

Tax Hotline

February 22, 2008

INDIA AND LUXEMBOURG FINALLY CONCLUDE TAX TREATY

As a step in furtherance of strengthening bilateral trade and investment relations between India and Luxembourg, the Cabinet Committee on Economic Affairs ("CCEA") chaired by Prime Minister Manmohan Singh finally gave its assent on February 21, 2008 to the Double Taxation Avoidance Treaty ("DTAA") between the two countries, which was subject to extensive negotiations for five years. The primary objective of the said DTAA is the avoidance of Double Taxation and Prevention of Fiscal Evasion with respect to taxes.

According to Minister Economy and Foreign Trade of Luxembourg, Mr. Jeannot Krecke, the negotiations took momentum in the first quarter of 2007, after Luxembourg's fund management industry expressed keenness on a DTAA between the two countries. He further stated that logistics companies from Luxembourg were keen to work with their Indian counterparts to offer supply chain services in the European markets. Whilst recognizing the strength of the Indian economy, Mr. Krecke said, "Luxembourg, which has investible funds of about 1,800 billion Euros and is also home to some of the most successful global companies, has more than 70 DTAA's with nations around the world, would like to have a DTAA with India also; and being an open economy Luxembourg would not resist any merger and acquisition bids by Indian firms. The absence of DTAA was the reason for bilateral trade being below potential and although the annual bilateral trade was growing, it was rather miniscule at 40 million Euros."

Indications are that the proposed DTAA would not be about financial services alone, but more about manufacturing and industry. It is expected to benefit the manufacturing and airline companies of Luxembourg having linkages with India.

Luxembourg being one of the major global centres of steel making, Mr. Krecke stated that Luxembourg would be willing to extend necessary technological assistance to the Indian Steel Industry in modernizing and expanding capacities in order to achieve better productivity in a cost effective manner. Mr. Krecke indicated that there was a great potential for mutual cooperation in many sectors other than steel and financial services such as Plastic Processing Technology and making Luxembourg a hub of the European market for Pharmaceuticals.

Luxembourg taxes individuals based on the concept of residence, irrespective of nationalities. Non-residents are liable to pay Luxembourg tax only on certain types of income arising in that country or from sources there. The tax regime for corporates is also liberal with no capital gains tax.

With the Indian economy growing at the rate of approximately 9% annually and Luxembourg being a prime financial centre with investible assets of approximately 1,800 billion Euros, it appears that the DTAA has created a very favourable environment for achieving the objectives aimed for by both countries to encourage flow of capital, technology and personnel.

- Hanisha Amesur, Advait Sethna & Bijal Ajinkya

Sources:

- Economic Times dated February 21, 2007;
- Financial Express dated February 21, 2007
- cainindia.org
- Moneycontrol.com

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