TR 202

Facts

D was incorporated in Mauritius on 12 November 2014, holds a Category 1 Global Business Licence and carries out investment holding activities. It invests principally in listed securities and debt instruments in India and Indian businesses. D is 100 % owned by E, another company holding a Category 1 Global Business Licence. D and its parent are referred to as the "Group".

The Group has invested in T, a public limited company incorporated in India, with an operational presence in India and Egypt. T also manufactures caustic soda, calcium chloride, chloromethanes, refrigerant gases, industrial salt and specialty chemical intermediates.

E holds a 30% equity shareholding in T while D has invested in 19,902 fully redeemable non-convertible secured debentures of INR 1,000,000 each of T.

The above debentures are listed on the Wholesale Debt Market segment of the Bombay Exchange ("BSE") and have a maturity date of 22 April 2023.

The debentures have the following terms:

- Coupon rate of 3 % per annum, compounded annually, and payable at the time of redemption; and
- 10 % redemption premium payable upon redemption of the debentures, such that it provides an aggregate yield of 13% compounded annually

In D's books, the debentures have been recorded at an estimated fair value since acquisition in accordance with the International Financial Reporting Standards.

In September 2018, D entered into an agreement with T for the debentures held by D to be either redeemed by T or alternatively sold to an affiliate of T by 30 June 2019, that is, prior to its maturity date, at a consideration equivalent to the principal amount of the debentures with all outstanding coupon interest payments and the redemption premium.

A significant proportion of the proceeds from the redemption or sale of the debentures will be distributed by D to E to enable the latter to invest in additional shares of T, thereby increasing its equity stake from 30 % to 42.9 %.

Point at issue

Whether gains derived by D, in terms of the redemption premium, from either the disposal of the debentures to an affiliate of T or the redemption of the debentures by T prior to their maturity, will be exempt from income tax in Mauritius?

Ruling

Based on the facts provided, the redemption premium represents income falling under Section 10 (d) of the Income Tax Act and is subject to tax at the rate of 15 %.