Facts

U Limited is a company incorporated in Mauritius and is holder of a Category 1 Global Business Licence. It has started its operation in the business of acquiring and holding financial instruments in overseas jurisdictions and the net result at 31 March 2016 is a loss.

The company has royalty obligation payments to non-residents for the use or right to use Sigma Squawk facility, Stellar Software Licence, etc.

The company has incurred a gross loss in its first year of operation but will derive gross income in subsequent years from foreign sources. The company does not have any Mauritian source income.

Point at issue

Whether the royalty paid by the company qualifies for the exemption under item 5 of Sub-Part B of Part II of the Second Schedule to the Income Tax Act.

Ruling

Based on the above facts, it is confirmed that the royalty will qualify for the exemption as laid down under item 5 of Sub-Part B of Part II of the Second Schedule to the Income Tax Act.