

TR 21

Facts

An offshore bank intends to facilitate the roll out of a capital guaranteed investment product on behalf of an international fund. The investment would be in three year Zero Coupon Bonds. The Zero Coupon Bonds do not pay interest during their term. However, the interest accrues annually and the value is paid at maturity.

Point at issue

- a) Whether the offshore bank will, by virtue of Section 19 of the Income Tax Act 1995, be entitled to deduct the accrued interest on the Zero Coupon Bonds.
- b) Whether the offshore bank will be required to withhold taxes on interest payments at maturity.
- c) Whether interest paid to the fund is chargeable to tax.

Rulings

- a) The offshore bank will, by virtue of Section 19 of the Income Tax Act 1995, be entitled to deduct the accrued interest on the Zero Coupon Bonds on an annual basis.
- b) There are no withholding taxes on interest payments.
- c) Interest paid to a non-resident by a corporation holding an Offshore Banking Licence issued under the Banking Act 1988 is exempt from income tax under item 5 of Part III of the Second Schedule to the Income Tax Act 1995.