Addressing Structural Challenges To Drive Growth
Mauritius Budget 2017-2018
9 June 2017
Foreword

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Contacts
“Diligent implementation of the enunciated measures aiming to boost investment and exports, enhance productivity and efficiency as well as encourage smart technology and practices would be indispensable for Mauritius to graduate to a higher growth trajectory.”
Foreword

Rising to the Challenge of our Ambitions

Addressing Structural Challenges to drive Growth

The Finance Minister, Honourable Pravind Kumar JUGNAUTH delivered his Budget Speech in the context of considerable hopes, challenges and uncertainties. The main challenges addressed by the budget include achieving higher growth, increasing investment in infrastructure, improving quality of life, building a new social paradigm and consolidating macroeconomic fundamentals.

There is widespread hope that the Mauritian economy would exceed the psychological threshold of 4 percent economic growth, as a prelude to heightened prosperity. The latest tendency is encouraging, with growth picking up from 3.2 percent in 2015/2016 to an estimated 3.9 percent in 2016/2017 and projected at 4.1 percent in 2017/2018. However, to break away from subdued growth experienced over recent years, policies and strategies have been announced to boost investment and exports as well as enhance innovation, notably through the promotion of Mauritius as a digital economy through Fin Tech, Blockchain and 3-D Printing.
Exports increased consistently from MUR69.6B in 2010 to a peak of MUR94.8B in 2014, thereafter falling to MUR 93.3B in 2015 and MUR83.8B in 2016. The budget measures and incentives in support of the export industry, including tax reduction from 15 percent to 3 percent on profits derived from exportation of goods, should contribute to reverse the recent decline in export sector earnings in an attempt to improve the widening trade deficit. However, this fiscal incentive should also be accompanied by measures to raise productivity. This is also a step towards harmonisation of taxation for domestic exporters and global business companies (GBC1).

Other key corporate tax measures include incentives in terms of accelerated capital allowances and double deduction for qualifying research and development expenditure, 8-year income tax holiday for innovation-driven companies of pharmaceutical and high tech product manufacturers. The success of these incentives will also depend upon other factors including availability of skilled resources. The negative income tax for low-income employees that has been accompanied by a new solidarity levy of 5 percent for high-income earners is a step towards mitigating income inequality.

Investment as a percentage of GDP has been declining over the last five years and needs urgent attention. Total investment rate declined from 17.4 percent in 2015 to 17.2 percent in 2016, driven by a reduction in public sector investment, on account of bottlenecks in implementation. Measures to monitor implementation, from planning to completion of major projects, should be able to result in higher public investment.

The budget deficit for 2016/2017 is estimated at 3.5 percent of GDP, thus at an acceptable level. Public sector debt, as per international definition, is estimated at 66.1 percent of GDP at June 2017 and is expected at 63 percent by June 2018. However, the announced aim of bringing it further down to below 60 percent is conditional upon a sustained acceleration in economic growth in coming years. Should growth not pick up and significant contingent debt items materialise, the risk of public sector debt shooting up further would be real and that would consequently trigger considerable challenges for policymakers.

This budget indeed contains a wide range of packages and incentives addressed to key productive sectors, including agro-industry, bio-farming, ocean economy, tourism, financial services, manufacturing and the digital economy. Diligent implementation of the enunciated measures aiming to boost investment and exports, enhance productivity and efficiency as well as encourage smart technology and practices would be indispensable for Mauritius to graduate to a higher growth trajectory. The success of these measures would also require the active participation of the private sector.

“The budget measures and incentives in support of the export industry, including tax reduction from 15 percent to 3 percent on profits derived from exportation of goods, should contribute to reverse the recent decline in export sector earnings in an attempt to improve the widening trade deficit”
Key Fiscal Measures

Major tax reforms accompanied by an array of fiscal incentives to stimulate export, encourage the development of new growth poles and bridge the income inequality gap

Corporate Tax

- Reduced corporate tax rate of three percent on profits derived by companies from export of goods
- Eight-year income tax holiday extended to:
  - Companies engaged in the manufacture of medical devices, pharmaceutical and high tech products, incorporated after 8 June 2017
  - Companies engaged in exploitation and use of deep ocean water for providing air conditioning installations, facilities and services
  - New companies involved in innovation-driven activities, on their income derived from intellectual property assets developed in Mauritius
- Tax incentives for research and development carried out in Mauritius introduced for companies as follows:
  - 50 percent accelerated allowance in respect of capital expenditure on research and development
  - Double deduction on trade or business related qualifying research and development expenditures incurred up to income year 2021/2022

“We will also reform our tax regime for global business companies so that it evolves and meets the new international requirements.”

Pravind Jugnauth
Minister of Finance and Economic Development
Corporate Tax (Cont’d)

- Double deduction available for expenditure incurred on:
  - Deep ocean water air conditioning bill for five consecutive years
  - Acquisition and set up of water desalination plant
- Carry forward of unrelieved income tax losses for manufacturing companies, in case of more than 50 percent change in shareholding, now permissible, provided change is deemed to be in public interest and cater for safeguard of employment
- Income tax exemption on interest income on approved debentures for financing of renewable energy projects
- Deduction for investment on solar energy units against taxable income of businesses

Corporate Social Responsibility (CSR)
- Obligation to remit 50 percent of CSR contribution to the Mauritius Revenue Authority (MRA) extended by one additional year

Tax Deducted at Source (TDS)
- TDS of 15 percent to apply in lieu of PAYE where director fees are paid to the employer of a director
- No requirement to operate TDS for sociétés or successions with annual turnover not exceeding MUR6M
- Obligation to operate TDS for companies awarding contracts for construction irrespective of their turnover levels
- No TDS applicable on royalty income derived by a Mauritian from artistic or literary work

Personal Income Tax

- Solidarity levy
  New solidarity levy of five percent on chargeable income inclusive of dividends (but excluding interest income) in excess of MUR3.5M

- Negative income tax
  - Government support in the form of negative income tax between MUR100 to MUR1,000 introduced for persons in receipts of monthly employment income up to MUR9,900

- Exempt income
  - Financial assistance to disabled persons under National Pensions Act
  - Tax exemption of interest income derived by both individuals and corporates from debentures issued to finance renewable energy projects (Green Bonds)

“Simultaneous introduction of negative income tax and new solidarity levy of five percent on high income earners to mitigate income inequality”

Roopesh Dabeesingh
Tax Director
Deloitte, Mauritius
Personal Income Tax (Cont’d)

- **Relief for Medical/Health Insurance Premium**
  - Deduction in respect of medical/health insurance premiums revised as follows:

<table>
<thead>
<tr>
<th></th>
<th>From (MUR)</th>
<th>To (MUR)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Self</td>
<td>12,000</td>
<td>15,000</td>
</tr>
<tr>
<td>First dependent</td>
<td>12,000</td>
<td>15,000</td>
</tr>
<tr>
<td>Second and third dependents</td>
<td>6,000</td>
<td>10,000</td>
</tr>
</tbody>
</table>

- **Income Exemption Thresholds**:

<table>
<thead>
<tr>
<th>Category</th>
<th>Applicable to</th>
<th>From (MUR)</th>
<th>To (MUR)</th>
<th>Increase (MUR)</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>Individual with no dependent</td>
<td>295,000</td>
<td>300,000</td>
<td>5,000</td>
</tr>
<tr>
<td>B</td>
<td>Individual with one dependent</td>
<td>405,000</td>
<td>410,000</td>
<td>5,000</td>
</tr>
<tr>
<td>C</td>
<td>Individual with two dependents</td>
<td>465,000</td>
<td>475,000</td>
<td>10,000</td>
</tr>
<tr>
<td>D</td>
<td>Individual with three dependents</td>
<td>505,000</td>
<td>520,000</td>
<td>15,000</td>
</tr>
<tr>
<td></td>
<td>Individual with four or more dependents (NEW)</td>
<td>550,000</td>
<td>550,000</td>
<td>45,000</td>
</tr>
<tr>
<td>E</td>
<td>Retired/disabled person with no dependent</td>
<td>345,000</td>
<td>350,000</td>
<td>5,000</td>
</tr>
<tr>
<td>F</td>
<td>Retired/disabled person with one dependent</td>
<td>455,000</td>
<td>460,000</td>
<td>5,000</td>
</tr>
</tbody>
</table>

Value Added Tax (VAT)

- **Compulsory VAT registration**
  - All wholesalers of alcoholic drinks irrespective of turnover level should be VAT registered

- **VAT Exemption**
  - Extended to Mauritians travelling overseas on same conditions applicable to visitors under Deferred Duty and Tax Scheme
  - On sterile water used for pre-operative, per-operative or post-operative cleaning of wound
  - On a building constructed by a third party, purposely and exclusively, for lease to a provider of tertiary education

- **Zero-Rated extended to**
  - Security patrolling and monitoring systems of a burglar alarm system
  - Sanitary pads and tampons

- **VAT Refund Scheme**
  - Refund of VAT paid on specific equipment extended to tea cultivator
  - Refund on replacement of old lorries used for carrying harvested canes
Value Added Tax (VAT) (Cont’d)

- **VAT Refund Scheme (Cont’d)**
  - Refund available to additional list of qualifying equipment including the following:

<table>
<thead>
<tr>
<th>Tea Cultivator</th>
<th>Pig Breeder</th>
<th>Planter</th>
<th>Other Breeder</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Hand-held plucking shear</td>
<td>• Farrowing/gestation/nursery crate</td>
<td>• Sharlon shade, green house and shade screen</td>
<td>• Feed grinder</td>
</tr>
<tr>
<td>• Hand-held pruning machine</td>
<td>• Heat lamp/hot blast</td>
<td>• Fertigation pump</td>
<td>• Ventilation fan</td>
</tr>
<tr>
<td>• Motorised tea harvester</td>
<td>• Incubator</td>
<td>• Irrigation equipment</td>
<td>• Chicken crate</td>
</tr>
<tr>
<td></td>
<td>• Pig feeder/drinker</td>
<td>• Hydroponic filter</td>
<td>• Cages and coops</td>
</tr>
<tr>
<td></td>
<td>• Cooling fan</td>
<td>• Water tank</td>
<td>• Water tank</td>
</tr>
</tbody>
</table>

Custom and Excise Duties

- Excise duty exemption on single/double cabin vehicle for small tea grower
- Excise duty increase of five percent on alcoholic drinks and 10 percent on tobacco products
- Removal of custom duties on:
  - Scaffolding and shuttering equipment made of wood or plastic
  - 15-seater motor vehicle for Trade Union Confederation
  - Knocked-Down furniture imported for smart city projects subject to 20 percent local value addition thereon
  - Animal feed except on poultry and pet feed

Land Transfer Tax and Registration Duty

- Land transfer tax and registration duty exemption on:
  - Transfer of building or land used for qualifying Hi-Tech manufacturing activities
  - Transfer of assets of company under special administration where proceeds are used to repay policy-holders or depositors
- Registration duty exemption on acquisition or construction of health institution now extended to leasing or sub-leasing of immovable property used in such institution, to apply retrospectively as from December 2016
Land Transfer Tax and Registration Duty (Cont’d)

- Remission or refund of registration duty, land transfer tax and tax on transfer of leasehold rights in state land available where:
  - No effective change in ownership of the asset
  - Application for existing exemption made within one year; or
  - Completion of a transaction depends on registration of several documents or is subject to various taxes
- Exemption from tax on transfer of leasehold rights in State Lands on first acquisition of immovable property under the Invest Hotel Scheme extended to cover resale
- Registration duty exemption extended to loan agreement drawn by a notary
- Land conversion tax for 18-hole golf courses extended to nine-hole golf courses

Tax Administration

- Tax Amnesty
  - Re-introduction of Tax Arrears Payment Scheme providing for up to 100 percent waiver of interests and penalties on tax due
  - Re-introduction of Expeditious Dispute Resolution of Tax Scheme for one additional year to review assessed amounts including penalties on disputes of less than MUR10M
- General
  - Objection by a person who has appealed to the Assessment Review Committee against the payment of the 10 percent of tax assessed considered as valid by the MRA, if the person subsequently decides to effect payment prior to the case being called Proforma
  - Director-General of the MRA not bound to issue ruling if matter is still under objection or appeal
- Income tax
  - MRA to be empowered to request insurance companies and certain financial institutions an Annual Statement of Financial Transactions in cases where:
    - Transaction exceeds MUR500,000
    - Aggregate annual amount of deposits exceeds MUR4M
  - Amendments with regards to Statement of Assets and Liabilities (SOAL) by high Net Worth Individuals to clarify the following:
    - No requirement to submit SOAL by non-citizens who are residents in Mauritius
    - SOAL to include assets of spouse and dependent children
    - Assets less than MUR200,000 excluded from disclosure requirements
    - No requirement to submit SOAL annually except for major additions to net assets and those of spouse and dependent children
  - Companies to submit to the MRA an annual list of individuals in receipt of dividends exceeding MUR100,000
  - Mandatory electronic filing of return and payment as follows:
    - All companies: Income tax returns
    - Employers: PAYE returns
  - No compulsory requirement to file income tax return for a person acquiring high value immovable property, motor vehicle or pleasure craft
• **Value Added Tax**
  - Maximum penalty for non-submission of tax return and non-payment of tax increased from MUR50,000 to MUR100,000
  - Period for raising assessment by MRA increased from three years to four years
  - Electronic objection extended to VAT assessment
  - Failure to use or tamper with an Electronic Fiscal Device to attract penalty
Other Key Budgetary Measures

The overall aim is to propel Mauritius to a high income country. In line with Vision 2030, the current income per capita of USD9,740 should rise to USD13,600 by 2023

Fostering higher growth for more and better jobs

Spurring growth and preserving employment in the primary and Small and Medium Enterprise (SME) sectors whilst consolidating our footprint in Africa through the following measures:

- Optimisation of policies and actions through the establishment of an Economic Development Board (EDB) with three directorates:
  - National and sectoral economic development planning
  - Investment and export promotion
  - Centralised business licensing
- Strengthening of the SME sector and cooperatives through the implementation of a 10-year Master Plan and the reduction of interest rate on financing by Development Bank of Mauritius Ltd (DBM) from six to three percent

"...We have seen a widening of the income gap between the rich and the poor...As a responsible and compassionate government we cannot let that situation persist. It goes beyond our values as a nation and is a stain on social justice that must be erased..."

Pravind Jugnauth
Minister of Finance and Economic Development
• Revitalisation of the agro industry through various incentives geared towards improvement of production efficiencies and employment preservation

• Consolidation of the African strategy by enhancing bilateral cooperation with African countries under the aegis of the Mauritius-Africa Fund, facilitated by the establishment of a Business and Investment Platform for Africa (BIPA)

• Building of innovative Mauritius by encouraging research through:
  – Introduction of an innovator occupation permit
  – Restructuring of the Mauritius Research Council to manage financing of research in public and private institutions

**Infrastructure of the future**

Infrastructure challenges are being addressed by massive investment at local, regional and national level including the following:

• Works on the Metro Express project by the Government of India to start in September 2017

• Construction of new road infrastructure at Jumbo Phoenix, La Vigie, La Brasserie and Terre Rouge Verdun

• Construction of the Côte D'Or City at Highlands to harbour new government buildings costing around MUR3.6B, state-of-the-art sport complex for the coming 2019 Jeux Des Iles, as well as business, commercial, residential and leisure spaces

• Investment of MUR2.6B by end of 2017 in smart cities namely Mon Trésor Smart City, Mauritius Jin Fei Economic Trade and Cooperation Zone, Moka Smart City and Medine Smart City

• Improvement of the basic infrastructure to the tune of MUR1.6B for 2017/2018

• Allocation of MUR3.3B for major and medium national projects

**Quality of life of our people**

The Government is working towards the improvement of daily life of citizens through better distribution of water, enhancement of sports and leisure, healthcare, security, and education sectors through the following measures:

• Investment of MUR345M for water distribution in the short term and MUR2.3B for the replacement of old pipes in the medium term, and additional investment of MUR1.3B in the construction, upgrading and cleaning of drains to address the increasing risk of flooding

• Investment of MUR3.8B in wastewater management for rehabilitation of the existing networks across the island

• Allocation of MUR11.6B for expansion of hospital infrastructure and health care facilities through two linear accelerators for cancer treatment, new Mediclinics and Community Health Centres

• Provision of MUR8.4B to the Police Department and MUR2.9B for the Integrated Development Project (Trident Project) for the National Coast Guard

• Allocation of MUR590M for the expansion of infrastructure of public primary and secondary schools
Ushering in a new social paradigm

In an effort to combat absolute poverty and reduce inequality, a number of measures are being introduced or reinforced. These are as follows:

- Allocation of MUR6.8B for the construction of social and low income housing units
- Removal of the current 90 percent credit limit on residential loans by commercial banks on purchase of residential properties by first time buyers
- Provision of MUR100M to better equip the MRA in combating drug trafficking

Public sector reform

In continuation of the public sector reform initiated the previous year, the following measures have been announced:

- Setting up of the EDB, SME Mauritius and the fundamental restructuring of the Mauritius Research Council to strengthen the institutional capacity in the public sector
- Establishment of the Mauritius National Investment Authority to pursue the diversification of the investment portfolio from surplus funds of some MUR130B from the NPF and NSF
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