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Even as India tries to convince investors it won't pursue "tax terrorism," a new set of tax demands by the government is causing a furor among investors and tax experts.

Lawyers and accountants say that Indian tax department officials have approached dozens of investors, asking them to pay the so-called Minimum Alternate Tax, which these investors haven't had to pay before.

Finance Minister Arun Jaitely said in an interview to NDTV news channel that the government could recover 400 billion rupees ($6.4 billion) from investors through this levy, and has indicated that he has no plans to change that.

We explain what the ruckus is all about.

Q: Is this a new tax?

A: No. Minimum Alternate Tax is a local tax that India has required companies to pay since the late 1980s. If a company's income tax in India is less than 18.5%, then it has to pay the MAT, which comes to around 20%, including additional duties.

However, historically foreign investors have not paid this tax because it was widely believed that only Indian companies were subject to it. In 2010, a tax body ruled that MAT was not applicable to companies that don't have a permanent establishment in India.

Foreign investors are subject to other taxes, such as a capital gains tax for profits on asset sales.

Q: What has changed?

A: In 2010, a Mauritius-based investment firm Castleton Investment Ltd. approached an Indian tax body to get confirmation that it was not required to pay MAT on a transaction it wanted to execute.

Contrary to precedent, in 2012 this body ruled that even foreign companies are subject to MAT.

Castleton has appealed to the Supreme Court.

Q: Why is this old case coming up now?

A: In the budget announced late February, Mr. Jaitley said that MAT would not be applicable to foreign companies from April 1, 2015 onward. He was silent on what happens to transactions that were undertaken in the past.

India's income tax officials have interpreted Mr. Jaitley's budget announcement, combined with the Castelton case, to mean that foreign investors should have paid MAT for previous years.

In recent weeks, tax officials have started issuing notices to foreign investors, asking them to do so. Lawyers say the department can ask for back taxes for transactions undertaken within the past seven years.

Q: So, who all will have to pay this tax?

A: There is a lot of confusion about this. It's not clear, for instance, whether only portfolio investors will have to pay MAT, or also foreign companies who have invested in Indian assets, said Rajesh Simhan, head of international tax practice at Nishith Desai Associates, a Mumbai-based law firm.

He said it was also not clear if this tax is applicable to gains on debt investments.

Q: What do investors say?

A: Investors are worried about whether they too will be slapped with such a notice, and if so, where do they get the money from to pay the tax?

Many of the foreign funds that the Indian government now wants to tax have already distributed profits to investors and so may not have the money to pay the tax, says Dinesh Kanabar, chief executive of tax consultants Dhruva Advisors.

"Re-opening prior years' cases is creating avoidable uncertainty and denting investor sentiments," said Sameer Gupta, tax leader at consulting firm Ernst & Young LLP.

A head of a major American private equity fund said that if the firm gets slapped with such a major tax bill, it couldn't afford to pay it now that money has been returned to investors. Though legally, the fund believes it could win such a fight, it could mean years of litigation, he said. "We would be out of here," he said.