

PRIVY COUNCIL SETTLES
THE “CORE INCOME
GENERATING ACTIVITIES”
DEBATE

Alteo Energy Ltd
v
**Director-General, Mauritius
Revenue Authority**

[2026] UKPC 27

EXECUTIVE SUMMARY

On 30 June 2026, the Judicial Committee of the Privy Council (“JCPC” or “Board”) dismissed the MRA’s appeal in Alteo Energy Ltd (“Alteo” or “the Company”), confirming that Alteo was entitled to the 80% exemption on interest income under item 7 of Sub-Part B, Part II of the Second Schedule to the Income Tax Act 1995 (“ITA”) and Regulation 23D(2) of the Income Tax Regulations 1996.

Critically, the JCPC rejected the MRA’s position that a company’s interest-generating activities must be part of its “core business” to qualify for the 80% exemption. A company earning incidental interest income may still qualify for the partial exemption, provided the activities that generate that interest are themselves carried out, resourced and funded in Mauritius.

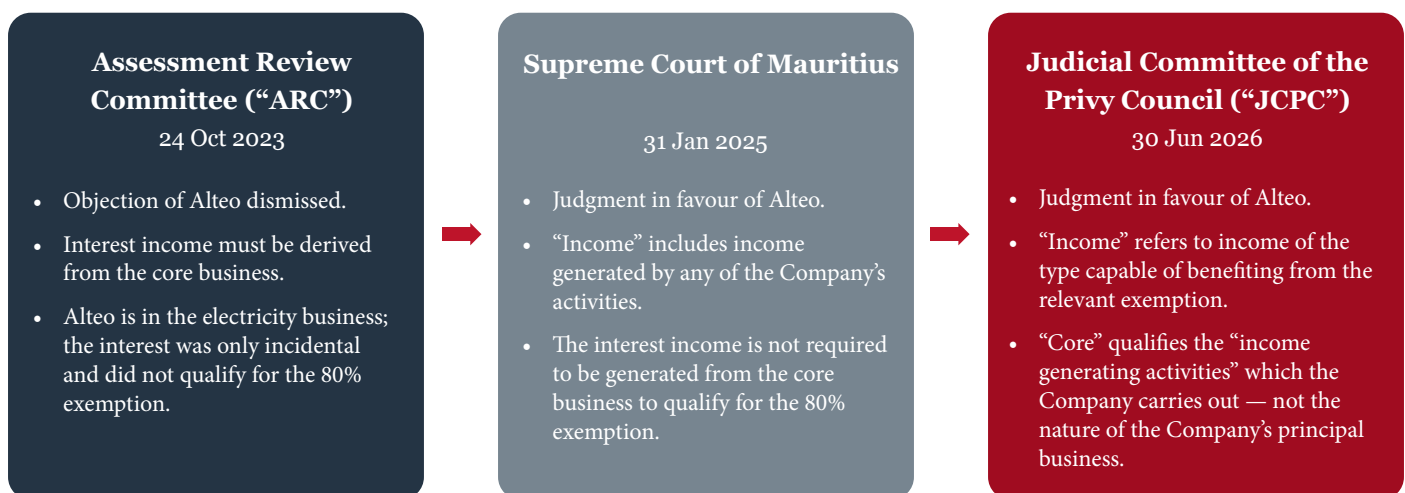
The Supreme Court of Mauritius had reached the same result via a different route, which as per the JCPC was incorrect. The Supreme Court incorrectly read “income” in Regulation 23D(2) as referring to the company’s total income rather than only the interest income.

This landmark judgment brings clarity on the interpretation of “core income generating activities” (“CIGA”) and will be highly relevant to pending tax audits or cases and future CIGA compliance reviews.

THE JOURNEY THROUGH THE COURTS

Alteo is a domestic company incorporated in Mauritius and its principal activity was the production of electricity.

For the year of assessment 2019/2020, 95.7% of its income was generated from electricity sales and only about 0.25% from interest on surplus cash placed with a related party. The MRA denied the 80% exemption on that interest, arguing the lending was incidental, not “core”, to Alteo’s business. Alteo appealed to the ARC and to the Supreme Court of Mauritius, the latter which ruled in favour of Alteo. The MRA made an appeal to the JCPC, which was dismissed.



THE PRIVY COUNCIL JUDGMENT – KEY FINDINGS

A. “Income” means the exempt-eligible income only

- The Board made reference to the OECD BEPS Action 5 Report on Countering Harmful Tax Practices More Effectively, Taking into Account Transparency and Substance and highlighted that a link between the income qualifying for the exemption must be made with the core activities actually generating the income.
- The Board held the Supreme Court erred in reading “income” in Regulation 23D(2)(a) as the Company’s total income. In the context of a provision that sets conditions for a specific exemption, “income generating activities” must refer to activities generating the income capable of benefiting from that exemption, which is interest.
- This reading is reinforced because the identical CIGA wording (“carries out its core income generating activities in Mauritius”) recurs across many items in Part II of the Second Schedule (e.g. item 42 on ship/aircraft leasing income, item 44 on reinsurance income), each with its own type of qualifying income. The word “income” is simply a placeholder that takes its meaning from the relevant exemption item.

B. “Core” does not mean “core business”

- The MRA argued that “core” meant the interest-generating activities had to be central to the Company’s main operations. That is, the Company’s core business had to be money-lending. The Board firmly rejected this.
- “Core” qualifies which of the activities generating the relevant income must be performed in Mauritius and not whether that income-generating activity is central to the Company’s overall business. A company can carry on a wholly different principal business and still claim the exemption on incidental interest, provided the activities generating that interest are carried out in Mauritius and the substance conditions are met.
- Regulation 23D(2)(b) defined CIGA in relation to interest income to “include”:
“agreeing funding terms, setting terms and duration of any financing, monitoring and revising agreements, managing any risk”;
 which is illustrative, not exhaustive, and does not import a “core business” requirement.

C. Broad vs Narrow view of “activities”

- The Board mentioned that a broader or narrower view could be taken.
- The broader view looked at the whole of the Company’s operations that indirectly gave rise to the surplus cash generating interest, while the narrower view looked only at the specific loan-agreement activities. For Alteo it made no difference, as all activities were in Mauritius.
- However, the Board preferred the broader view as the better fit with the substantial-activity purpose of the Regulation and with conditions (ii) and (iii) (minimum employment and expenditure), which use company-wide proxies.
- For companies where interest is incidental to the main business, the number of employees and expenditure attributable to the lending itself will often be minimal. The Board said this is “of doubtful relevance”, and it is instead appropriate to look at where the activities generating the Company’s revenue as a whole (including, indirectly, the interest) are located.

JUDGMENT

The Board dismissed the MRA’s appeal and confirmed that Alteo was entitled to the 80% exemption on its interest income. Although the Board’s reasoning differed from that of the Supreme Court, it reached the same outcome. Alteo satisfied the substance requirements under Regulation 23D(2), its activities were carried out in Mauritius and supported by adequate staffing and proportionate expenditure was incurred.






The judgment brings clarity to the partial exemption regime and confirms that the MRA’s narrower “core business” test does not reflect the correct legal position.

This judgment also extends well beyond interest income. The same “CIGA” wording underpins several other partial-exemption items in Part II of the Second Schedule. While the Board’s interpretation of the CIGA test should apply consistently across these items, the precise scope of income covered still depends on the specific wording of each item, and this should be reviewed on a case-by-case basis.

WHAT THIS MEANS FOR TAXPAYERS AND CLIENTS

<p>1</p> <p>Lower MRA Challenge Risk</p> <ul style="list-style-type: none"> Interest on surplus operating cash, shareholder loans, intra-group placements or other debt instruments, may still qualify for the 80% exemption even where lending is not the company’s principal business. 	<p>2</p> <p>Substance Conditions Still Apply</p> <ul style="list-style-type: none"> CIGA carried out in Mauritius. Adequate, suitably qualified person to conduct the CIGA. Incurs a minimum expenditure proportionate to the level of activities. 	<p>3</p> <p>Re-assess Open Tax Matters</p> <ul style="list-style-type: none"> Clients with pending MRA objections, representations, or Supreme Court appeals involving a CIGA or substance denial should reassess their position promptly in light of this judgment.
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HOW ANDERSEN MAURITIUS CAN HELP

 <p>CIGA & Substance Health-Check</p> <p>Assess staffing, expenditure and decision-making location across your Mauritius entities.</p>	 <p>Documentation</p> <p>Prepare or strengthen contemporaneous records evidencing substance.</p>	 <p>MRA Audit Representation</p> <p>Represent clients in ongoing MRA audits, OADR reviews and ARC representations.</p>	 <p>Treasury & Cash-Management Tax Advisory</p> <p>Tax efficient structuring.</p>	 <p>Training</p> <p>Practical workshop for your in-house team.</p>
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