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Rising to the challenge of our ambitions

Mauritius Budget 2017/18
Tax Guide

June 2017

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Foreword

The Prime Minister and Minister of Finance and Economic Development delivered this Government's third and mid-term budget as a continuation of its roadmap, with little change to economic policy. Infrastructure projects and the fight against poverty continue to occupy centre stage.

Government was handed yet another gift by India in the form of a credit line of USD500 Million (MUR18 Billion), which in addition to the MUR17 Billion previously secured, will finance much needed infrastructure projects and development programmes. Construction of the flagship Metro express for MUR18 Billion, is scheduled to kick off in September 2017. Other infrastructure projects include the construction of two administrative blocks for government offices in Highlands for MUR3.6 Billion, construction of social and low income houses for MUR1.8 Billion, and the balance for a large number of smaller infrastructure projects across the island and Agalega.

Both social and business needs were addressed, however the impression is that the former has taken precedence in this budget. In its objective to combat poverty and reduce inequality, Government is enhancing again this year a series of social measures and incentives. These will lead to higher disposable income to the needy and improve their access to basic amenities. A novel measure is announced in the form of a negative income tax in support of those earning less than MUR10,000 a month. This will benefit a massive 150,000 employees. Government also realises that the quality of life of the population would be enhanced if it addresses basic needs such as a permanent water supply for which the target is set for 2019 at latest.

In terms of Budget outturn, GDP growth was scaled back slightly to 3.9% for the current year and is projected at 4.1% for 2017/2018. Government has projected a small budget deficit of 3.2%, down from an actual figure of 3.5% for the current year, and has resisted the pressure to depart from a uniform tax system of 15%. Noticeable changes however are an additional levy of 5% on individuals earning in excess of MUR3.5 Million annually, and a reduced corporate tax rate of 3% on exportation of goods from the current rate of 15%. For the financial services sector, our competitive business tax regime is being gradually eroded in the wake of a rapidly changing international tax landscape driven largely by OECD and EU. A wider tax reform is necessary, but this will only be dealt with in a blueprint for the sector in due course.

With only two more budgets left to shape up the economy, Government does not have much time left to convince and conquer. This will happen only if the intentions are swiftly translated into actions, and if tangible signs of the proposed transformation of the economy start to appear soon. 2017/18 could well be the year, given the huge financial resources that the Government now has at its disposal.

Corporate Tax

Tax Holidays

- An 8-year income tax holiday will be granted to:
  - Companies engaged in the manufacturing of pharmaceutical products, medical devices and high tech products incorporated post 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 based on the income derived from the totality of Intellectual Property Assets.

Tax Incentives for Research and Development

- An accelerated capital allowance of 50% will be applicable on capital expenditure incurred on research and development
- A 200% tax deduction will be introduced in relation to:
  - Qualifying expenditures on research and development, applicable for 5 income years from 2017/2018 to 2021/2022 where such expenditures are related to a corporation's existing trade or business;
  - Expenses in relation to deep ocean water air conditioning for a period of 5 consecutive years;
  - Acquisition and setting up of a water desalination plants.

Reduced corporate tax rate on export of goods

- Profits from exports of goods derived by the domestic businesses will be subject to a lower tax rate at 3%, instead of 15%
- Tax credit on investments in qualifying new assets shall be pro-rated accordingly.

Transfer of unrelieved tax losses

- Similar to transfer of loss upon takeover or mergers, accumulated unrelieved income tax losses shall be available to offset against future taxable income upon a change in shareholding of a manufacturing company of more than 50% provided such conditions pertaining to public interest such as safeguard of employment are met.

Green Economy Incentives

- All interest income derived from debentures issued to finance renewable energy projects, previously taxed at 15%, will be exempted from tax provided that the projects have been approved by the MRA
- Investment in solar energy units can be deducted in the form of investment allowance.

Corporate Social Responsibility (CSR)

- For CSR fund set up in the year starting 1 January 2017, companies were required to contribute 50% of their CSR fund to the National CSR Foundation and 75% was required in the subsequent year
- It is now being proposed that the 50% contribution is maintained for another year
- The remaining 50% will have to be remitted to the National CSR Foundation unless the company spends the CSR fund in an approved CSR framework.

Anti Avoidance Provisions

- Previously repealed in 2007, the provisions to disallow expenditures relating to unreasonable contributions to a superannuation fund for the benefits of selected employees will be re-introduced.

Forthcoming changes in global business sector

- The tax regime for global business companies will be reviewed to meet new international norms

Personal Tax

Statement of Assets and Liabilities by High Net Worth Individuals

- The Finance Act 2016 introduced the requirement whereby an individual who derives net income and exempt income exceeding MUR15 Million or owns assets whose cost exceeds MUR50 Million in an income year is required to submit a statement of assets and liabilities

- Additional guidelines in respect of the above requirement have been issued as follows:

  – The statement of assets and liabilities will only be required to be filed by Mauritian citizens who are tax residents in Mauritius;

  – Disclosure of the assets of spouse and dependent children of the taxpayer will be required;

  – Disclosure will not be required for assets costing less that MUR200,000;

  – Disclosure of wrong information will constitute an offence under the law; and

  – Submission of statement of assets and liabilities will not be required every year but major additions to net assets of the taxpayer, spouse and dependent children of taxpayer exceeding a specific threshold will need to be reported.

Solidarity Levy

- Income in excess of MUR3.5 Million per annum derived by a resident individual will be subject to 5% solidarity levy. The income shall include chargeable income and dividends but shall exclude interest income.

Negative Income Tax

- Effective as from 1 January 2018, negative income tax ranging between MUR100 to MUR1,000 will apply on full time employment on monthly earnings not exceeding MUR9,900 subject to certain conditions

- The first payment will be made by the MRA on or before 30 August 2018 in respect of the six month period from January to June 2018.

Tax Residency of individuals for income year 30 June 2016 and 30 June 2017

- One of the criteria of tax residency of an individual in Mauritius is that he has to be present in Mauritius in an income year and the 2 preceding income years for an aggregate period of 270 days or more

- Further to change in income year from December to June, the 270 days criterion used to determine tax residence is being reduced to 225 days for income years ending 30 June 2016 and 2017.

Income Exemption Threshold (IET)

- The annual IET for each category has been increased by amounts ranging between MUR5,000 to MUR15,000 and is effective as from 1 July 2017 as detailed in Appendix 2

- A new IET of MUR550,000 has been introduced for taxpayers having four or more dependents.

Relief on Medical and Health Insurance premium

- The maximum allowable deduction for medical or health insurance policies premium has increased from MUR12,000 to MUR15,000 in respect of the taxpayer and his first dependent and from MUR6,000 to MUR10,000 in respect of each of two additional dependents as detailed in Appendix 2.

Solar energy investment allowance

- It has been clarified that the solar energy investment allowance is applicable solely to solar photovoltaic system and does not include solar water heaters.

Deduction for Household employees

- It is proposed that a maximum deduction of MUR30,000 will be made available to an individual in respect of wages paid to household employees during a year subject to compliance with social security contributions.

Personal Tax

Exempt income

- Financial assistance such as basic invalidity pension, carer's allowance and contributory invalidity pension received by disabled persons under the National Pensions Act will be exempt from income tax

- Interest income derived from debentures issued to finance renewable energy projects which have been granted tax-exempt status by the MRA will also be exempt from income tax.

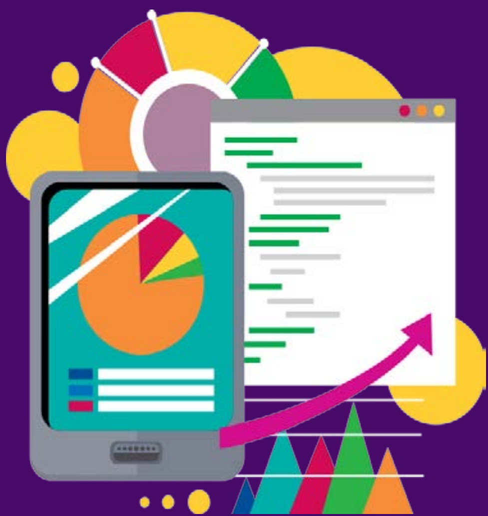
Mauritian Diaspora

- Currently a member of the Mauritian Diaspora Scheme is eligible for a 10 year tax holiday on his income derived from within or outside Mauritius

- It is proposed that the 10 year tax holiday will apply only to local source income derived from specific employment, business, trade, profession or investment for which the members are registered for under the Mauritian Diaspora Scheme.

Application of withholding tax on pension and other emoluments

- A person liable to income tax and deriving pension from a pension scheme or other emoluments may opt to receive his pension or other emoluments net of PAYE of 15%.



Value Added Tax

VAT exemption applicable to specific construction

- VAT exemption is extended to:
  - The construction of a building purposely and exclusively for lease to the provider of tertiary education; and
  - The construction of a purpose-built building for a charitable institution
- Where the building has been put to another use other than agreed, claw-back of VAT will apply

Removal of VAT on goods and services

- The VAT Act currently provides that burglar alarm systems and sensors are zero-rated items. Amendment will be brought to clarify that security patrolling and monitoring systems that are integral part of an overall burglar alarm system will also be zero-rated
- No VAT and other taxes will be applicable on the purchase of articles from duty-free shops across Mauritius by Mauritians provided that those articles are not consumed locally and would be made available to them upon their departure at the airport/seaport
- Vehicle examination fees (fitness) under the Road Traffic Act will continue to be considered as a zero-rated supply for another year up to 30 June 2018
- No VAT will be charged on the first MUR3,000 (currently MUR2,000) of the value of an article imported by post and courier services
- The following items will no more be subject to VAT. Their classification as ‘exempt goods’ or ‘zero rated goods’ remain to be clarified by the Finance Bill:
  - Sterile water used for pre-operative, per-operative or post-operative cleaning of wound
  - Sanitary pads and tampons

Compulsory registration

- All wholesalers of alcoholic drinks will have to compulsorily register for VAT, irrespective of their turnover

VAT Refund Scheme

- VAT refund on specific equipment applicable to planter, breeder, apiculturist, fisherman or baker will also be applicable to tea cultivators. The list of qualifying equipment is being extended to include the following:
  - Hand-held plucking shear
  - Hand-held pruning machine
  - Motorised tea harvester
  - Sharlon shade, green house and shade screen
  - Fertigation pump
  - Irrigation equipment
  - Hydroponic filter
  - Water tank
  - Farrowing/gestation /nursery crate
  - Heat lamp/ hot blast
  - Incubator
  - Pig feeder/drinker
  - Cooling fan
  - Feed grinder
  - Ventilation fan
  - Chicken crate
  - Cages and coops
- VAT refund will be provided for the replacement of old lorries which are used for carrying harvested canes

VAT Administration

- The VAT Act will be amended to be in line with the Income Tax Act on the following:
  - An aggrieved taxpayer would be able to lodge an objection in respect of a VAT assessment through electronic means
  - The maximum penalty for failure to submit tax return and pay tax will be increased from MUR50,000 to MUR100,000
  - Adjustment for bad debt should be made when the debt is actually written off
  - The period to be able to raise assessment by the MRA without the approval of the Independent tax panel will be increased from 3 to 4 years
- Penalties will be introduced to sanction the failure to use or for tampering with an Electronic Fiscal Device

Other Taxes

a. Tax Administration

Tax Arrears Payment Scheme ("TAPS")

- The tax arrears payment scheme will be re-introduced for another final year with new terms and conditions
- However, this scheme will apply to assessments raised or tax returns submitted before 1 July 2015
- Up to 100% of interests and penalties will be waived if the taxpayer agree to settle the outstanding tax liability by 31 May 2018
- Consequently, any ongoing prosecution will be withdrawn by the MRA.

Expeditious Dispute Resolution of Tax Scheme

- This measure will be re-introduced for an additional year to settle disputes of less than MUR10 Million. This will allow the MRA to review the amount assessed, from a taxpayer who could not lodge an objection, mainly due to a failure to pay the 30% or 10% payable on objection.

Alternative Tax Dispute Resolution Panel

- The newly-introduced panel set up earlier this year will be allowed to review amounts exceeding MUR10 Million under the following:
  - assessments raised by the MRA under the Gambling Regulatory Authority Act;
  - assessments raised by MRA in respect of PAYE and TDS; and
  - decisions taken by MRA.

Assessment Review Committee ("ARC")

- The panel of ARC will try to fix a case for hearing within 2 months from the date a written representation is lodged. The panel will endeavour to give its decision within 4 weeks from the end of the hearing.

Payment of 10% of the amount assessed on objection

- An objection will be considered as valid if the taxpayer appealing to the ARC decides to effect the payment of 10% of the amount assessed on an objection prior to the case being called pro-forma.

Powers of the Director-General of the MRA

- The MRA could refuse to give a ruling regarding cases under objection or appeal.

Receivership and Liquidation of a Company

- The Insolvency Act will be amended to enable the MRA to collect PAYE,TDS and VAT in priority prior to any distribution of assets.

Registration of Tax Agents

- In order to be considered as a registered tax agent, a person should be registered with the MRA and should meet the following criteria:
  - A member of the Mauritius Institute of Professional Accountants ("MIPA"); or
  - A member of the Bar Council.
- An individual who is not an accountant or a lawyer and wishes to act as a tax agent must have a minimum of ten years' experience:
  - in the employment of a person who is a member of the MIPA;
  - in the employment of a registered tax agent; or
  - as a past officer of the MRA .

Other Taxes

a. Tax Administration (cont'd)

Annual Statement of Financial Transactions

- Presently, the DG of the MRA is authorised to request, on a case-to-case basis, a bank, or other deposit taking institution to provide detailed information in order to prevent tax evasion or fraud on public revenue

- The budget proposes amendments to empower the MRA to request from banks, insurance companies and non-bank deposit taking institutions, an Annual Statement of Financial Transactions in cases, where a transaction by any person exceeds MUR500,000 or if the aggregate amount of deposit in an income year exceeds MUR4 Million including money changers and foreign exchange dealers to provide a Statement of Financial Transactions to the MRA.

Annual Statement of Dividends paid by companies

- Companies which paid dividends to individuals exceeding MUR100,000 should submit a list of such payment to the MRA.

Tax Deduction at Source ("TDS")

- Société/succession whose annual turnover do not exceed MUR6 Million will not be required to operate TDS

- Irrespective of the level of turnover, companies awarding contracts for construction works will have to withhold TDS

- TDS of 15% will be applied instead of PAYE if the director fees are paid to a company instead of the director himself.

- TDS will not be applicable on royalty income received by a Mauritian from an artistic or literary work.

Electronic filing of tax returns

- Previously, companies having a turnover exceeding MUR10 Million were required to file their income tax returns electronically.

- The budget now proposes that every company has the obligation to file their income tax return and pay taxes arising thereon electronically.

Filing of income tax return on purchase of immovable property, motor vehicle or pleasure craft

- A person will no longer require to file an income tax return if he has acquired a high value immovable property, motor vehicle or pleasure craft

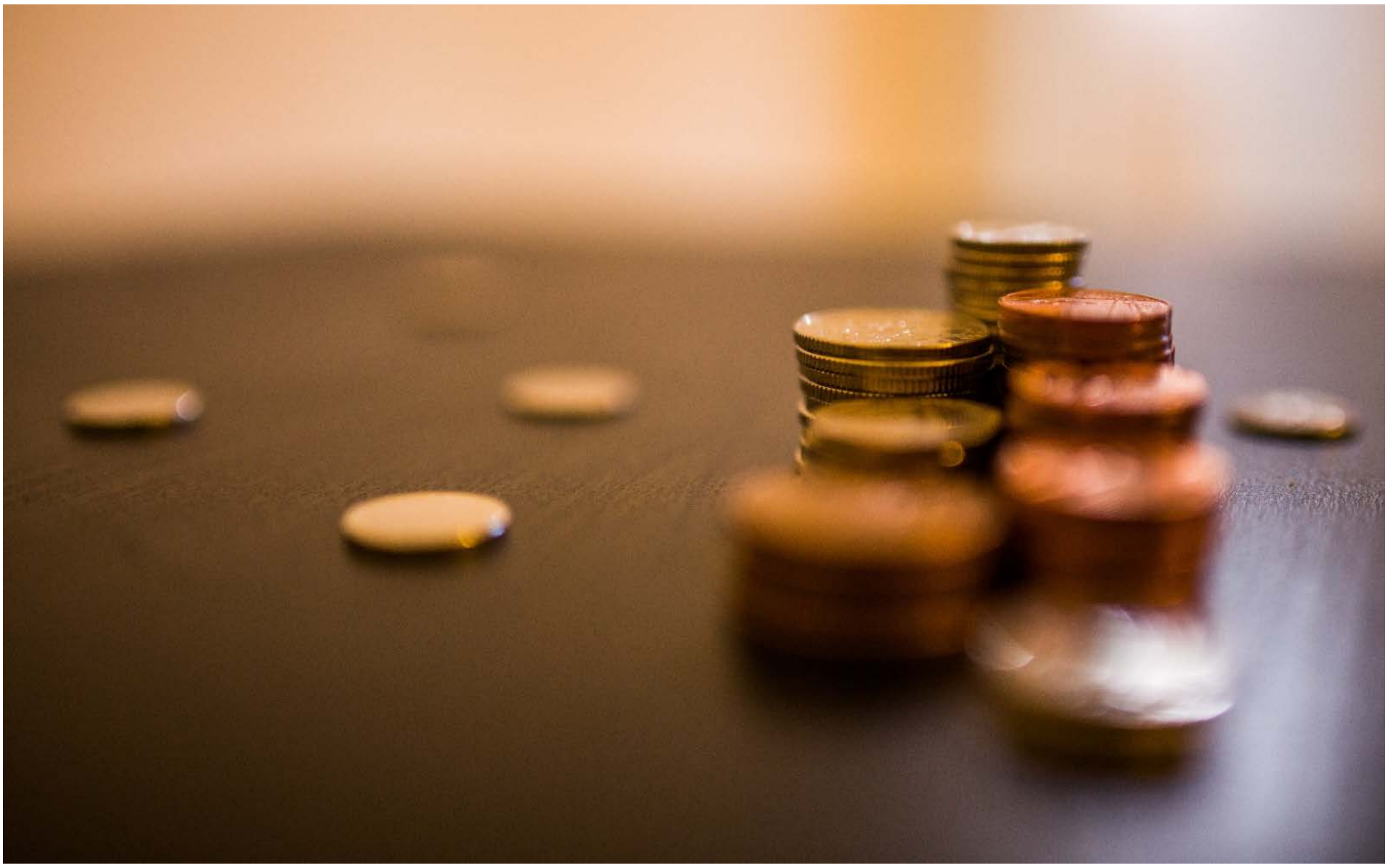
Employees to provide National Identity Card Number

- It has been proposed that instead of applying for a Tax Account Number to the MRA, a individual will be required to provide his / her National Identity Card Number or Non-Citizen's Identification Number to his employer

Other Taxes

b. Property Taxes

- Registration duty and land transfer tax will no more be applicable for the transfer of a building or of land for construction that will be Hi-Tech manufacturing activities
- The lease or sublease of immovable property for operating a health institution will be exempt from registration duty. This will be applied retrospectively from December 2016



Regulatory

Global Business Sector

- A blueprint will be elaborated to focus on the vision for the global business sector over the next 10 years taking into account the international tax context without jeopardizing Mauritius's competitiveness
- A company holding a Global Business Licence 1 (GBL 1) will henceforth have to meet at least two of the enhanced substance requirements instead of one
- GBL 1 companies which are also listed on the stock exchange of another jurisdiction will no longer be required to issue prospectus. Henceforth, only the Stock Exchange of Mauritius (SEM) Listing Rules will apply.

Occupation and Work Permit

- For the purpose of obtaining occupation permit (investor route), the cost of Hi-tech machines and equipment brought by investors will be considered as part of the minimum investment of USD100,000
- An Innovator Occupation Permit will be introduced for innovative start-ups with a minimum operational expenditure of 20% for R&D purposes
- The 8-year work permit policy applicable to expatriates in export-oriented enterprise is being extended to all manufacturing activities. Timeframe for issuance and renewal of working permit is reduced from 40 to 15 working days.

Amendments to the Companies Act

The following changes will be brought to the Companies Act to:

- allow Islamic Financial Institutions and Islamic banks to adopt accounting standards issued by the Accounting and Auditing Organisation for Islamic Financial Institution;
- allow the Registrar to keep a register of beneficial owner/ultimate beneficial owner;
- allow companies using Extensible Business Reporting Language (XBRL) to pay a fee to the Registrar;
- allow companies to include a Corporate Governance Report in their Annual Report;
- align the obligations of a Special Purpose Vehicle with those of GBL1 companies.

Banking

- The minimum capital requirement for banks has been increased from MUR200 Million to MUR400 Million, with a transition period of 2 years for existing banks.

Corporate Governance

- Where the ultimate holding company is already complying with the National Code of Corporate Governance, its wholly owned subsidiaries will not be required to comply with the same.

Others

- Rules for regulating the Fintech activities such as peer-to-peer lending and funding, as well as mobile wallet will be set by the Financial Services Commission
- SEM to attract Government and corporates from Africa and other regions to issue multi-currency bonds in Mauritius.

Appendices

Appendix 1: Key Indicators

KEY INDICATORS				
	2015	**2016**	**2017**	**2018**
	Actual	Actual	Estimate	Forecast
GDP growth rate	3.0%	3.2%	3.9%	4.1%
GDP per capita (MUR)	324,278	343,572	363,654	382,290
Inflation rate	1.3%	1.0%	2.2%	3.0%
Unemployment rate	7.9%	7.3%	7.1%	6.7%
Budget deficit as % of GDP(a)	3.5%	3.5%	3.5%	3.2%
Public sector debt as % of GDP(a)	63.1%	65.1%	66.1%	63.0%

Note: (a) Fiscal Year
Sources: Statistics Mauritius, Bank of Mauritius, Ministry of Finance and Economic Development, IMF

Appendix 2: Tax Rate Card

This Tax Card is based on current tax legislation as updated by the proposals set out as per the Budget 2017/2018 and is subject to Finance Act ratification.

Income Exemption Threshold		
Year of Assessment	2017/2018	2016/2017
Period Ended	12 months to 30.06.18	12 months to 30.06.17
	MUR	MUR
Category A (1)	300,000	295,000
Category B (2)	410,000	405,000
Category C (3)	475,000	465,000
Category D (4)	520,000	505,000
NEW Category (5)	550,000	505,000
Category E (6)	350,000	345,000
Category F (7)	460,000	455,000

Note:

1. An individual with no dependent
2. An individual with one dependent only
3. An individual with two dependents only
4. An individual with three dependents only
5. An individual with four or more dependents
6. A retired/disabled person with no dependent
7. A retired/disabled person with one dependent only

Exemptions/ Deductions/Reliefs – Personal		
Year of Assessment	2017/2018	2016/2017
Period Ended	12 months to 30.06.18	12 months to 30.06.17
Interest on mortgage loans	Full deduction for interest paid	Full deduction for interest paid
Tuition fee exemption (per dependent child)	MUR135,000	MUR135,000
Lump sum received as commutation of pension and retiring allowance	MUR2 Million	MUR2 Million
Relief for health/medical insurance premium (Category A & E)	up to MUR15,000	up to MUR12,000
Relief for health/medical insurance premium (Category B & F)	up to MUR15,000 for self and 1st dependent each	up to MUR12,000 for self and 1st dependent each
Relief for health/medical insurance premium (Category C & D)	up to MUR15,000 for self and 1st dependent each + MUR10,000 for 2nd and 3rd dependent each	up to MUR12,000 for self and 1st dependent each + MUR6,000 for 2nd and 3rd dependent each
Relief for the wages paid during a year to household employees	up to MUR30,000	N/A

Note

1. An individual will be allowed to deduct from his taxable income the wages paid during a year to his household employees subject to a ceiling of MUR30,000, provided he is fully compliant regarding social security contributions in respect of his employees. The maximum aggregate deduction a couple (where both spouses are liable to income taxation) will be allowed to claim shall be MUR30,000.

Solidarity levy		
Year of Assessment	2017/2018	2016/2017
Period Ended	12 months to 30.06.18	12 months to 30.06.17
Flat rate on chargeable income plus dividends in excess of MUR3.5 Million (2)	5%on chargeable income exceeding MUR3.5 Million	N/A

2. Any resident individual having a chargeable income plus dividends in excess of MUR3.5 Million will be required to pay a Solidarity Levy equivalent to 5% of that excess. For example, an individual who has received, during an income year, total chargeable income amounting to MUR2 Million as well as MUR2 Million as dividends, will have to pay a levy of 5% on MUR500,000, i.e. MUR25,000. Interest income is not included in the computation of the Solidarity Levy.

Appendix 3: Income Tax Computation

HYPOTHETICAL TAX CALCULATION		
Period covered	**12 months to 30.06.17**	**12 months to 30.06.18**
	MUR	MUR
Salary	5,000,000	5,000,000
End of year bonus	50,000	50,000
Interest Income (See Note 1)	10,000	10,000
Dividend Income (See Note 2)	100,000	100,000
Total Income	**5,160,000**	**5,160,000**
Less Exempt Income	(110,000)	(110,000)
Total Net Income	5,050,000	5,050,000
Less Deductions		
IET (category C) (See Note 3)	(465,000)	(475,000)
Relief for medical insurance contribution (See Note 4)	(30,000)	(40,000)
Relief for the wages paid during a year to household employees (see Note 5)		(30,000)
Chargeable income	4,555,000	4,505,000
Tax at 15%	**683,250**	**675,750**
Solidarity levy (See Note 6)		**55,250**
Total tax payable	**683,250**	**731,000**
Increase in tax payable		**47,750**

Calculations based on the following assumptions

1. Received interest income from Mauritius Bank of MUR10,000 per annum
2. Received local dividend income of MUR100,000 per annum
3. Individual married with two dependents, claiming exemption for only the two dependent children
4. Claiming relief for medical insurance contribution for the 2 dependents (MUR15,000 for self and 1st dependent and MUR10,000 for the 2nd dependent)
5. Wages of MUR50,000 paid during the year to household employees (relief available up to MUR30,000, provided compliance with social security contributions)
6. Solidarity Levy of 5% applicable on chargeable income plus dividends in excess of MUR3.5 Million.

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The above information has been extracted from the budget speech delivered by The Honourable Pravind Kumar Jugnauth, Prime Minister, Minister of Home Affairs, External Communications and National Development Unit and Minister of Finance and Economic Development, to the National Assembly, on 8 June 2017.

The Budget proposals may be amended significantly before enactment. The content of this summary is intended to provide a general guide to the subject matter and should not be regarded as a basis for ascertaining liability to tax or determining investment strategy in specific circumstances. In such cases specialist advice should be taken.