e-ISSN: 2582-5208
International Research Journal of Modernization in Engineering Technology and Science
(Peer-Reviewed, Open Access, Fully Refereed International Journal)
Volume:07/Issue:04/April-2025 Impact Factor- 8.187 www.irjmets.com

THE INFLUENCE OF DOUBLE TAXATION AVOIDANCE AGREEMENTS (DTAA) ON FOREIGN INVESTMENTS IN INDIA

Narendran TVSC*1, Muhammad Thameem NK*2, Muhammed Shamal*3, Srivathsan V*4, Manas Bagewadi*5, Aalok Kumar Pandit*6, Dr. Tejaswini S*7

*1,2,3,4,5,6MBA 2024-26, CMS Business School, JAIN (Deemed-To-Be University), India.

*7Assistant Professor – Finance, Faculty Of Management Studies, CMS Business School, JAIN (Deemed-To-Be University), India.

ABSTRACT

The international trade boom requires Double Taxation Avoidance Agreements (DTAA) to resolve foreign earnings taxation. India has signed DTAA with various nations to remove tax obstacles and create a favorable business environment. This research investigates the effect of DTAA on Indian FDI inflows, investor confidence, and capital investment considering tax structure options. Although studies validate the economic advantages of DTAA, its effectiveness in avoiding tax treaty abuse and Base Erosion and Profit Shifting (BEPS) is less researched. Existing research targets macroeconomic implications, but firm-level tax minimization through DTAA requires focus. Based on statistical models and expert opinions, this research evaluates whether India's DTAA regime attracts investors or enables tax evasion. It also investigates the effect of tax treaty renegotiations after BEPS on sustainable FDI. Voluntary participants will make tax treaties easier by incorporating global best practices into India's framework.

Keywords: Double Taxation Avoidance Agreement (DTAA), Foreign Direct Investment (FDI), Tax Treaty, Base Erosion and Profit Shifting (BEPS), Tax Policy, Investment Climate, Multinational Corporations (MNCs).

I. INTRODUCTION

Globalization has raised cross-border investment and trade, with consequent complex tax implications for private investors and multinational companies (MNCs). Double taxation remains a problem, with income being taxed in residence and source countries. To reduce this, the majority of countries, including India, have entered into Double Taxation Avoidance Treaties (DTAAs) to avoid or limit taxes, to enhance economic cooperation and foreign direct investment (FDI). India has pursued aggressively tax treaty negotiations and renegotiations to build a pro-investor climate but remains plagued by concerns on treaty abuse, tax evasion, and whether DTAA indeed stimulates FDI inflows.

DTAAs eliminate double taxation and also resolve tax uncertainty, and this has made India a preferred destination for investment. Despite this, treaty loopholes have created room for tax avoidance mechanisms such as BEPS. Governments have moved towards modifying treaties, especially under OECD BEPS. Despite earlier studies concentrating on macroeconomic impacts, there is limited understanding about how MNCs reduce tax expenses or whether renegotiated treaties follow world best practices to avoid tax evasion.

India's tax treaty landscape has evolved significantly, with the major agreements being with the U.S., Mauritius, Singapore, and the Netherlands. The Singapore and Mauritius treaties were once the biggest FDI inflows, but changes in their direction to stop treaty abuse have also put their implications on investor attitudes and FDI inflows under the spotlight. The current study examines if reforms to DTAA made the investment climate of India better or redirected FDI to other favorable tax environments. Tax treaties also affect investment planning and allocation as companies strategically plan their investments through these treaties. India's adoption of the OECD's Multilateral Instrument (MLI) reflects a shift toward stronger anti-abuse measures, but few studies have assessed its impact on investors. India's government has been amending DTAA provisions to align them with international tax norms, balancing investor protection and taxation. There are few studies evaluating, however, whether such reforms made India more investment-friendly or increased tax complexity and deterred investors. This study estimates the empirical impact of DTAA amendments on FDI flows, tax revenues, and investor responses.

While they promote cross-border investment, the effectiveness of DTAAs is in doubt. Research gaps in the research areas are the lack of firm-level evaluations, empirical treaty change studies, and evidence on investor adaptation to tax reforms. Utilizing a mixed-method research strategy that combines quantitative FDI analysis and qualitative evidence obtained from policymakers and taxation specialists, this study performs a thorough evaluation of DTAA's impact on Indian FDI and presents policy recommendations to enhance India's tax treaty policy.

Objectives

1. To analyze the impact of changes in DTAA on India's FDI inflows by comparative analysis of pre-and post-significant upgradation trends with Mauritius and Singapore
2. To study FDI sectoral pattern driven by DTAA terms and determine sectors which gained the most from tax treaty benefits, such as IT services, financial services, and manufacturing.
3. To compare DTAA and non-DTAA FDI partner country inflows with the objective of assessing how the agreements promote foreign investment and ease of access into these markets.

II. REVIEW OF LITERATURE

Several studies point out the beneficial effect of Double Tax Avoidance Agreements (DTAAs) on foreign investment in India. Ghosh and Parab (2021) stress that DTAAs promote tax stability and minimize double taxation, making India more appealing to Foreign Direct Investment (FDI). Nations applying beneficial DTAAs receive more FDI due to minimized tax issues. Mishra and Jena (2019), employing a gravity model estimation, illustrate that DTAAs have a significant impact on FDI flows by reducing tax burdens and simplifying investment procedures.

Rixen (2010) brings to fore the strategic role of DTAAs in negotiating tax revenue conflicts, which is essential in the foreign investment sector in India. They remove the transaction costs and put in place mutual negotiation rules that provide greater opportunities for investors. This compatibility of interests supports an environment suitable for foreign investment.

Palamalai and Kalaivani (2014) investigate the interaction between foreign institutional investments (FIIs) and economic stability, discovering that instability changes affect FII attraction rates. Nevertheless, a robust taxation regime under DTAAs is effective in curbing the adverse consequences of currency devaluation and inflation, enhancing India's attractiveness to FIIs. Bose (2012) demonstrates that mutual funds, as constituents of FIIs, take advantage of the good investment climate created by DTAAs and support Indian market growth.

Iqbal et al. (2018) examine India's Outward Foreign Direct Investment (OFDI) patterns and their relationship with foreign investment in the nation. Although mainly concerned with OFDI, their study highlights how DTAAs provide economic incentives to Indian companies, enhancing their international attractiveness and increasing international investment linkages. This two-way effect enhances the movement of private capital into and out of India. Hearson (2016) evaluates tax treaties and notes that the effectiveness of DTAAs depends on their specific provisions. The ability of India to secure favorable terms in these agreements directly influences the country’s attractiveness to foreign investors. As economic conditions evolve, periodic reviews of DTAAs become essential to maintaining their effectiveness in promoting foreign investments.

Despite extensive research, some gaps remain. There are few studies of the impact of DTAAs on sectors like manufacturing, services, and technology. There needs to be further analysis in understanding how DTAA impacts larger economic development factors rather than tax policy. Multiple factors of investment climate analyzed collectively could provide more informative results. Moreover, comparison of India's DTAAAs with other developing countries' DTAAAs could give useful pointers on best practices and most productive tax incentives to entice foreign investment. Measuring India's DTAA regime against international treaty norms would inform what provisions perform optimally to stimulate economic development and investment.

III. METHODOLOGY

Research Design

In this research the quantitative and descriptive and comparative research design examines how Double Taxation Avoidance Agreements affect Foreign Direct Investment in India. This research depends on empirical secondary data collected from Indian government institutions and financial organizations for measuring inward FDI trends together with sectorial effects across different countries.

Data Collection Method

This study uses official reports together with databases and published literature as its secondary sources to collect data.

- The Reserve Bank of India (RBI) provides FDI data at the sector and national levels.
- The Department for Promotion of Industry and Internal Trade (DPIIT) provides data concerning FDI statistics and policy modifications.
- The studies utilize data sources from United Nations Conference on Trade and Development (UNCTAD) regarding International investment reports.
- OECD & IMF Reports: Implementation of BEPS and cross-border tax agreements.Academic
- Journals: SCOPUS, Web of Science, ABDC, and UGC-listed research on DTAA and FDI.

Data Analysis Techniques

The paper uses descriptive modeling together with comparative case studies to study FDI behaviors between essential DTAA modification periods. The examination includes:

- The analysis evaluates FDI inflows through major DTAA modifications performed on Mauritius, Singapore and Cyprus.
- The research evaluates which industries received maximum benefits from DTAA provisions.
- Comparative Analysis: Comparing FDI inflows from DTAA and non-DTAA partners.
- Case Study Approach:

1. Mauritius DTAA (Pre- and Post-2016 Amendment): Evaluating FDI changes brought about by the elimination of tax loopholes.
2. Singapore DTAA: Examining the growth of FDI as Singapore became a center for investments.

Research Gap and Justification

Literature currently examines DTAA laws regarding investment provisions and their theoretical outcomes on investments. Very little empirical research exists which measures how Double Tax Avoidance Agreements affect FDI in target industries. This research attempt fills the existing information gap through:

- The research analyzes FDI influence from DTAA provisions through specific industry examination.
- FDI trends comparison between DTAA and non-DTAA nations.
- An evaluation of the investment patterns after the amendments took effect.

Limitations of the Study

- The research depends exclusively on published reports yet these secondary data may not apply to current scenarios.
- The research project lacks investor perception data regarding the impact of DTAA amendments.
- Tax reforms and international economic trends both affect FDI although beyond the scope of DTAA itself.

The researcher utilizes data analysis together with comparative methods to study the DTAA impact on Indian FDI growth. An analysis of different periods and sectors and countries enables this research to generate policy-relevant guidelines for enhancing India's tax treaties for forthcoming investments.

IV. DATA ANALYSIS

1. Descriptive Analysis: Unpacking Key Trends

a. FDI Inflows Before and After Major DTAA Changes

The FDI sequences show major transformations occurred before and after Double Taxation Avoidance Agreements (DTAA) received their modifications. Let's break it down:

Year	FDI Inflows (in Billion USD)	Major DTAA Event
2010	25.8	Old Mauritius DTAA

Year	FDI Inflows (in Billion USD)	Major DTAA Event
2015	44.0	Singapore, Cyprus Treaties in Effect
2017	60.2	Mauritius DTAA Amended (2016)
2021	81.9	BEPS Action Plan Implemented

Key Insight: The revisions of DTAA agreements resulted in substantial growth of FDI especially between India and Mauritius Singapore and Cyprus. Some instances of round-tripping investments were cut back due to strengthened anti-abuse strategies..

b. Sector-Wise FDI Trends

Certain industries benefitted more than others from DTAA provisions.

Sector	FDI Inflows (Billion USD)	% Share	Impact of DTAA
IT Services	16.5	28.3%	Singapore DTAA boosted tech investments
Manufacturing	12.9	22.1%	Tax incentives drove expansion
Financial Services	9.3	15.9%	Mauritius & UK DTAA played key roles
Pharma	7.2	12.3%	EU treaties aided drug exports

Key Insight: The combination of IT and Financial Services received major benefits through DTAA because of advantageous tax conditions in Mauritius and Singapore.

2. Comparative Analysis: FDI Growth in DTAA vs Non-DTAA Countries

In order to understand the DTAA's real impact, we need to compare India's FDI inflows from partner and non-partner countries.

Country	DTAA with India?	FDI Received (Billion USD)
Mauritius	Yes	18.4
Singapore	Yes	17.2
USA	Yes	10.5
China	No	1.8

Key Insight: The large amount of Foreign Direct Investment which India receives from DTAA countries demonstrates how beneficial tax-friendly agreements can be for attracting investments.

3. Case Study Analysis

Case 1: Mauritius DTAA – Before & After 2016 Amendments

Before 2016 Mauritius served as India's leading source of FDI because capital gains tax was not levied. New anti-abuse regulations were established in Mauritius during 2016.

Year	FDI from Mauritius (Billion USD)
2015	12.4
2017	9.2 (↓ after DTAA changes)
2020	6.8

e-ISSN: 2582-5208
International Research Journal of Modernization in Engineering Technology and Science
(Peer-Reviewed, Open Access, Fully Refereed International Journal)
Volume:07/Issue:04/April-2025 Impact Factor- 8.187 www.irjmets.com

Key Insight: When amendments reduces the tax loopholes, they also led to a decline in FDI from Mauritius, as investors tries to find alternative routes.

Case 2: Singapore DTAA & FDI Growth

After Mauritius' 2016 amendments, many investors shifted to Singapore due to its favorable DTAA terms.

Year	FDI from Singapore (Billion USD)
2015	9.5
2017	13.1 (↑ after Mauritius amendment)
2020	17.2

Key Insight: Singapore hence became a preferred FDI route after the Mauritius amendment, and it hereby proving that the DTAA terms influence investment decisions.

Takeaways

- The number of foreign direct investments increased considerably after the DTAA agreements were made with Mauritius and Singapore.
- The combination of tax-friendly policies delivered the most benefits to the Financial Services along with IT sector.
- Mauritius made tax-reducing changes in 2016 which simultaneously reduced foreign direct investment from abroad.
- Singapore became an important investment center following the change in rules through Mauritius amendment.
- DTAA stands as a fundamental policy instrument which determines the direction of India's Foreign Direct Investment landscape when attracting international investors.

V. FINDINGS

1. Effect of DTAA on FDI Inflows:

- The study highlights that Foreign Direct Investment (FDI) in India showed a sharp spurt after major Double Taxation Avoidance Agreements (DTAAs) with countries like Mauritius, Singapore, and Cyprus were changed.
- For example, FDI inflows rose from $25.8 billion in 2010 to $81.9 billion in 2021, with a definite trend upwards after sensational DTAA amendments.
- The 2016 amends to the Mauritius DTAA and the implementation of the OECD's BEPS Action Plan in 2021 also supported the boom.

2. Sectoral Impact:

- Information Technology Services attracted the maximum FDI of $16.5 billion, exactly owing to favorable terms under the Singapore DTAA.
- Manufacturing industry also witnessed growth in FDI of $12.9 billion due to tax relief given by means of DTAA's.
- Financial Servicesalso experienced relentless flows ($9.3 billion) thanks to treaty agreements with Mauritius and the UK.
- The Pharmaceutical industry realized $7.2 billion due to treaties with the European Union and utilized it in drug exports.

3. DTAA vs. Non-DTAA Countries: -

- The study reaffirmed that India received significantly higher FDI from countries having a DTAA with India, i.e., Mauritius, Singapore, and the USA, compared to countries like China which did not have a DTAA.
- The DTAA agreements contributed significantly towards foreign investment, continuing to remain effective in the sense of their ability to achieve their purpose of offering an improved investment environment.

4. Case Studies:

- Mauritius DTAA: Mauritius was a leading source of FDI prior to 2016 due to amiable tax regimes. Following the DTAA revision in 2016, investment from Mauritius fell from $12.4 billion in 2015 to $9.2 billion in 2017. This followed tighter anti-abuse rules, forcing investors to seek other avenues of investment.
- Singapore DTAA: As a consequence of the Mauritius treaty amendments, investors diverted the majority of investments via Singapore, resulting in Singapore FDI inflows increasing from $9.5 billion in 2015 to $17.2 billion in 2020.

5. Key Takeaways:

- The study proves that DTAA agreements are a determinative choice for India's FDI pattern, with Singapore and Mauritius being significant sources of FDI.
- However, such changes in DTAA agreements like the amendments in the Mauritius treaty 2016 initiated a change in investment channels since investors made their focus on good tax regimes besides their respective home country, mostly Singapore.
- IT and finance sectors got hit the most positively with these tax agreements, followed by manufacturing and pharmaceutical sectors as well

VI. SUGGESTIONS

1. Improve Anti-Tax Avoidance Provisions: Although DTAAs are crucial for foreign investment appeal, they have been exploited for abusive purposes using platforms such as treaty shopping and tax evasion. Combat them by making sure that India incorporates anti-abuse provisions in its tax agreements. Compliance using the avenue of the OECD's Base Erosion and Profit Shifting (BEPS) will avert such abuse in addition to making sure the nation possesses a strong and clear taxation regime.

2. Regular Review and Renewal of DTAA: Because taxation law in the world economy continues to change from day to day, India has to periodically review and renew tax treaties. Regular review of treaties must be carried out so loopholes in legislation are not allowed to remain ajar and India can remain a competitive source base for foreign investors.Updating the treaties in accordance with international best practices will also decrease business uncertainty.

3. Encourage Investments in Growth Industry Sectors: The study indicates that sectors such as IT services and financial services have derived immense benefits from tax treaties. India can offer similar sector-specific incentives to rising sectors such as renewable energy, advanced manufacturing, and technology-based businesses. Providing industry-specific tax advantages will induce investments in sectors important for long-term economic growth.

4. Enlarge DTAA Partnerships with Emerging Economies: To minimize the dependence on a handful of countries like Singapore and Mauritius, India must increase its network of tax treaties with emerging markets in regions such as Africa, Latin America, and Southeast Asia. Strengthening tax treaties with these economies will open a new avenues of investment and forge stronger global trade relations.

5. Streamline Tax Compliance Procedures: Complimentary treaties notwithstanding, complex tax procedures may deter investors. India must streamline the compliance procedure for foreign investors.Simple, easy-to-understand guidelines to avail DTAA benefits will enhance the ease of doing business and spur long-term foreign direct investment (FDI).

6. Improve Monitoring and Transparency Mechanisms: In order to avoid abuse of tax treaties, India must set strong monitoring and reporting mechanisms. Greater transparency with obligatory disclosures by firms making use of the benefits of DTAA will ensure wise use of tax provisions and enable authorities to trace and authenticate tax avoidance schemes.

7. Compare with International Best Practices: India can borrow and apply good tax policies from other countries with high FDI inflow. India can determine areas where the DTAAs need to be improved by comparing its DTAAs with international standards while balancing tax enforcement and protection of investors.

8. Measure the Effects of Policy Change: It is important for the policymakers to assess the implications of recent DTAA modifications, like the Multilateral Instrument (MLI). Ongoing monitoring of the impact of these adjustments on FDI inflows will be useful in the formulation of future policy reforms. A fact-based process will assist in achieving the right balance between drawing in investments and preserving tax receipts.

VII. CONCLUSION

This study explores Double Taxation Avoidance Agreements (DTAAs) and their implications on foreign direct investment (FDI) in India. Tax treaty amendments undertaken recently with Mauritius, Singapore, and Cyprus have changed both the quantum and pattern of foreign investments.

A major amendment to the Mauritius DTAA in 2016 was introduced to prevent tax evasion and promote transparency but created investment diversion to Singapore because of more favorable taxation. Research indicates that DTAAs have supported important sectors such as IT, manufacturing, and finance by eliminating uncertainties regarding tax, which dissuade investors. Strong tax treaties attract greater FDI since countries with strong tax treaties offer predictable tax regimes.

But India's anti-abuse provisions, which have plugged loopholes, have dissuaded investments from conventional sources such as Mauritius. Intricate tax rules may also deter prospective investors. Protecting the tax base and investor-friendly policies have to be balanced by India to maintain FDI. Periodic DTAA revisions, transparent frameworks, and keeping pace with international tax norms will increase their efficiency. Keeping pace with changing tax rules will keep India's stable and increasing investment climate intact.

VIII. REFERENCES

[1] Bose, S.. (2012). Mutual Fund Investments, FII Investments and Stock Market Returns in India. Mutual Funds . http://doi.org/10.2139/ssrn.2204418

[2] Iqbal, B.., Turay, A.., Hasan, M.., & Yusuf, Nadia. (2018). India's outward foreign direct investment: emerging trends and issues. Transnational Corporations Review, 10, 107 - 98 http://doi.org/10.1080/19186444.2018.1436659

[3] Hearson, M.. (2016). Measuring Tax Treaty Negotiation Outcomes: The ActionAid Tax Treaties Dataset. Law & Society: Public Law - Tax eJournal . http://doi.org/10.2139/ssrn.2744547

[4] Ghosh, T.., & Parab, Prashant. (2021). Assessing India's productivity trends and endogenous growth: New evidence from technology, human capital and foreign direct investment. Economic Modelling , 97 , 182-195 . http://doi.org/10.1016/J.ECONMOD.2021.02.003

[5] Palamalai, Srinivasan., & Kalaivani, M.. (2014). Determinants of Foreign Institutional Investment in India: An Empirical Analysis. Global Business Review, 16 , 364 - 376. http://doi.org/10.1177/0972150915569925

[6] Mishra, B.., & Jena, P.. (2019). Bilateral FDI flows in four major Asian economies: a gravity model analysis. Journal of Economic Studies . http://doi.org/10.1108/JES-07-2017-0169

[7] Rixen, T.. (2010). Bilateralism or multilateralism? The political economy of avoiding international double taxation. European Journal of International Relations , 16 , 589 - 614 http://doi.org/10.1177/1354066109346891

[8] FDI Fact Sheet (April 2000 to December 2024): https://dpiit.gov.in/sites/default/files/FDI%20Factsheet%20December_2024.pdf

[9] Foreign Direct Investment Flows to India: Country-wise and Industry-wise Data (May 27, 2022): https://rbi.org.in/Scripts/AnnualReportPublications.aspx?Id=1365

[10] World Investment Report 2021: Investing in Sustainable Recovery: https://unctad.org/publication/world-investment-report-2021

[11] Base Erosion and Profit Shifting (BEPS) Overview: https://www.oecd.org/tax/beps/

[12] IMF Country Report No. 22/386 on India (December 2022): https://www.imf.org/en/Publications/CR/Issues/2022/12/22/India-2022-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-the-Executive-527808

[13] OECD. (2017). OECD Model Tax Convention on Income and on Capital 2017 (Full Version). OECD Publishing. https://doi.org/10.1787/mtc_cond-2017-en