Mauritius Revenue Authority V XYZ Ltd, 2017 SCJ 260 R No. 110902

‘Book profit’ in terms of the Income Tax Act

Background/Facts

For the year of assessment 2011, XYZ Ltd declared for the purpose of 2% CSR contribution based on book profit in accordance with IFRS of the previous year an amount of Rs.10.5m arrived at after deducting Rs.14.0m of tax expense and Rs.10.5m as deferred tax.

The MRA contended that ‘book profit’ computed in accordance with IFRS is profit before tax and that profit after tax is a tax adjustment which intervenes after profit before tax and deferred tax expense is a provision which should not be a deduction. On that basis, the MRA adjusted the book profit for the calculation of CSR from Rs.10.5m to Rs.24.5m.

The ARC gave a decision against the MRA who appealed to the Supreme Court.

The law

Reference was made thereon to:

- Profit is defined in IAS 1 as the ‘total income less expenses, excluding the components of other comprehensive income.’ And, ‘expenses’ includes ‘tax expenses’.
- Under IAS 12, tax expense is ‘the aggregate amount included in the determination of profit or loss for the period in respect of current tax and deferred tax’.

Application of the law

If the interpretation of the MRA is adopted, the computation of the profit would not be in accordance with IFRS.

The definition of ‘book profit’ under section 50L of the Income Tax Act requires that profit has necessarily to be computed in accordance with IFRS and that book profit is the difference between profit as calculated under IFRS and income tax as defined under sections 2 and 4 of the Income Tax Act.

Conclusion

The appeal by the MRA was dismissed.