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Facts

L was incorporated in Mauritius on 18 October 2016 and holder of a Category 2 Global Business Licence. On 28 November 2017, L changed its status to a Category 1 Global Business Licence.

The principal activities of L are to act as an investment holding company in the forestry sector in Mozambique and trading operation for sourcing and onward sale of wood sourced from various forestry concessions held in African countries.

During the year ended 31 December 2019, L issued preference shares to third party investors and these preference shares were subsequently bought back by M, the immediate and ultimate holding company.

M presently holds 2 classes of shares: ordinary shares and preference shares in its wholly owned subsidiary, L. M intends to relinquish/walk away from the preferences shares. For the purposes of this relinquishment, L will debit the preference shares account and credit the Profit and Loss Account.

Point at issue:

Whether the amount credited in the Profit and Loss Account in respect of the relinquishment of the preference shares would be subject to tax?

Ruling

On the basis of the facts provided, the relinquishment of the preference shares will alter the capital structure of L. The amount credited to the Profit and Loss Account being capital, would therefore not constitute a taxable income for L.