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## Tax News Update

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### Mauritius | A look at the potential treatment of dividend income under Pillar Two

- *In anticipation of forthcoming regulations in Mauritius, this EY Tax Alert considers the treatment of dividend income under the OECD Model Rules from a Mauritian perspective, with a focus on the interaction between domestic tax exemptions and the Excluded Dividend rules.*
- *The Mauritian Qualified Domestic Minimum Top-up Tax is effective from 1 July 2025 and applies to in-scope entities with fiscal years ending on or after 1 January 2025.*
- *Although dividends are generally exempt or taxed at a low effective rate in Mauritius, certain dividends, including those from short-term portfolio shareholdings and hybrid instruments, may be included in Global Anti-Base Erosion (GloBE) income and reduce the effective rate below the 15% minimum.*
- *Businesses may be exposed to additional QDMTT liability if dividend income does not qualify as an Excluded Dividend, requiring careful review of ownership thresholds, holding periods and financing structures.*

#### Executive summary

In anticipation of forthcoming regulations in Mauritius, this Tax Alert considers the treatment of dividend income under the Organisation for Economic Co-operation Development Model (OECD) Model Rules from a Mauritian perspective and highlights some of the practical considerations that may arise once the Qualified Domestic Minimum Top-up Tax (QDMTT) becomes fully operational.

With the enactment of the Finance Act 2025 in August 2025, Mauritius enacted a QDMTT as part of the OECD Pillar Two framework, effective from 1 July 2025. Though the Mauritian legislation broadly follows the architecture of the Model Rules, Mauritian

regulations governing the computation of the Global Anti-Base Erosion (GloBE) income, Adjusted Covered Taxes and the substance-based exemption have yet to be issued. The forthcoming regulations are expected within a matter of weeks, likely in early summer.

The analysis applied in this Alert is based on Chapter 3 of the OECD Model Rules and related Commentaries.

## **Background**

Section 31(a) and (b) of the *Finance (Miscellaneous Provisions) Act 2022* originally introduced QDMTT in the Mauritian tax laws with a commencement date to be fixed by Proclamation. The first year of application of the QDMTT is the year of assessment 2025/2026 in Mauritius — it therefore applies to Mauritian in-scope entities that have an Ultimate Parent Entity (UPE) with a fiscal year ending on or after 1 January 2025.

The tax treatment of dividend income in Mauritius depends on the residence status of the company distributing the dividend income. Mauritian-sourced dividends are generally exempt from income tax, while foreign-sourced dividends are generally subject to a low effective tax rate in Mauritius.

Although dividends distributed by resident companies are generally exempt from income tax in Mauritius, the OECD Excluded Dividend rules do not automatically align with the Mauritian domestic exemption regime. Under Article 3.2.1(b) of the GloBE Model Rules, dividend income may remain within GloBE income if the relevant ownership interest or holding period conditions are not satisfied. In practice, this distinction may become particularly important for Short-Term Portfolio Shareholdings investments, hybrid financing arrangements and structures involving transparent or partially transparent entities, such as sociétés (i.e., partnerships under the Code de Commerce and Code Civil Mauricien). In particular, the interaction between the allocation rules applicable to flow-through entities under Article 3.5 of the Model Rules and the Excluded Dividend adjustment in Article 3.2.1(b) is not expressly addressed in the OECD materials in the context of the Mauritian société regime, leading to possible gaps in interpretation.

In certain cases, dividend income that is exempt from Mauritian tax may nevertheless contribute to a low effective tax rate for QDMTT purposes if the dividend remains within GloBE income without a corresponding exclusion under the Model Rules. In the absence of forthcoming regulations and/or any administrative guidance, several practical interpretative questions remain open in the Mauritian context.

Although there are no adjustments to the corresponding expense in the context of any dividends that are treated as Excluded Dividends under the Model Rules, the Mauritian tax laws treat any related expenses as non-allowable.

## **Excluded dividends**

Article 3.2 of the Model Rules prescribes the relevant adjustments to determine the GloBE income or loss, as the case may be. As a reminder, GloBE income is the adjusted accounting income of a constituent entity, adjusted under the Model Rules. One of the adjustments relates to dividend income, referred to as "Excluded Dividends" in Article 3.2.1 of the Model Rules.

Article 10 of the Model Rules defines Excluded Dividends as "dividends and other distributions received or accrued in respect of an Ownership Interest, except for (a) a Short-term Portfolio Shareholding, and (b) an Ownership Interest in an Investment Entity that is not subject to an election under Article 7.6."

Article 3.2 1(b) of the Model Rules disregards Excluded Dividends from financial accounting net income or loss when computing GloBE income. A dividend is an Excluded Dividend if either of the following two tests is met:

1. The MNE Group holds a minimum of 10% ownership in the payor (an Ownership Interest of 10% or more).
2. The receiving Constituent Entity has held the Ownership Interest for 12 months or more at the date of distribution.

It is important to note that Short-term Portfolio Shareholdings, defined as Ownership Interests of less than 10% held for less than one year, are not Excluded Dividends and are included in the GloBE income or loss of the holder. The Adjusted Covered Tax of the holder is reduced by the tax that is attributable to the Excluded Dividend, so that the exclusion is symmetric (Article 4.1.3(a)).

### **Mauritian tax treatment**

The taxation of dividends in Mauritius may be summarized as follows:

- Dividends distributed by any Mauritius-resident company are exempt from income tax in Mauritius, irrespective of the ownership period and proportion of shareholding insofar as the dividend distribution is in either cash or shares.
- A dividend in specie that a Mauritian-resident company distributes in any form other than shares is not exempt from tax, with no relief whatsoever.
- Foreign dividends are within the charge to Mauritian corporate income tax and may be relieved through the application of either of the following is satisfied:
  - Foreign tax credit (FTC) mechanism
  - Exemption of 80% (the foreign dividend exemption) if the prescribed conditions

An underlying FTC may apply if the resident owns at least 5% of the shares of the nonresident company. The ownership period and proportion of shareholding is not relevant for the purpose of the FTC mechanism and the dividend exemption. In the context of the FTC mechanism, the Mauritian tax on the dividend income may be further mitigated as a result of the pooling basis.

In the light of the above, the Mauritian residual income tax is close to zero for a company that has dividends as its sole income, whether Mauritian or foreign source. To a large extent, the Excluded Dividend under the Model Rules is intended to replicate this outcome from the GloBE perspective. To apply this exemption symmetrically, the computation of the effective tax rate excludes both the income and the total tax corresponding to the portion of Excluded Dividend income.

### Five possible scenarios

In the following five scenarios, a Mauritian company's income consists solely of dividend income.

As these scenarios are for illustrative purposes solely, the potential application of the Corporate Social Responsibility (CSR), the Corporate Climate Responsibility Levy (CCRL), the Alternative Minimum Tax or the Fair Share Contribution is not considered. Thus, the illustration below may be relevant for a company that holds a Global Business License under the Financial Services Act, with a yearly dividend income of US\$500,000. Cases of treaty relief and the impact of any deferred tax asset have not been considered.

Scenario	Fact pattern	Mauritian tax	GloBE treatment	QDMTT liability
1	Dividend income from a resident subsidiary	No Mauritian tax and no carryforward of tax losses is permissible.	Excluded Dividend: The question of any adjustment to the Covered Tax does not arise.	None: The application is symmetric.
2	Dividend income from a nonresident subsidiary	With the FTC mechanism, the residual tax may be zero in Mauritius; otherwise, the effective Mauritian tax is 3% with the foreign dividend exemption.	Excluded Dividend: Any Mauritian tax is a deducted for Adjusted Covered Tax under Art. 4.1.3(a) of the Model Rules.	None
3	Dividend income from a nonresident company for a 5% shareholding held for more than a year	The analysis is identical to Scenario 2.	Excluded Dividend: 12-month holding test satisfied; the covered tax should be deducted as Scenario 2 above.	None

4	Dividend income from a nonresident company for a 5% shareholding held for less than a year	The analysis is identical to Scenario 2.	Short-term Portfolio Shareholding: It is included in GloBE income.	QDMTT applies and takes into account the expenses.
5	Dividend income in specie that is not in shares from a Mauritian resident subsidiary	Taxable on a net basis.	Excluded Dividend and any Mauritian tax is excluded from the Covered Tax of the CE.	None

The Model Rules apply to dividends and distributions and hence, is wider in terms of its scope. For Mauritian tax purposes, the definition of dividend for income tax purposes is narrower than the definition of dividend for corporate law purposes. At a minimum we consider that any dividend that is excluded from the scope of the tax definition would be regarded as a distribution for GloBE purposes. Such a conclusion is also appropriate with the fact that an equity dividend income for corporate law purposes would retain its character for financial reporting purposes and is consistent with fourth paragraph of section 2.3 in the Administrative Guidance on Excluded Dividends where reliance is placed on paragraph 2 of the Commentary on Article 10.1 which reads as follows: "where a common accounting term is not defined it should be interpreted consistent with the meaning given to them in financial accounting standards and guidance."

### **Determining the length of the ownership interest**

Article 10 of the Model Rules defines ownership interest "as any equity interest that carries rights to the profits, capital or reserves of an Entity, including the profits, capital or reserves of a Main Entity's Permanent Establishment(s)." In that respect, paragraph 81 of the Commentary specifically provides that the "equity interest only needs to hold a right to any one of profits, capital or reserves."

Article 10.1 of the Model Rules defines a portfolio shareholding as "an Ownership Interests in an Entity that are held by an MNE Group and that carry rights to less than 10% of the profits, capital, reserves, or voting rights of that Entity at the date of the distribution or disposition." Paragraph 39 of the Commentaries on *Short-term Portfolio Shareholding* expressly provides that with the definition of Portfolio Shareholding in Article 10.1, the ownership interest should be at least 10% for the shareholding to be considered as non-portfolio shareholding.

Consider this example: a Mauritian company acquires an equity interest in a nonresident company on certain days over three consecutive financial years, as depicted in the table below.

	<b>Acquisition</b>	<b>Ownership</b>	<b>Cumulative</b>
<b>Relevant financial year</b>	<b>date</b>	<b>interest (%)</b>	<b>interest (%)</b>
31 December 2025	1 January	5	5
31 December 2026	1 July	4	9
31 December 2027	1 January	3	12

#### Scenario 1: Dividend income of US\$2m received on 31 March 2027

On the date the dividend income is received, the equity interest exceeds 10% so that the dividend income is considered as Excluded Dividend income. For this purpose, the fact that the non-portfolio shareholding status applies for the months is not relevant. The total amount of US\$2m will be considered as Excluded Dividend income.

#### Scenario 2: Prior to dividend receipt per Scenario 1, a 5% equity interest is disposed of on 28 March 2027

If a 5% shareholding is disposed on 28 March 2027 in the year ending 31 December 2027 (FY 2027) the ownership interest of the Mauritian company will be 7% on the date of the dividend distribution, i.e., 31 March 2027. The ownership interest of 10% is therefore no longer satisfied on the date of the distribution. At that point in time, one must determine whether the remaining 7% ownership interest has been held for at least 12 months.

Under paragraph 43 of the Commentaries, the disposition of an ownership interest in a particular class of shares is deemed, for simplification purposes, to be a disposition of the mostly recently acquired ownership interest of the same class of shares. Therefore, the 5% disposal from the ownership interest pool is matched as follows:

- Disposal of 3% ownership interest acquired 1 January 2027
- Disposal of 2% ownership interest acquired on 1 July 2026

The 12-month holding period condition is then applied to the remaining ownership interest on a tranche-by-tranche basis. As of 31 March in FY 2027, the 5% ownership interest acquired on 1 January 2025 is an Excluded Dividend, because it has been held for more than 12 months. On the other hand, half of the 4% ownership interest acquired on 1 July 2026 will be treated as a dividend from a Short-term Portfolio Shareholding. The dividend is then allocated by share count:

- Five of seven shares (US\$1.43m) are excluded from the GloBE income and any corresponding covered tax is excluded from the Adjusted Covered Tax.
- Two of seven shares (US\$0.57m) are included in GloBE income.

For the purposes of this example, we assume that Mauritius Holdco applied an 80% partial exemption on the foreign dividend, leading to an effective 3% tax rate on the

US\$0.57m. The QDMTT will apply approximately 12% to the shortfall, resulting in additional tax of approximately US\$68,400.

## **Specific points for Mauritius**

### ***Considerations for sociétés***

A Mauritian tax-resident société is treated as a tax-transparent entity for general income tax purposes so that its net taxable income is attributed to its partners. However, liability for any CCRL and CSR rests with the société itself and not the associates.

Conceptually, the CCRL and CSR are additional income taxes, although they do not apply to all sociétés. As a result, both a resident société and its partners may be liable for tax in Mauritius. On this basis, a resident société is unlikely to qualify as a Flow-through Entity under Article 10.2 of the Model Rules. This raises the question of how a société should be treated in a year in which it is not liable for CSR or CCRL, and therefore may be fully tax-transparent in that particular year.

Generally, a nonresident société is subject to tax as a company (i.e., a corporation). On the other hand, a resident société holding a Global Business License under the *Financial Services Act 2007* may either be taxed as a company or apply the flow-through approach.

In the context of Mauritian-sourced exempt dividends, net dividends are excluded from the tax result of the société so that the allocation to the partners applies to the net taxable income of the société. Foreign dividends are allocated to the associates (i.e., partners) in accordance with the profit-sharing ratio. Any foreign tax is also allocated in the same ratio to the partners. If a partner is a nonresident, the respective share of income will not be taxable in Mauritius.

Article 3.5 of the Model Rules allocates a flow-through entity's financial accounting net income or loss (FANIL) to its constituent entity owners. It does not appear that the FANIL of a flow-through entity is subject to the adjustments set out in Article 3.2 of the Model Rules. As a result, an Excluded Dividend could fall within the scope of the GloBE Rules, regardless of whether the dividend arises from a non-portfolio shareholding. Such an outcome does not appear to be in accordance with the object and purpose of the Model Rules.

If all sociétés are treated as companies for the purposes of the QDMTT, this would provide consistent treatment for all sociétés established in Mauritius and confirm that the relevant metric is the net GloBE Income or Loss. In such cases, the tax attributable to the partners should be reallocated to the resident société; otherwise, a misalignment would arise between the Covered Taxes of the partners and the société.

Therefore, in principle, the Mauritian QDMTT should follow an allocation approach, whereby income allocated to partners is not separately at the level of the société. Accordingly, the Excluded Dividend analysis would generally be undertaken at the level of a partner when that partner subsequently makes a distribution to its own

shareholders or owners. However, the Regulations should expressly confirm that this treatment aligns with Article 3.5 of the Model Rules.

### ***Distributions from a Variable Capital Company or Protected Cell Company***

The application of the Excluded Dividend rules to distributions from Variable Capital Company (VCC) sub-funds and Protected Cell Company (PCC) cells may require specific consideration. A VCC sub-fund or special purpose vehicle may have a legal personality distinct from that of the umbrella VCC. If an election is made, the relevant ownership interest for GloBE purposes may need to be assessed at the level of the sub-fund itself and this may affect whether a distribution qualifies as an Excluded Dividend. Although the cells of a PCC do not constitute separate legal entities from the core entity, a similar approach apply if the PCC elects to treat each cell separately for accounting and consequently, tax purposes. The OECD refers to "Ownership Interest," defined as equity interests under the consolidated financial accounting standard. However, the Regulations should clarify both the entity classification and the methodology for determining holding percentages if shares are issued at the sub-fund or cell level.

### ***Preference shares and other hybrid instruments***

Mauritian structures frequently use preference shares, redeemable preference shares (RPS) and similar instruments with cumulative rights, redemption features and fixed returns. Depending on their legal and accounting characteristics, these instruments may be classified differently by the issuer and the holder for financial accounting purposes, especially in cross-border financing arrangements.

For GloBE purposes, the distinction is important because the Excluded Dividend adjustment in Article 3.2.1(b) of the Model Rules generally applies to returns recognized as distributions on ownership interests. If a financial instrument has both equity and liability components under an Acceptable Financial Accounting Standard, only the portion classified as equity may qualify as an Excluded Dividend, consistent with paragraph 37 of the OECD Commentary on Excluded Dividends.

If the issuer classifies the instrument as debt under the International Financial Reporting Standard (IFRS) and the holder classifies it as equity, the OECD's anti-asymmetry rule (pursuant to the updated version of the OECD Commentary to the definition of Ownership Interest ) requires the holder to follow the issuer's classification for GloBE purposes. The arrangement may also fall within the scope of Article 3.2.7 of the Model Rules if the Mauritian constituent entity is located in a low-tax jurisdiction for GloBE purposes. This may occur where the jurisdictional ETR is below 15% after blending, for example due to partial exemptions claimed on qualifying income. In such circumstances, the related financing expense may be excluded from the computation of the Mauritian GloBE Income or Loss to the extent the arrangement can reasonably be expected to produce a deduction/no-inclusion outcome over its anticipated duration.

**Example of hybrid instrument: a redeemable preference share treated as debt by the issuer**

### ***The instrument***

A Mauritian company (Holdco) wholly owned by a foreign UPE, acquires US\$100m of redeemable preference shares in a nonresident operating subsidiary (Opco), that is also wholly owned by Holdco through ordinary shares. The RPS terms are typical of structured intra-group financing including an 8% fixed cumulative coupon payable annually, mandatorily redeemable at par after seven years, no voting rights and priority over ordinary shares on liquidation.

### ***The accounting***

Under IAS 32, an instrument is classified as a financial liability at the issuer where it embodies a contractual obligation to deliver cash that the issuer cannot avoid. Mandatory redemption at a fixed date, combined with a fixed coupon, provides no discretion to Opco. Opco classifies the RPS as a financial liability and recognizes the US\$8m annual coupon as interest expense in its statement of profit or loss. Holdco, however, classifies the RPS as an equity investment because the legal form consists of shares and it therefore recognizes US\$8m as dividend income. This creates an asymmetry, with the instrument treated as debt is recognized by the issuer and equity by the holder.

### ***Without the anti-asymmetry rule***

At Holdco, the US\$8m is dividend income. The 10% condition for the application of the Excluded Dividend test is met (100% holding), and the dividend is therefore excluded from GloBE income. The Mauritian tax of approximately 3% under the 80% partial exemption (US\$240,000) is deducted under Article 4.1.3(a) of the Model Rules. At Opco, the US\$8m is a deductible interest expense that reduces both local taxable income and Opco's GloBE income. The net result across the group is that GloBE income is reduced by US\$8m at Opco with no matching inclusion at Holdco. This results in a deduction/no-inclusion outcome that artificially lifts the group's blended GloBE ETR.

### ***With the anti-asymmetry rule***

Pursuant to the paragraph 85 of OECD Commentary to the Model Rules on the definition of "Ownership Interest" the holder is required to follow the issuer's classification. Holdco must treat the US\$8m as interest income, not as a dividend. Article 3.2.1(b) does not apply, and the amount is not excluded from GloBE income.

### ***Potential consequences for Mauritian QDMTT***

Holdco's GloBE income includes US\$8m. The Mauritian income tax treatment is not affected by the OECD recharacterization. The Companies Act and the ITA continue to treat the receipt as a distribution on shares, and it remains eligible for the applicable income exemption. The effective Mauritian tax rate is approximately 3%, or US\$240,000. The ETR contribution on the US\$8m is therefore 3%. The QDMTT top-up is 12% of US\$8m, or US\$960,000. A structure that was originally expected to incur no

more than US\$240,000 of Mauritian tax may now give rise to an aggregate tax cost of approximately US\$1.2m once the QDMTT is taken into account.

## Conclusion

The exclusion embedded in Article 3.2.1(b) of the Model Rules broadly aligns with the Mauritian regime in which the minimum holding is 10% or the equity interest is held for more than 12 months. The residual risk arises with regard to short-term portfolio shareholdings of less than 10%, particularly if the ETR is less than 15%. Mauritian in-scope entities holding listed equity portfolios of less than 10% should carefully review holding periods and retain the appropriate records to support the holding periods.

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