

TR 255**Facts**

F is a private limited company incorporated on 11 February 2016 and domiciled in the Republic of Mauritius. F holds a Category 1 Global Business Licence under the Financial Services Act 2007 and is regulated by the Financial Services Commission in the Republic of Mauritius.

F is a protected cell company with three cells namely Cell A, Cell B and Cell C. The principal activities of F are asset holding and debt financing to cross-border entities. F has entered into an agreement with J for an uncommitted revolving structured trade and commodity finance facility for an aggregate amount equal to USD25m. J has agreed to pay the following fees for the loan:-

- (i) An arrangement fee of 2% of the total commitment of USD25m. Effective from 1 January 2021 and pursuant to the second addendum dated 1 January 2021, the arrangement fee was changed to 3.5%.
- (ii) Interest income at the rate of 5% per annum.
- (iii) A commitment fee of 0.5% per annum on the available commitment amount for the availability period.
- (iv) Effective from 1 January 2021, a prepayment fee of 3.5% attributable to all or any part of the loan paid on a day other than on its original repayment date, pursuant to the second addendum agreement dated 1 January 2021. Following the second agreement dated 4 January 2020, a prepayment fee of 1.5% was charged for the year ended 31 December 2021.
- (v) A management fee of 1.5% of the total commitment of USD 25m.

In addition, F has also entered into a second agreement with another company namely K, which is also domiciled in Zimbabwe for an aggregate amount of USD 9m. The latter has agreed to pay the following fees for the loan:

- (i) An arrangement and management fee of 3.5% of the total commitment of USD 9m.
- (ii) Interest income at the rate of 5%.
- (iii) A commitment fee of 0.5% per annum on the available commitment amount for the availability period. Effective from 1 January 2021 and pursuant to the second addendum dated 1 January 2021, the commitment fee was changed to 2%.
- (iv) A prepayment fee of 1% attributable to all or any part of the loan paid on a day other than on its original repayment date. Pursuant to the first addendum agreement dated 4 January 2020, a prepayment fee of 3.7% is being charged for the year ended 31 December 2021.

As a result of debt financing agreement in place, F derives finance income such as arrangement fee, commitment fee, prepayment fee, gain on exchange and interest income.

Point at issue

Whether arrangement fee and commitment fee, which are an integral part of the interest income under the Effective Interest Rate Method, will benefit from the 80% exemption?

Ruling

On the basis of the facts mentioned above, it is ruled that since the arrangement fee and commitment fee are not included in Sub-Part B and Sub-Part C of the Second Schedule to the Income Tax Act, these income are not subject to 80% partial exemption.