

Protocol to India-Mauritius Tax Treaty Notified: Principal Purpose Test now in force

15 October 2026

On 13 October 2026, the Government of India notified the protocol amending the India-Mauritius tax treaty (Protocol) which was signed on 7 March 2024 (Notification)¹. As per the Notification, the Protocol entered into force on 10 August 2026, pursuant to which all transactions undertaken on or after 10 August 2026 will be subject to the Principal Purpose Test (PPT).

Background

- Under the India-Mauritius tax treaty (Tax Treaty), capital gains earned by a Mauritius tax resident on the sale of shares of an Indian company were not taxable in India. The Tax Treaty was amended in 2016, and the exemption was withdrawn for gains arising from the sale of shares of an Indian company acquired by a Mauritian resident after 31 March 2017. Notably, no anti-abuse conditions were introduced in the Tax Treaty in 2016.
- Further, while India adopted the PPT under the Multilateral Instrument (MLI), the Tax Treaty was not a 'covered tax agreement' under the MLI.
- On 7 March 2024, India and Mauritius signed the Protocol to incorporate the PPT into the Tax Treaty. The language of the Protocol led to ambiguity regarding its applicability of the Protocol to past transactions. Our detailed ERGO on the Protocol can be accessed [here](#). However, the Central Board of Direct Taxes (CBDT), through Circular No. 1 of 2025 dated 24 January 2025 clarified that the PPT introduced through any protocol would apply prospectively from the date of entry into force of that protocol. Our detailed ERGO on the Protocol can be accessed [here](#).

Key Changes under the Protocol

The text of the Protocol annexed to the Notification is the same as that signed in March 2024 and introduces two key changes, as follows:

- (a) **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 for the indirect benefit of residents of third states).
- (b) **Introduction of the Principal Purpose Test (PPT):** The Protocol introduces the PPT into the Tax Treaty, pursuant to which a benefit under the Tax Treaty will not be granted in respect of an item of income if obtaining that benefit was one of the principal purposes of any arrangement or transaction that resulted in the benefit, unless it is established that granting that benefit in these circumstances is in accordance with the object and purpose of the relevant provisions of the DTAA.

¹ Notification S.O. 5611(E) [F. No. 135/2026/F. No. 500/03/2012-FTD-II] dated 13 October 2026

Effective Date

As per Article 3(2) of the Protocol, its provisions take effect from the date of 'entry into force'. According to the Notification, the Protocol has entered into force on 10 August 2026.

Comments

The Notification brings the Tax Treaty in line with India's other treaties covered by the MLI. With the Protocol now notified and in force, any benefit claimed under the Tax Treaty will need to pass the additional contours of PPT. Accordingly, Mauritius-based investors using Mauritius-based structures should assess their existing structures from the perspective of entitlement to benefits under the Tax Treaty and seek appropriate legal advice.

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