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%.