Supreme Court Judgment: Alteo Energy Ltd v Assessment Review Committee & Anor – A Landmark Judgment on the Partial Exemption Regime

Executive Summary

The Supreme Court of Mauritius recently issued a critical judgment in *Alteo Energy Ltd v Assessment Review Committee & Anor*, providing much-needed clarity on the application of the 80% partial exemption on interest income under the Income Tax Act 1995 (ITA) and Regulation 23D(2) of the Income Tax Regulations 1996 (IT Regulations). This case is particularly significant for businesses seeking to optimise their tax positions while ensuring compliance with the substance requirements prescribed by the ITA.

At the heart of the dispute was whether interest income earned by Alteo Energy Ltd, a company primarily engaged in electricity production, could qualify for the 80% income exemption. The Mauritius Revenue Authority (MRA) and the Assessment Review Committee (ARC) held that the interest income in question was not derived from the company's Core Income Generating Activities (CIGA) and thus did not satisfy the conditions for the exemption. However, the Supreme Court disagreed with this interpretation, ultimately ruling in favour of Alteo.

This decision has far-reaching implications for companies in Mauritius, particularly those engaged in diverse business activities with multiple income streams. The judgment confirms that the 80% exemption is not restricted to income derived solely from CIGA, provided the company meets the substance conditions as set out in the relevant tax provisions.

Legal Framework and Key Issue

The ITA provides for an 80% exemption on specific categories of income, including interest income, subject to the company meeting the prescribed substance conditions. This exemption, however, is not available to certain financial institutions such as banks, insurance companies, leasing companies, and foreign exchange dealers.

The relevant provisions in dispute were:

- Item 7 of the Second Schedule of the ITA, which states that a company may claim an 80% exemption on interest income, provided that it is not one of the excluded financial institutions and that it satisfies the substance conditions.

- Regulation 23D(2) of the Income Tax Regulations 1996, which sets out three key requirements for satisfying the substance conditions:
    1. The company must carry out its core income-generating activities in Mauritius.
    2. It must employ an adequate number of suitably qualified persons to conduct those activities.
    3. It must incur a minimum level of expenditure proportionate to its business activities.

The dispute arose because the MRA and ARC interpreted these provisions restrictively, arguing that the interest income earned by Alteo did not qualify for the exemption because it was not derived from CIGA.

Facts of the Case

For the 2019–2020 year of assessment, Alteo Energy Ltd, a subsidiary of the Alteo Group, was primarily engaged in electricity production, with the sale of electricity to the Central Electricity Board (CEB) being its principal business activity. As part of its financial management strategy, excess cash generated from electricity sales was deposited with a sister company, from which interest income was earned.

Alteo subsequently treated 80% of this interest income as exempt under Item 7 and Regulation 23D(2). However, the MRA issued a Notice of Assessment disallowing the exemption, contending that the interest income did not originate from the company's CIGA and therefore did not meet the conditions for the 80% income exemption. The amount assessed was Rs. 158,145. The ARC, in its ruling dated 24 October 2023, pheld the MRA's position, finding that the interest income was unrelated to Alteo's CIGA, and therefore, the exemption could not be granted. Alteo then appealed to the Supreme Court, challenging this restrictive interpretation.

Arguments Presented by the Parties

Case for the Appellant (Alteo Energy Ltd)

Alteo contended that the ARC misinterpreted Regulation 23D(2) by imposing an additional requirement that interest income must be derived directly from the company's main business activity. It argued that:

- The wording of Item 7 and Regulation 23D(2) is clear and unambiguous, and there is no statutory requirement that interest income must originate from CIGA.
- The only conditions that must be met are those explicitly outlined in Regulation 23D(2), namely, that the company must carry out core income-generating activities, employ qualified personnel, and incur sufficient expenditure in Mauritius.
- The term "CIGA" is inclusive, meaning that it should be interpreted broadly rather than restrictively so that we needed to apply its ordinary meaning rather than reading additional conditions into the law.

Case for the Respondents (ARC & MRA)

The respondents argued that Alteo's CIGA was the production of electricity, and it would be absurd to suggest that interest income derived from surplus funds placed in a sister company could qualify under Regulation 23D(2). They contended that:

- The legislator's intent was that the exemption should apply only to income derived from CIGA.
- While the law does not explicitly state this requirement, when read together, Item 7 and Regulation 23D(2) suggest that interest income should be directly linked to the core business.

Supreme Court Judgment & Key Findings

The Supreme Court ruled in favour of Alteo Energy Ltd, overturning the ARC's decision. The key findings were:

1. The language of Item 7 is clear and does not require interest income to be derived from CIGA. The exemption applies to any company that meets the substance conditions, irrespective of its business activity.
2. The ARC erred in law by reading additional conditions into the statute. Nowhere in Regulation 23D(2) does it state that interest income must originate from CIGA.
3. The term "CIGA" is inclusive and not restrictive. The use of the word "includes" in the definition of CIGA means that it expands the scope rather than limits it.
4. Hansard supports the legislative intent. The exemption was introduced as part of a broader tax reform aimed at ensuring a level playing field for both domestic and global business companies (GBCs).
5. Regulation 23D(2) prescribes only three conditions. There is no basis for imposing further conditions beyond those expressly provided in the law.

Implications for Businesses in Mauritius

The judgment sets an important legal precedent, reinforcing clarity and consistency in the Mauritian financial sector. It has several key implications for businesses:

- Broad Eligibility for the 80% Exemption: The judgment confirms that companies are entitled to the 80% income exemption provided they meet the prescribed substance conditions—even if the income does not originate from CIGA. This removes a layer of uncertainty, allowing companies to diversify their revenue streams without the risk of losing the exemption simply because of the source of the interest income.
- Flexibility in commercial operations & strategies: The decision explicitly recognises that strategic financial practices, such as placing excess funds in related entities, will not automatically disqualify interest income from the exemption. This provides businesses with the necessary leeway to manage their liquidity and optimise cash flow while remaining compliant with tax laws.
- Strict Adherence to Statutory Interpretation: A core element of this judgment is its reinforcement of the principle that tax authorities are bound by the express terms of the law. The decision makes it clear that no additional conditions—such as those previously imposed or suggested by tax authorities regarding the source of income—can be levied.

Conclusion

The Supreme Court's decision in Alteo Energy Ltd v ARC & MRA is a landmark judgment that brings clarity to the interpretation of the 80% income exemption. By confirming that interest income does not need to be derived from CIGA, the Court has reinforced the principle that tax laws must be applied as written, without unjustified restrictions.

This decision brings significant clarity to the Mauritian financial sector at a time when global economic uncertainties and evolving regulatory challenges demand robust, predictable legal frameworks. It offers a welcome assurance to businesses—whether domestic entities or GBCs —with diverse revenue streams, affirming that legitimate tax planning strategies will continue to be protected under the law. Additionally, as companies in Mauritius have faced increasing scrutiny from tax authorities regarding claims to the 80% exemption, this judgment provides much-needed relief and guidance. In doing so, it strengthens Mauritius's reputation as a transparent and reliable financial hub in an increasingly complex international environment.

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