



Budget Highlights 2018/19

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Our Opinion

This Government's fourth budget entitled "Pursuing our transformative journey" was delivered with a deep sense of enthusiasm and optimism. As expected, this year's budget is a continuation of the vision to transform Mauritius into a high income economy. Key priorities remain social welfare and modernisation of infrastructure. Other landmark measures this year include the tax reforms in the Global business sector and strong signs of a gradual opening up to foreigners. The budget further adds on the building blocks of sustainability where fiscal prudence and institutional reforms will preserve the past achievements and continue our competitive positioning as a financial and regional hub. From an economic outlook perspective, the 2018-19 budget is expected to pursue a controlled path in terms of macroeconomic fundamentals, with growth forecast of 4.1%, a budget deficit of 3.2% and public sector debt of 63.4%.

Social inclusiveness: Socio economic welfare remains high on the Government's agenda. Youth employability is enhanced through apprenticeship programmes and a new SME employment scheme. On the productivity side, a fresh "work@home" scheme with tax incentives for employers is being introduced. Education expenditure continues to feature prominently. The unacceptably high level of fatalities on our roads is being tackled in the form of significantly higher fines, revocation of driving licences and the introduction of probationary driving licences for new drivers.

Alleviation of the tax burden: The application of a one tax rate which was hailed as being simple and easy to apply, is no longer seen as being equitable. A fresh tax band of 10% is being introduced largely for the benefit of the middle income group, earning up to MUR650,000 p.a. The first MUR305,000 of income is exempt.

Financial Sector reforms: We have finally bowed down to international pressure on our global sector: GBC2s will disappear and fiscal regime for both domestic and global business companies will be harmonised.

Opening up to foreigners: Mauritius officially opens up to the world by enticing foreign HNWIs to obtain citizenship and Mauritian passports against payment of USD 1m and USD500k respectively. This is likely to generate fresh revenue for the public coffers, whilst ensuring Mauritius remains a destination of choice. Other schemes announced to this effect are a Foreign Manpower Scheme and a new package of facilities to attract foreign retirees.

Public infrastructure: The modernisation of our public infrastructure and regeneration which started in 2015 is well on track, with committed investments in the metro project, expansion of the road networks and development of smart cities.

Managing a transformation requires a slow but sure approach, or does it depend on what lies ahead?

The public accounts indicate a dependency on grants to achieve a 3.2% deficit as the country transforms itself from a services economy to an integrated business platform. In years ahead, harsh realities will emerge, such as spare asset capacity emerging from the contraction of the sugar sector, excess liquidity, an ageing population and a falling birth rate. The vision of a high income country by 2023, with a GDP per capita of USD13,600, implies that our economy will have to grow by an average of over 6% per year. Given the forecast growth of 4.1% for next fiscal year, there will have to be new avenues of incremental economic growth to help achieve this vision in the longer term. In such a future state of affairs, one would eventually question if the pursuit of a prudent transformation will be enough? Or should we as a country, be bolder with less reliance on government?

Budget Financials

Public Sector Debt



MUR 302bn

As at June, 2018

Projected to rise to

MUR 323bn

As at June, 2019

Public sector gross debt is planned to increase by MUR 21bn. However, as a percentage of GDP, this figure is planned to decrease from 63.4% to 63.1%

Revenues



MUR 117.4bn

10% increase

Main drivers of revenue

Taxes on income, profit, goods & services

MUR 89.8bn

76% of total revenue

Grants

MUR 8.8bn

8% of total revenue

Expenditures



MUR 132.9bn

8.7% increase

Main application of expenditure

General public services

MUR 34.5bn

25.9% of total expenditure

Social protection

MUR 35.2bn

26.5% of total expenditure

Lifting standard and quality of living

Housing



MUR 3.4bn

2017-2018

rising to

MUR 4.2bn

2018-2019

Education



MUR 1.6.4bn

2017-2018

rising to

MUR 17.7bn

2018-2019

Health



MUR 11.6bn

2017-2018

rising to

MUR 12.7bn

2018-2019

Social protection



MUR 32.6bn

2017-2018

rising to

MUR 35.2bn

2018-2019

How do we compare *

Education Expenditure per capita



Singapore



MUR58,821



South Africa



MUR14,793



Mauritius



MUR12,979

Health Expenditure per capita



Singapore



MUR46,873



Mauritius



MUR9,147



South Africa



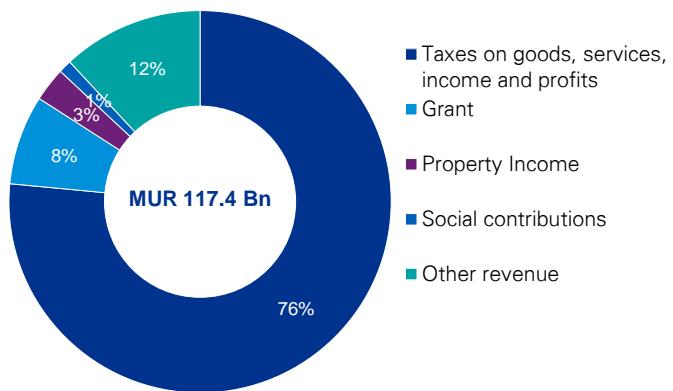
MUR8,777

*Sources: Singapore budget 2017, National Treasury Republic of South Africa budget review 2018, Budget speech 2018/2019 Mauritius

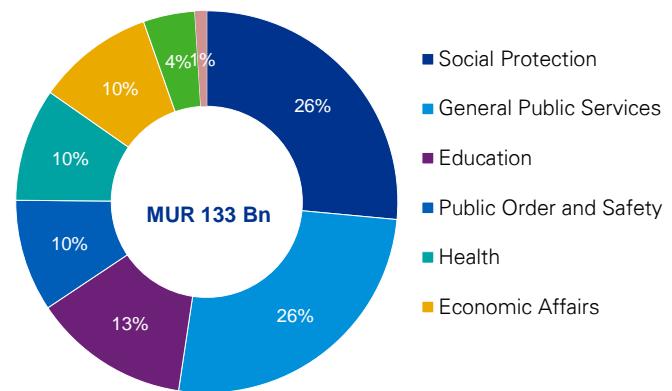
Economic Outlook

Budget Estimates	Unit	2016/17	2017/18	2018/19	2019/20
Real GDP growth	%	3.8	3.9	4.1	4.3
Investment rate	%	17.3	17.6	18.4	18.9
Inflation rate	%	-	4.3	3.5	3.5
Budget Deficit	% GDP	1.9	3.2	3.2	3.0
Public Sector Debt	% of GDP	64.8	63.4	63.1	62.8
Unemployment rate	%	7.3	7.1	-	-

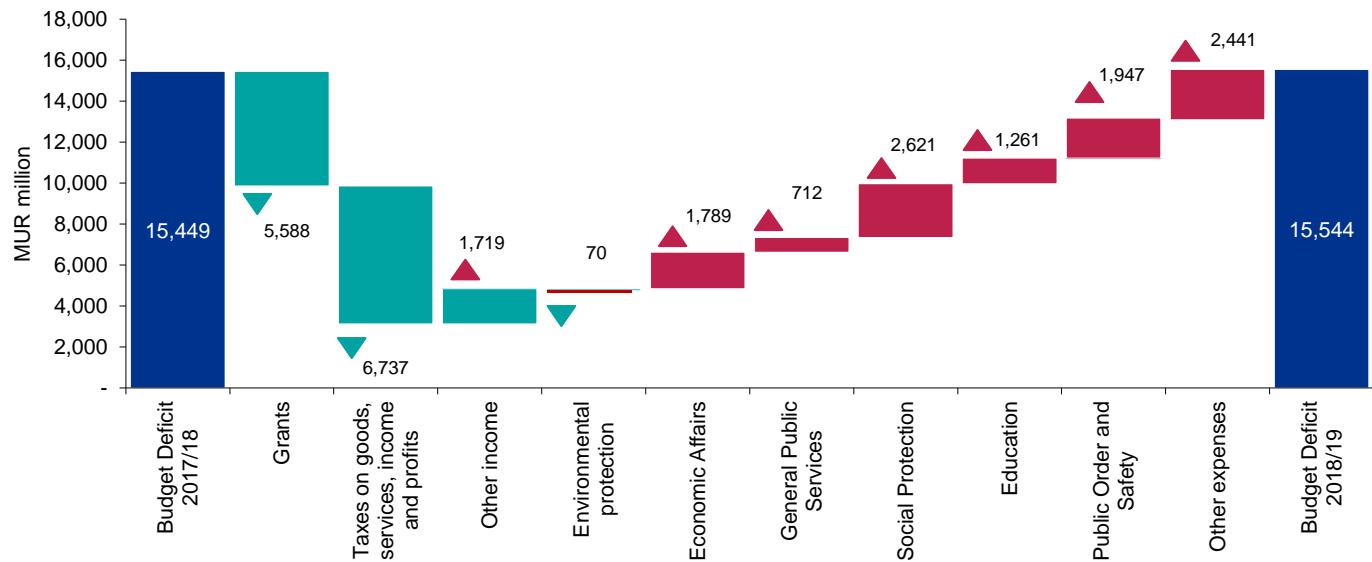
Government Revenue (Jul'18 - Jun'19)



Government Spending (Jul'18 - Jun'19)



Government Budget Deficit evolution from 2017/18 to 2018/19



Global Business



Global Business Tax



Reforms in the taxation regime of Global Business Companies

- A partial exemption regime will replace the deemed foreign tax credit system as from 1 January 2019;
- A partial exemption regime will be implemented whereby all Category 1 Global Business Companies ("GBL1"), subject to satisfying pre-defined substantial activities requirements imposed by the Financial Services Commission, will be granted an income tax exemption at the rate of 80% on the following income:
 - Foreign source dividends and profits attributable to a foreign permanent establishment;
 - Interest and royalties; and

- Income derived from provision of specified financial services.
- Where partial exemption is not available, GBL1 will benefit from the current foreign tax credit system (for taxes suffered on foreign source income);
- Profits derived from global trading activities will be taxed at a reduced rate of 3%;
- The Category 2 Global Business regime will be abolished as from 1 January 2019;
- The current regime will continue to apply until 30 June 2021 for companies which have been issued a licence prior to 16 October 2017.

KPMG VIEWS

1. The above changes align the taxation of Global Business Companies with domestic companies;
2. The new tax regime is welcomed as it is in line with international best tax practices in relation to fair taxation;
3. The enhanced substance conditions have not yet been defined. We hope these will be defined in the Finance Bill and that these conditions will vary depending on the business activities of the company;
4. Existing companies holding a Category 2 Global Business Licence need to review their structures as they will not be able to operate as Global Business Category 2 Companies after 30 June 2021;
5. Clarity should be provided as to whether GBL1s will be subject to Corporate Social Responsibility requirements under the new tax regime;
6. We hope the Finance bill will provide clarity as to whether the Global Business Companies will continue to be able to claim foreign taxes suffered on foreign income where they do not opt for partial exemption.

Global Business Regulatory



Change of Name

- Category 1 GBL will be renamed as Global Business Licence.

Foreign-owned entities

- Mauritian based companies and partnerships with majority shareholders being non-residents and which conduct business mostly outside Mauritius will now be required to seek a Global Business Licence or an authorization from the FSC through a duly appointed Management Company.
- Management Companies will be responsible for Anti-Money Laundering/combating the financing of terrorism as well as legal, regulatory & corporate governance compliance of these companies/partnerships.

Extension of Financial Services Commission (FSC)'s rights

- The FSC will be allowed under the Financial Services Act to:
 - Regulate custodian services (Digital Asset) and Digital Asset Marketplace;
 - Regulate Global Shared Services and compliance services;
 - Remove all restrictions applicable to dealings in Mauritius.

Measures to support the Fintech sector

- Setting up a National Regulatory Sandbox License Committee;
- Issuance of guidelines on investment in cryptocurrency as a digital asset.

Corporate Tax



Corporate Tax Banking



New Tax Regime for Banks

- With effect from 1 July 2019, there will be no distinction between Segment A and Segment B income and the chargeable income of banks will be taxable as follows:
 - 5% tax rate applicable on chargeable income less or equal to MUR1.5 Billion; and
 - 15% tax rate applicable on chargeable income exceeding MUR1.5 Billion.

- An incentive system will be introduced for banks having chargeable income exceeding MUR1.5 Billion where the tax rate may be reduced to 5% if pre-determined conditions are satisfied;
- The current special levy on banks will be maintained until 30 June 2019;
- With effect as from 1 July 2019, a special levy will be introduced under the Value Added Tax Act and will be charged on the net operating income derived by banks from their domestic operations.

KPMG VIEWS

- The new regime is welcomed as it aligns with international best practices in relation to fair taxation.
- The tax regime maintains Mauritius as an attractive jurisdiction for banks as the effective tax rate will continue to remain competitive.
- The Budget does not specify the conditions to be satisfied under the incentive system. We hope these conditions and for which period the reduced rate will be applicable will be specified in the Finance Bill.
- It is not clear whether the new special levy will be applicable on banking transactions with global business companies.
- There is no clarity whether under the new regime banks can continue to claim credit for foreign taxes suffered on foreign source income.

Corporate Tax Others



Partial exemption regime

- Effective 1 January 2019, the partial exemption regime applicable to Global Business Companies will be extended to all companies in Mauritius, excluding banks. Please refer to the Global Business section for more information on the partial exemption regime.

Freeport New Tax Regime

- Income tax exemption for existing freeport companies will be removed as from 1 July 2021;
- Corporate Social Responsibility ("CSR") will not apply to freeport companies.

Solidarity Levy on Telephony Service Providers

- Solidarity levy at the rate of 5% of the book profit and 1.5% of the turnover applicable to telephony service providers will be extended up to June 2020;
- The levy will be payable by profitable companies and the requirement for book profit of the company to exceed 5% of its turnover to be liable to the levy will be removed.

Corporate Social Responsibility

- Companies will not be allowed to offset any unused tax credit, including foreign tax credit, against any CSR payable;
- Companies benefiting from tax holidays will still be required to contribute to CSR;
- As from 1 January 2019, companies can continue to contribute 50% of CSR (instead of 75%) to the MRA provided they receive approval from the National CSR Foundation.

Investment Tax Credit

- An investment tax credit of 5% over 3 years will be introduced in respect of expenditure in new plant and machinery (excluding motor cars) by a company importing goods in semi knocked-down form;
- This investment tax credit is available on the condition that there is an incorporation of at least 20% local value addition; and
- The credit will be available in respect of investments made up to 30 June 2020.

Corporate Tax Others

Tax holidays

- A five year tax holiday will be introduced for Mauritian companies collaborating with the Mauritius Africa Fund with respect to investment in the development of infrastructure in the Special Economic Zones;
- Income derived from smart parking solutions and other green initiatives will be eligible for a five year tax holiday.

Work@Home Scheme

- A double deduction for tax will be granted on the wage and salary costs of employees operating under the Scheme for the first two years of operation;
- Employers under the Scheme will be granted an annual tax credit of 5% for the first three years in respect of the investment made in the required IT system.

KPMG VIEWS

- Domestic companies will henceforth be eligible to the partial exemption similar to Global Business Companies;
- The reduced tax rate of 3% applicable to companies on export of goods should be applicable to freeport companies.

Personal Tax



Personal Tax



Tax Band Rate

An individual deriving an annual net income up to MUR650,000 will be taxed at a lower rate of 10% instead of 15%.

Income Exemption Threshold

Effective as from the income year starting on 1 July 2018, the Income Exemption Threshold for all categories has been increased by MUR5,000 as detailed in Appendix 1.

Other Exemptions and Reliefs

— Deduction for Tertiary Education

- The deduction in respect of a dependent child pursuing tertiary education abroad has been increased from MUR135,000 to MUR200,000. Similarly, if the dependent is pursuing tertiary education locally, the relief has been raised from MUR135,000 to MUR 175,000.

— Income Exemption Threshold for Retired Person

- A retired person will be eligible to the enhanced income exemption thresholds granted to retirees provided that the retired person derives emoluments not exceeding MUR50,000 annually.

— Rain Harvesting Investment Allowance

- An individual investing in a rainwater harvesting system will be entitled to deduct from his taxable income the total costs of the investment.

— Interest Relief

- An interest relief on the profit charge payable under an Islamic Financing Arrangement will be applicable on the construction of a house provided that the arrangement is secured on immovable property.

— Exempt Income

- The exemption threshold on lump sum has been increased from MUR2 Million to MUR2.5 Million. The lump sum relates to severance allowance, pension or retiring allowance.

Personal Tax

Negative Income Tax

- The Negative Income Tax scheme was introduced as from 1 July 2017 to provide financial support to employees deriving monthly earnings less than or equal to MUR9,900;
- It has been proposed that the eligibility criteria will be reviewed with retrospective effect as from 1 July 2017 as follows:
 - The Negative Income Tax allowance will be based on the monthly basic salary instead of the total monthly earnings;
 - However, an employee will not be eligible to Negative Income Tax if his monthly earnings exceed MUR20,000;
 - The monthly income of the individual should be equal or less than MUR9,900 and that of his/her spouse should not exceed MUR30,000.

Income Tax on Winnings

- Any amount above MUR100,000 derived from Mauritius National Lottery and Government Lotteries will be subject to a final withholding tax of 10%;
- The above tax rate will also be applicable on winnings above MUR100,000 in casinos and gaming houses.

Taxation of Artists

- A Mauritian artist can choose to claim an expenditure of up to 50% of his earnings arising from his artistic work (other than a literary work) without any supporting documentation. The artist should be a registered unsalaried Mauritian and earn less than MUR300,000 annually.

Regulatory – Two new schemes to attract High Net Worth Individuals:

- The first scheme will offer Mauritian Citizenship to foreigners who make a non-refundable contribution of USD 1 Million to a Mauritius Sovereign Fund. For their spouse and dependents, an additional contribution of USD 100,000 will have to be made for each member of their family.
- The second scheme will offer the opportunity to obtain a Mauritian passport provided they make a contribution of USD 500,000 to the Mauritius Sovereign Fund. For their spouse and dependents, they will have to make an additional contribution of USD 50,000 per passport.
- The Mauritius Sovereign Fund will be managed by the Mauritius National Investment Authority. Any withdrawal from the Fund will be used to meet disbursements for new capital projects and public debt repayments.

Indirect Taxes



Value Added Tax (VAT)



Claw Back of VAT on Capital Goods

- The MRA may claw back VAT refund on capital goods (other than building) exceeding MUR100,000 if operators have voluntarily registered for VAT purposes and thereafter de-register solely to benefit from the VAT refund.

VAT Administration

- In order to facilitate the cash flow operation of businesses, a VAT registered person will no longer be required to pay a VAT amount on import of capital goods if the VAT payable exceeds MUR150,000. However, the import of capital goods will still have to be declared in the VAT return.
- The VAT Act currently provides that a VAT-registered person has to submit a consolidated list of taxable supplies electronically along with its VAT return. It is now being proposed that the list of taxable supplies will be reported in terms of serially numbered invoices instead of taxpayer-wise.

Recovery of VAT in Hospitality Sector

- A VAT- registered person operating in the hospitality sector whose main activity is the supply of accommodation, catering, entertainment or rental/lease of motor vehicles services will be able to claim input VAT in respect of these supplies.

Photovoltaic System

- The VAT Act currently provides that photovoltaic panels, generators, batteries and inverters are zero-rated items. Now, it has been extended to all components forming an integral part of a photovoltaic system.

Burglar Alarm Systems

- The VAT Act currently provides that burglar alarm systems and sensors, including patrol and monitoring equipment are zero-rated items. Now, it is being proposed that services such as upgrading, repairs and maintenance, patrol and monitoring or rental of burglar alarm systems will also be zero-rated.

A stack of approximately ten white books is positioned on the left side of the image, resting on a teal-colored surface. The books are slightly overlapping, with the top book's spine facing the viewer. The background is a solid teal color.

Tax Administration

Tax administration



Statement of Assets and Liabilities by High Net Worth Individuals

- The Finance Act 2016 introduced the requirement whereby a Mauritius tax resident individual who derives net income and exempt income exceeding MUR15 Million in an income year or owns assets costing more than MUR50 Million is required to submit an annual statement of assets and liabilities together with his income tax return
- The due date for the submission of the statement of assets and liabilities will be extended to 30 September 2019 in respect of the income year commencing on 1 July 2017 to 30 June 2018
- However, an individual will not be required to submit a statement of assets and liabilities along with his income tax return if he has submitted his income tax return during the last five years.

Tax deduction at source (TDS)

- TDS at the rate of 3% has been introduced on commission payments

— TDS at the rate of 10% will apply on rent paid to a non-resident

— It has been clarified that TDS would not be applicable on director fees paid to a company.

5% payment on appeal to ARC

— Presently, 10% of the amount assessed is payable for lodging an objection against a tax assessment made by the MRA. No additional payment is required where the taxpayer is not agreeable with the decision of the MRA and decides to file an appeal before the Assessment Review Committee ("ARC")

— It has been proposed that an additional payment of 5% of the amount assessed in the event that the tax payer intends to appeal before the ARC will be required.

— This measure will be applicable for assessments raised by both the MRA and the Registrar-General's Department.

Tax administration

Islamic Finance

- Interest income received from Sukus will be exempt from income tax.

Return of Information

- A return of information including the name, address and National Identity Number of the winners of amount in excess of MUR100,000 will have to be submitted to the MRA by Casinos, Gaming Houses and bookmakers/totalisators.

Expedited Dispute Resolution of Tax Scheme ("EDRTS")

- This measure, which was re-introduced in the last fiscal year, will be extended to assessments raised from 1 July 2015 to 30 June 2016 for disputes of less than MUR10 Million.

Exchange of information with other Countries

- A person who fails to provide information required for the automatic exchange of information with other countries will be subject to penalties.

Review of penalty by Registrar-General's Department

- The penalty applicable on land transfer tax and registration duty where an immovable property is being undervalued between 10% and 50% is being reduced from 20% to 10% and a reduced penalty of 25% (currently 50%) will apply if the difference exceeds 50% of the declared value.
- Interest at the rate 0.5% per month up to a maximum of 50% of the tax or duty remaining unpaid will also be applicable.

KPMG VIEWS

- Statement of assets and liabilities will no longer be required to be submitted to the MRA for taxpayers that are in compliance with all their tax obligations
- We believe that Return of Information has been introduced to allow the MRA to collect information to ease their compliance monitoring process. The date of the submission for the Return of Information is not yet known. However, we are expecting that the deadline to file same will be on 15 August in line with the filing of other annual returns
- The scope of the EDRTS has been broadened with the aim of settling more disputes less than MUR10 Million

Appendix

Appendix 1: Tax Rate Card

This Tax Card is based on current tax legislation as updated by the proposals set out as per the Budget 2018/2019 and is subject to Finance Act ratification.

Income Exemption Threshold

Year of Assessment	2018/2019	2017/2018
Income year	1 July 2018 to 30 June 2019	1 July 2017 to 30 June 2018 MUR
Category A	305,000	300,000
Category B	415,000	410,000
Category C	480,000	475,000
Category D	525,000	520,000
Category E	555,000	550,000
Category F	355,000	350,000
Category G	465,000	460,000

Exemptions/ Deductions/Reliefs – Personal

Year of Assessment	2018/2019	2017/2018
Income year	1 July 2018 to 30 June 2019	1 July 2017 to 30 June 2018
Tuition fee exemption (per dependent child) [Note 1]	MUR175,000 or MUR200,000	MUR135,000
Lump sum received as commutation of pension and retiring allowance [Note 2]	MUR2.5 Million	MUR2 Million

Tax Band Rate

Year of Assessment	2018/2019	2017/2018
Income year	1 July 2018 to 30 June 2019	1 July 2017 to 30 June 2018
Individual deriving an annual net income of up to MUR 650,000 [Note 3]	Tax at 10%	Tax at 15%
Individual deriving an annual net income above MUR 650,000	Tax at 15%	Tax at 15%

Solidarity levy

Year of Assessment	2018/2019	2017/2018
Period Ended	1 July 2018 to 30 June 2019	1 July 2017 to 30 June 2018
Flat rate on chargeable income plus dividends in excess of MUR3.5 Million [Note 4]	5% on chargeable income exceeding MUR3.5 Million	5% on chargeable income exceeding MUR3.5 Million

Category:

- A An individual with no dependent
- B An individual with one dependent only
- C An individual with two dependents only
- D An individual with three dependents only
- E An individual with four or more dependents
- F A retired/disabled person with no dependent
- G A retired/disabled person with one dependent only

Note

1. An individual is entitled to a deduction of MUR175,000 for a dependent pursuing tertiary studies in Mauritius and a deduction of MUR200,000 if the dependent is studying abroad.
2. The exemption threshold on lump sum has been increased from MUR2 Million to MUR2.5 Million. The lump sum relates to severance allowance, pension or retiring allowance.

Note

3. An individual deriving an annual net income of up to MUR650,000 will be taxed at the rate of 10% instead of 15%.

Note

4. 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.



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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 14 June 2018.

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.

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