Taxation Avoidance Convention (DTAC) provides for taxation of capital gains arising from alienation of shares only in the country of residence of the investor. Thus, an investor routing his investments through Mauritius into India does not pay tax on capital gains either in India or in Mauritius resulting in relief from taxation. Mauritius, thus became an attractive route for investment into India for residents of countries other than Mauritius through treaty shopping.

(d) Government has proposed to review the India-Mauritius DTAC to incorporate appropriate changes in the DTAC for prevention of treaty shopping and to strengthen the mechanism for exchange of information on tax matters between India and Mauritius.

(e) Yes, Sir.

#### **RBI's measures to check inflation**

†913. SHRI SHIVANAND TIWARI: Will the Minister of FINANCE be pleased to state:

(a) whether it is a fact that the measures have been taken by the Reserve Bank of India (RBI) several times to reduce the inflation rate in the country during the last two years;

(b) if so, the details thereof and the financial measures taken from time to time during years 2009-10 and 2010-11 up to the end of June, 2010;

(c) whether these measures have helped to reduce the inflation rate; and

(d) if so, the reaction of Government thereto?

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI NAMO NARAIN MEENA):

(a) and (b) Yes, Sir. The Reserve Bank of India (RBI) has taken monetary measures to reduce inflation rate in the country beginning with the first phase of exit from the expansionary monetary policy in the Second Quarter Review of October, 2009, by terminating some sector-specific facilities and restoring the statutory liquidity ratio (SLR) of scheduled commercial banks to its pre-crisis level. The exit process was carried further in the Third Quarter Review of Monetary Policy 2009-10 (January, 2010), when the cash reserve ratio (CRR) was increased by 0.75 per cent of scheduled banks' net demand and time liabilities (NDTL) in two stages. The repo rate and the reverse repo rate were increased under the liquidity adjustment facility (LAF) by 25 basis points each *w.e.f.* March 19, 2010. The Monetary Policy Statement 2010-11 (April, 2010) further raised the repo rate and the reserve repo rate, under the LAF by 25 basis points each to 5.25 per cent and 3.75 per cent, respectively, with immediate effect. The CRR of scheduled banks was also raised by 25 basis points to 6.0 per cent of their NDTL with effect from April 24, 2010. On July 02, 2010 the repo and the reserve repo rates under the LAF were increased by 25 basis points each to 5.50 per cent and 4.00 per cent respectively. The repo and

---

†Original notice of the question was received in Hindi.