Mauritius Budget Highlights 2023-2024

KPMG View

2 June 2023

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Unwinding past trials with lower tax rates, welfare benefits and business micro facilitation measures: is it all only about economics after all?

The economic context in which the Minister of Finance presented the 2023-2024 Budget speech entitled "To Dare and To Care", stands in sheer contrast with the conditions that prevailed during the recent past budgets. The Covid-19 pandemic and a year later the Russia-Ukraine war, created unprecedented and successive strains on the economy. The past budgets were exceptional in the sense that Government had to support both the people and businesses through the crisis, such support amounting to 32% of GDP. Tonight's budget indicated clearly that the country has fully recovered, with a projected GDP growth of 8%, a budget deficit of 2.9% and a Gross Public Sector debt of 71.5%. The measure announced in this Budget would bring an additional 2 percentage points in GDP growth. While this is commendable, the forecast international reserves in USD terms is increasing however by only 4.8%.

A dominance of welfare economics

The much awaited relief from households indeed materialised with a drop in fuel prices and a drop in personal income taxes across the board with the abolition of the Solidarity Levy and the reform of the income tax rates into a progressive scale with a top rate of 20%. The dominance of welfare economics in the philosophy of our minister is marked by continued measures around inclusiveness, well-being and employability of under-represented groups. There were various measures to improve the access to health benefits and education to those in special needs. Furthermore, low income groups are being supported by an increase in minimum wage to Rs 15,000. Gender equality at board level of listed companies is being addressed with the requirement for Boards of listed companies to have at least 25% of women. Access to the workplace for working mothers will be further promoted with the obligation on employers with more than 250 staff to have a child care facility.

Driving competitiveness

In response to a crying need for more qualified human capital in our quest for a modern business environment that is digitally powered and connected, government announced the lowering of the income threshold for an occupation permit to Rs 30,000 with no limiting conditions on the fields of qualification, nor any ratio of foreign to local workers. The skills migration policy will also be enhanced by the "silent is consent" principle for the approval of work permits, on a centralised e-Licensing platform. The digitalisation of the country is being pursued with the recognition of E-signatures and the introduction of a Unique Identification Number for companies for tax, licensing and administrative needs.

Key sector measures aimed at facilitating business and competitiveness include the streamlining of licences for tourism operators and a beneficial tax rate of 3% for producers of medical devices. In the financial services sector, there are a number of measures which reinforce many aspects of activities falling under the purview of the FSC. These include the increase in the scope of services of Variable Capital Companies, to extend their use for family offices and wealth management, and enhanced requirements to improve the national AML/CFT framework. However, the banking sector seems to be a net loser, with an increase in levy on their profits.

KPMG View (cont.)

The green agenda

The budget has holistically touched on the COP26 commitments by covering some measures towards our target of achieving 60% of renewable energy by 2030. The measures for a greener economy and decarbonisation in the manufacturing sector is a continuation of past budget measures. Such initiatives relate to recycling of PEP and reuse of wastewater. The use of electric vehicles is encouraged by extending the negative excise duty scheme and the introduction of Electric Vehicles Regulations have been announced. The investment in infrastructure addresses the pressing challenges related to flood prone areas and beach erosion resulting from climate change.
Wide coverage and spending in health, transport and education infrastructure include the continued expansion of the Metro network from St Pierre to La Vigie. Significant investment is planned for the extension and upgrade the road network which is not unusual in any pre-election year.

In Conclusion

Public revenue is forecast to increase due to higher Income tax from corporates (+Rs 6bn), higher VAT collections on goods and services (+Rs 12bn) and higher duties on Tobacco and Alcohol (+Rs 2bn). On the expenditure side the biggest increases are noted in the Financial and fiscal affairs (+Rs4bn), Public order and safety (+Rs 2bn) and Social Protection (+Rs7bn) . The customary increase in pensions and old age benefits is adding Rs5bn to the annual public expenditure.

On the face of it, everyone comes out a winner; which appears to have been the intended course of action for 2023-2024. However, there is "no free lunch" and the reader's mind is cast into the future as all deficits would have a delayed price tag in the years to come.

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