

The Honorable Arun Jaitley
Finance Minister
Ministry of Finance
Department of Economic Affairs
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INDIA

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Dear Mr Jaitley

Request for confirmation that minimum alternative tax does not apply to foreign institutional investors and foreign portfolio investors

The Investment Association¹ represents the UK investment management industry and we are writing to seek urgent confirmation that minimum alternative tax (MAT) does not apply, and has never applied, to foreign institutional investors (FIIs) and foreign portfolio investors (FPIs).

It was announced in the Indian Budget on 28 February that MAT would not be applicable from 1 April 2015. There remain two concerns: first that MAT is being applied retrospectively, and second that the clarification provided in the Budget is does not cover all investments.

As no clarification has been forthcoming in relation to prior years, Indian tax inspectors seem to have taken this as tacit approval that MAT is due from FIIs/FPIs up to 1 April 2015. We understand that Indian tax inspectors are pursuing payment.

FIIs and FPIs should be exempt from MAT regardless of type of investment. As currently worded, we understand that the draft amendment would not exempt certain investments, such as government and corporate bonds.

¹ The Investment Association represents the asset management industry operating in the UK. Our Members include independent fund managers, the investment arms of retail banks, life insurers and investment banks, and the managers of occupational pension schemes. They are responsible for the management of around £5.4 trillion of assets, which are invested on behalf of clients globally. These include authorised investment funds, institutional funds (e.g. pensions and life funds), private client accounts and a wide range of pooled investment vehicles.

Before cross border investment can be made, the tax regime must be perceived as simple, fair and stable. Not only is there a current lack of certainty, but an indication that a previously understood tax treatment no longer stands. This is undermining investor confidence in India. FIIs and FPIs represent a key source of investment capital for Indian companies but there is a risk that foreign investors will reconsider the suitability of India for investment.



Funds that are classified by our statistics have made investments in Indian equities of over GBP 38bn (INR 3.6tn) and Indian bonds of over GBP 1.2bn (INR 116bn). These funds are long term investors that for many years have supported economic growth and job creation in India.

The table below shows examples of the extent to which the top 20 funds with Indian investments (and that we classify) have provided finance to Indian businesses.

	INR millions
Mahindra & Mahindra	79,707
State Bank of India	15,570
ICICI Bank Ltd	9,018
Infosys Ltd	9,018
Oil & Natural Gas Corp Ltd	4,063
Axis Bank Ltd	3,522
Dr Reddy Laboratories Ltd	3,483
Tata	2,958
Grasim Industries Ltd	1,839
Bharti Airtel Ltd	1,764
Housing Development Finance Corp Ltd	1,757
HDFC Bank Ltd	1,580
Tech Mahindra Ltd	970
ITC Ltd	610
United Phosphorus Ltd	587
Hindalco Industries Ltd	557
UltraTech Cement Ltd	530
Reliance	516
Kotak Mahindra Bank Ltd	514
Larsen & Toubro Ltd	463

In conclusion, the possibility of a liability to MAT is causing significant concern amongst our members. We should be grateful for confirmation that MAT does not apply and has never applied to FIIs and FPIs. In the meantime if you require any further information we would be happy to discuss this further.

Yours sincerely

Daniel Godfrey
Chief Executive