

ARC Ruling Clarifies 'Acquisition' Timing for Investment Tax Credit

Summary of the Ruling

- CDL Knits Limited (the Taxpayer) is engaged in the production and dyeing of knitted fabrics for sale.
- The Taxpayer claimed investment tax credit (ITC) on plant and machinery (P&M) for the income years ended 30 June 2017 and 30 June 2018.
- ITC is granted as a credit against income tax liability in the year of acquisition and the two subsequent income years, provided the Taxpayer:
 - Incurred capital expenditure on new P&M during the period 01 July 2016 to 30 June 2020; and
 - Used the P&M in the course of its business operations.
- The Mauritius Revenue Authority (MRA) disallowed the ITC, arguing that the P&M had been acquired before 30 June 2016, as parts of the P&M were imported prior to that date.
- However, the Assessment Review Committee (ARC) ruled in favour of the Taxpayer. The ARC held that the shipment of P&M parts prior to 01 July 2016 did not constitute acquisition for ITC purposes. ITC can only be claimed when the P&M is fully assembled, commissioned, and brought into actual use in the business, which occurred after 01 July 2016.

KPMG comments

This Ruling reinforces the principle that, for ITC purposes, the mere importation or delivery of P&M is not sufficient to establish acquisition. What matters is the point at which the asset is fully assembled, commissioned, and operational. Taxpayers should ensure that documentation clearly reflects when assets become functional in the business to support ITC claims.

Although the specific law provision under which the ARC ruling was made applied only up to 30 June 2020 and has since been repealed, the ARC's interpretation remains relevant. It provides valuable guidance on determining the timing of acquisition. It is also worth noting that a tax incentive is currently available until 30 June 2026 for manufacturing companies investing in new P&M. Taxpayers may find this Ruling particularly useful if they have also imported P&M in parts.

If you require any assistance or further clarification, please feel free to contact us.



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