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Facts

F, G and H are pure equity investment holding entities incorporated as Global Business companies in Mauritius.

F has 100% holdings each in G and H.

G holds I, incorporated in Kenya and engaged in poultry farming.

H holds J, incorporated in Kenya and engaged in meat processing.

The shareholdings of G in I and H in J are 100% respectively. The same individuals sit on Companies F,G and H.

Mr. A is an executive director of Companies F,G and H and the CEO of Companies I and J. He is a keyman to the operations of the Group.

F wishes to subscribe for a keyman insurance for Mr. A with a Life Assurance Company of Canada. F will pay monthly premium to the insurance company for an annual subscription and will consider renewal of the insurance at the end of the one-year period. The insured will be Mr. A, whilst the beneficiary will be F.

Points at issue

(i) Whether the insurance premiums paid to the insurance company are allowable for tax purposes in the accounts of F?

(ii) Whether there is any tax implication on the lump sum that may be paid by the insurance company under the terms of the keyman insurance cover?

Ruling

On the basis of the facts provided, it is ruled that:

(i) The insurance premiums being not exclusively incurred in the production of gross income by virtue of section 18(1) of the Income Tax Act, would not be an allowable expense for F.

(ii) The lump sum payable by the insurance company under the terms of the key insurance cover in excess of premiums paid would be a taxable income for F in accordance with section 10(1)(g) of the Income Tax Act.