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# Indian HNIs look east for new tax havens

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AS INDIA'S peak income-tax rates begin to hurt, the number of high networth individuals (HNI) seeking to take "residence" outside the country is going up sharply, according to leading wealth managers, tax consultants and immigration lawyers whom ET spoke to.

Peak income-tax rates in India are as high as 33% as against 0% in UAE, 16% in Hong Kong and 20% in Singapore.

Prominent figures who have already sought tax residency overseas include liquor baron Vijay Mallya, UK-based NRI industrialist Anil Agarwal, chairman of Ispat group Pramod K Mittal and Ravi Ruia of Essar Group, ET has learnt.

According to immigration lawyers, traditional favourites such as the UK and the US have become less attractive over the past few years thanks to changes in tax and residency laws, and Indian HNIs are now moving east — from UAE to Singapore.

The shift in perception as well as changes in global tax and residency laws, plus a crackdown on traditional tax free havens by Western countries are thought to be the main reasons behind the lure of the new non-traditional tax havens.

Countries most popular with Indian HNIs seeking tax residency these days are Singapore, Hong Kong, UAE, Belgium, Mauritius, Switzerland, Saint Kitts and Nevis , Monaco, Jersey, Isle of Man and Liechtenstein.

HNIs, though prodded mainly by the tax factor, also consider the quality of life and educational opportunities offered by a tax haven before zeroing in on a country, say wealth managers. "Belgium is a new favourite because physical presence in the country helps in obtaining nationality. Also, by virtue of being a European Union resident, global travel plans get easy. Some HNIs acquire residence status in Switzerland even today just for the prestige value associated with it," says Poorvi Chothani, immigration lawyer and partner, LawQuest.

The UAE is also a popular destination not just because it does not levy any income tax but also because of a global lifestyle and international education facilities for children. "Besides it's just a few hours flight from India," says Ernst & Young partner Amitabh Singh.

US, the traditional favourite, has become less attractive because of tax residency issues. "Often many HNIs are not well aware of the tax complications of being a US resident where you are liable to pay income tax at the federal, state, and sometimes, city level. The combined taxes could be as high as about 52%," says legal and tax consultant firm Nishith Desai Associates founder Nishith Desai.

Besides, the US tax laws make it very difficult to give up citizenship or the green card, it is pointed out. "Even after giving it up, the US continues to tax such persons. Under a recently introduced law, the giving up of US citizenship may trigger a deemed disposal of assets and a capital gains-like tax liability may arise," says Mr Desai.

And then there are the nomads.

"An interesting case is of Indian professional sportspersons who, thanks to their global mobility, can plan their tax residency and their tax payments in different countries. Since their physical stay in any country do not exceed beyond a month or two, they effectively may not be resident anywhere in the world," says KPMG India executive director Vikas Vasal.

The immigration lawyers say that HNIs of Indian origin continue to find India attractive. "Sure, an Indian tax residency status is still not as attractive as one in countries such as the UK. But, owing to the slowdown, many non-resident Indians are actually opting to pay their taxes in India," says Mr Singh.

Mr Singh and his ilk feel that India could do a lot more to attract HNIs. Says Mr Vasal:

"India can attract a lot of money if it reduces the peak personal tax rates."

Agrees Mr Desai, "India needs to create an incentive programme for attracting and retaining HNIs from around the world." According to the benchmark household wealth index developed by Barclays Wealth and the Economic Intelligence Unit, India is slated to jump from its current position of 14 to become the eighth largest wealth market in the world by 2017.

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