

VATR 124

Facts

A was incorporated in Mauritius on 4 May 2023 as a private company with liability limited by shares. It holds a Global Business License ("GBL"), as well as an authorisation to operate as a Closed-End Fund ("CEF") License under Section 97 of the Securities Act 2005, from the Financial Services Commission ("FSC").

The principal activity of A is to invest in growth stage enterprises to achieve a broader access to healthcare in Africa. A invests through debt and/or quasi-equity securities.

Based on A's draft financial statements for the period ended 31 December 2023 ("FS"), which is currently under audit, a grant of USD 1,000,000 has been recognized in its Profit and Loss Statement in line with International Accounting Standards ("IAS") 20 - Accounting for Government Grants and Disclosure of Government Assistance.

As a background, in 2023, B, the promoter of A, entered into a Grant Agreement with C which is an implementation partner of the D. D is an independent agency of the United States Government that is primarily responsible for administering foreign aid and development assistance.

Overall, the purpose of the grant provided through the Grant Agreement is to bridge the gap between Africa's health ambitions and current levels of financing, thereby improving healthcare access and quality across the continent. The grant served as the catalytic seed investment which enabled B to establish A, with the main objective to promote access to affordable healthcare in Africa.

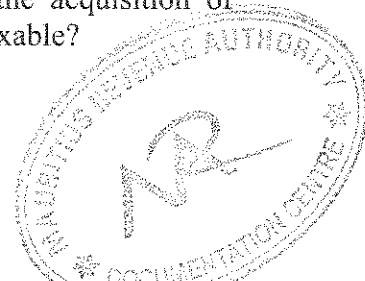
Disbursement of the grant was subject to the fulfilment of specified milestones, as stipulated in the Grant Agreement. The grant was awarded and paid out directly to A upon B providing proof to C of the successful achievement of all the milestones.

At the level of A, the grant is kept in a separate bank account and is drawn at the same pace and for the same purposes as capital contributed by A's investors, as if D was an investor in A. The only difference between the capital committed by A's investors and that injected by C is that the latter is not repayable.

The grant is / will be used for investment purposes (i.e., purchase of securities / provision of loans as per A's investment objectives) as well as for the purposes of financing operational purposes (payment of management fees, Fund expenses, etc.).

Points at issue

- (a) Whether the grant should initially be treated as non-taxable in the income year in which it is recognised in A's financial statements, with its taxability to be subsequently determined on the basis of its utilisation in the year of such utilisation?
- (b) Where the grant is used to finance A's investment activities (i.e. the acquisition of securities / provision of loans), should such amount be treated as non-taxable?



- (c) Where the grant is used to finance A's operational expenses, should the amount so utilised be treated as taxable to the extent that A claims a tax deduction for such operational expenses?

Ruling

Based on the facts provided, it is ruled that:

- (a) The grant would not be included in the gross income of A in the year in which it is recognised until it is applied as specified under Paragraph (b) and (c) below.
- (b) Where the grant is used to finance A's investment activities (i.e. the acquisition of securities/provision of loans), such amount would not be treated as taxable income.
- (c) Where the grant is used to finance A's operational expenses, the amount so utilised should be treated as taxable income.