

# Mauritius authority quizzes investment managers over fees

By Sugata Ghosh, ET Bureau • Last Updated: Apr 10, 2023, 06:50 AM IST

## Synopsis

The Mauritius Revenue Authority (MRA) has launched a probe into the finances of at least seven investment managers (IMs) who advise funds on stocks in markets such as India. The MRA is said to be questioning the fees earned by the IMs and the extent to which income is transferred to entities in other countries. Mauritius previously attracted foreign investors thanks to its affordable fees and business-friendly laws. However, other jurisdictions embarked on a crackdown on tax havens prompting tax offices to seek substance in investment structures.



[Mauritius](#), which is often preferred by many international investors for its friendly laws and low expenses, is taking a closer look at the investment managers (IMs) who advise funds on the stocks to buy and sell in markets like India.

The [Mauritius Revenue Authority \(MRA\)](#), the apex tax body, is understood to be enquiring about the fees earned by the IMs and how a large part of it is transferred to entities in other countries.

At least seven managers, domiciled in Mauritius and managing both private and public equities, have received emails and notices from the MRA, questioning details about their fee earnings from the funds and companies incorporated in Mauritius to trade in other markets.

IMs are skeletal entities with a few locals and professionals in the board, with the main decision makers in the manager entity stationed in places like Dubai, Singapore or India. The IMs in Mauritius pass on the lion's share of their income earned from funds to their overseas advisors. The Mauritius managers while retaining a small slice of what they earn serve as basic outfits.

"The MRA is asking some of the IMs to substantiate the significantly large payments to other entities outside of Mauritius under a sub-advisory pact where such a sub-advisor offers investment advisory services to the investment manager," said Anand Singh, founder, [Elios Financial Services](#), an advisory firm.



## In a Nutshell

Investment managers in Mauritius are basic outfits

They are advised by entities in Dubai, S'pore or India

**Mauritius body asking managers to substantiate large fee payments to cos outside of country**

**Need to ensure Mauritian substance requirements don't get diluted while seeking advisory services: Experts**

**Authorities keen on having bulk of managers' income in country**



### 'A subjective decision'

"The MRA is seen asking details of advisory services and methodology for calculation of fee payable," he said.

Now, like many other jurisdictions, Mauritius too is trying to figure out whether IMs set up in the tax haven have a 'substance'.

Mauritius probably wants to find out whether IMs have enough resources and qualified people - setups that would ensure that the bulk of the IMs' income remains in the country as opposed to being paid out by way of sub-advisory fees.

"While there is nothing wrong on MRA's part to ask for details, it could be counter-productive to discourage such investment advisors from offering their services. Paying a large fee to these advisors is a subjective decision of the IMs and is based on the value addition they bring to the table," said Singh who is a member of the capital market task force of the [Financial Services Commission](#), Mauritius.

"Moreover, such a large pool of talent may not be readily available in Mauritius due to which fund managers tend to appoint advisors who are located elsewhere," said Singh.

Since the meltdown of 2008, when sovereigns searched for new sources of revenues, countries tweaked their own laws as well as came together to make it tougher for international investors to set up paper companies in financial centres to take advantage of lower tax. Tax offices of various jurisdictions looked for substance in investment various structures as well as questioned the place of effective management of an entity incorporated in tax havens.

According to [Prakhar Dua](#), who leads the financial services and regulatory practice at the law firm [Nishith Desai Associates](#), "Establishment of substance in Mauritius is not just essential from a Mauritian law perspective, but also to avail the benefits of India-Mauritius DTAA. While entering into arrangements, such as a self- managed fund having an advisory agreement with a non-Mauritius investment advisor or a fund managed by a Mauritian investment manager in turn having a sub-advisory arrangement with a non-Mauritius advisor, it is important to ensure that Mauritian substance requirements do not get diluted, in letter and spirit."

Most investment entities have IMs based in Mauritius as self-managed funds require the presence of a strong local board which may not always be possible.

Pointing out at the relation between an IM and a non-Mauritius entity advising the IM, the MRA, in some of the cases, has observed that there is "no basis for computation of the consultancy fees... and no reference has been made to the methodology in determining it." The arm of the government has asked IMs to justify as to why a significant portion of the income is paid out as fees to the advisor and "how the whole fees satisfy the deductibility test" under the country's Income tax law. Since the IMs booked the amount of fees paid out as an expense, the [tax department](#) is questioning the basis of such deduction that lowers the taxable income of entities in Mauritius (i.e, the IMs). The IMs were asked to respond by March.

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