

TR 271**Facts**

S is incorporated in Mauritius as a private company limited by shares and holds a Global Business Licence (“GBL”). The principal business activity of S is that of an investment holding.

T is a company incorporated in Mauritius and holds a GBL.

U is a company incorporated in Mauritius and holds a GBL.

S and T are not related.

S and T hold shares in U. S shareholding in U is as follows:

Class of shares	Percentage holding
Class A	22.75%
Class B	1.41%

On 13 September 2018, S entered into an agreement with T relating to future projects that might be undertaken by U where shareholder funding (in the form of loans to U or purchase of additional shares in U) would be required.

The agreement states that the first USD 2 million of S share of funding would be provided by T and the next USD 500K by S up to a cap of USD 2.5 million.

The reason behind the agreement for T to invest on behalf of S was that *“T wished to benefit from S continued involvement in future projects but S needed the outlay to be capped”*.

T would benefit from S involvement as T *“see value in the founders of S remaining involved due to their connections in the sector, in banking & finance & for the S’s brand name to be linked to the ongoing projects.”*

During the year ended 31 December 2022, T paid U USD 427,728 to meet the funding requirement due under the agreement.

S has accounted for the amount invested by T in U as other income.

T has treated the expense as non-deductible for tax purposes.

Point at issue

Whether the amount invested by T in U on behalf of S shall be taxable or non-taxable in the hands of S?

Ruling

On the basis of the facts provided, it is ruled that the amount paid by T on behalf of S and accounted as other income by S is taxable pursuant to section 10(1)(g) of the Income Tax Act, in the hands of S.