


BUDGET BRIEF 2017-2018

**RIISING TO THE CHALLENGE OF OUR
AMBITIONS**

08 June 2017





**“...when this Government
took office in December
2014, we made a pledge
to shape a new destiny
for our country and our
population.”**

Hon Pravind Jugnauth,

The Honourable Pravind Kumar Jugnauth

Prime Minister

**Minister of Home Affairs, External
Communications and National Development Unit**

Minister of Finance and Economic Development

Budget speech 2017-2018

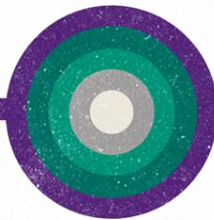
08 June 2017


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Disclaimer





“The tried and tested sectors of our economy have been reinforced to ensure steady economic growth in the short term.”

Foreword

Banking on old friends

The first budget of Honourable Pravind K. Jugnauth, as Prime Minister and Minister of Finance and Economic Development, “Rising to the challenge of our ambitions”, gives a new impetus to the long-established pillars of the economy through a range of measures to encourage investments and boost exports. The growth of 4.1% expected for 2017/2018 is heavily reliant on the traditional industries – our “old friends” – as well as continuity of last year’s budgetary measures.

Whilst relying on the numerous measures announced in the last budget, the construction industry is given a boost by way of government expenditure on major infrastructure projects mostly financed with the help of the Government of India with the marquee project being the Metro Express project. Whether or not these projects will be sustainable remains to be seen, however, in the short to medium term they will generate employment and growth.

The manufacturing industry, for long a major driver of the economy, is given an extra push with favourable measures including a significantly reduced tax rate of 3% on exports, an 8-year income tax holiday in the pharmaceutical sector and facilitation of work permits for expatriates. These measures should increase the potential for further investment in the sector.

The Minister of Finance tackles head on the numerous hurdles affecting the financial services sector, namely the challenges of

the OECD and the European union. Consolidation of this important pillar of the economy is of paramount importance with reliance on fiscal advantages no longer a viable long term proposition. Measures are being taken to consolidate the sector with additional requirements to enhance substance in line with international standards. Mauritius will no longer be tagged as a tax haven!

The non - sugar agricultural industry is given special attention in this budget with specific measures to enhance the development of the stagnating tea industry, the livestock sector and to give a further boost to the Ocean Economy. This is a move in the right direction towards achieving greater self-sufficiency.

With the introduction of flights from our non-traditional partners, the tourism industry is given additional momentum. However, no new measures are introduced to tap into the fast- growing African market.

To build an innovative Mauritius, the Minister of Finance announced a number of measures to boost innovation, research and development and startups. On one hand, by encouraging R&D to increase the potential for value-added services and the creation of new jobs and revenue streams, the Government is setting scene for the potential birth of new industries. On the other hand, the Government is also promoting a culture of research and academia, thus allowing emergence of a new breed of thinkers.

Banking on old friends (Continued)

To achieve the digital transformation of our economy it is important to promote broader access and understanding of programming and coding. These are the languages of tomorrow and with these measures the Government is ensuring that the country does not miss the bandwagon.

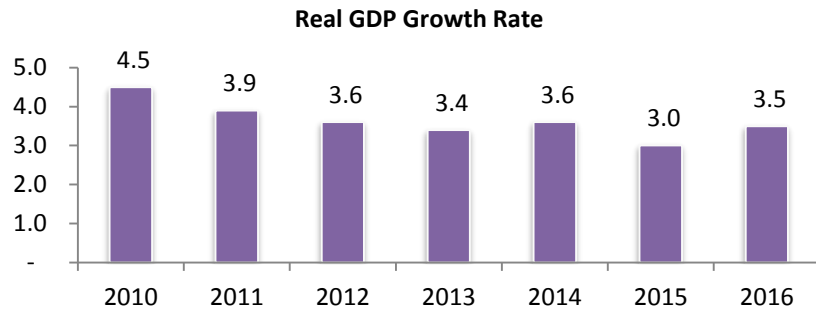
One of the main strengths of this budget is the tax measures which between them will help raise revenue and provide income support. The solidarity levy on high income earners will see income in excess of Rs 3.5 million being taxed at an extra 5%. On the other end of the spectrum, the negative income tax is revolutionary and will provide financial support to 150,000 full-time employees earning less than Rs10,000 monthly. This new way of providing support ensures that it is people who are contributing to the economy who are receiving financial support.

The Minister of Finance has within the context of current world economic conditions and against the backdrop of political and economic uncertainties in Europe, Middle East and the USA relied on prudence to stabilize the economy. The tried and tested sectors of our economy have been reinforced to ensure steady economic growth in the short term.

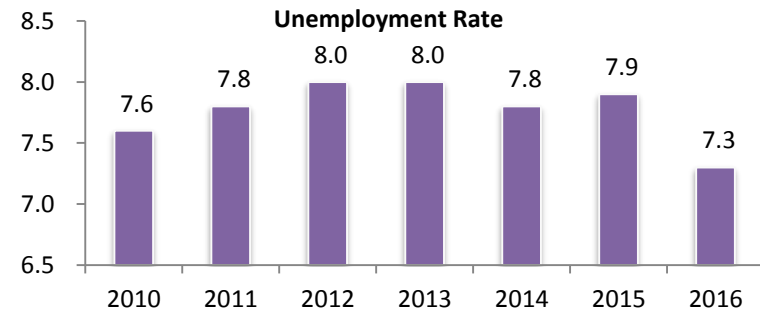


Key economic indicators of the Mauritian economy

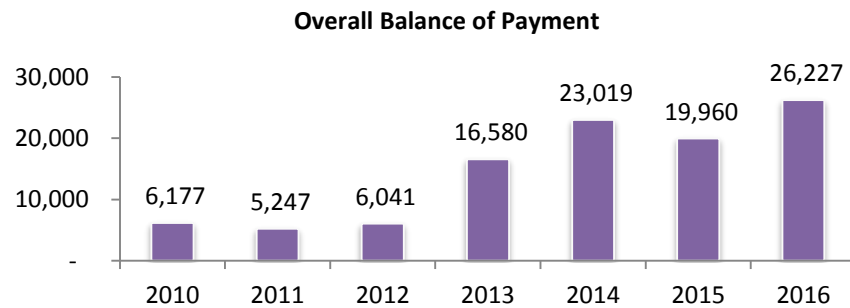
Real GDP Growth



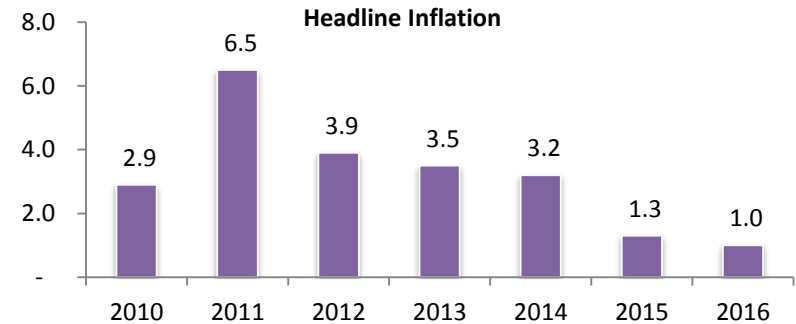
Unemployment rate



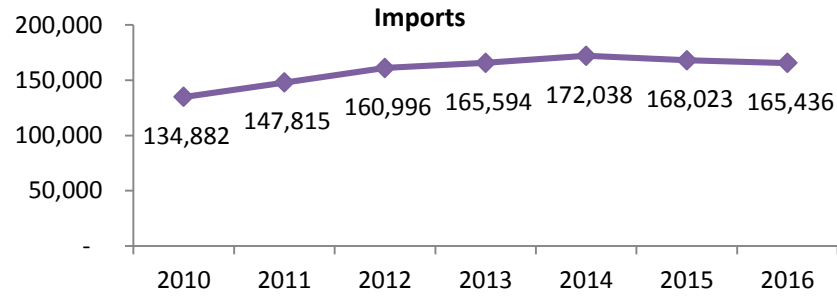
Balance of Payment surplus/ (Deficit)



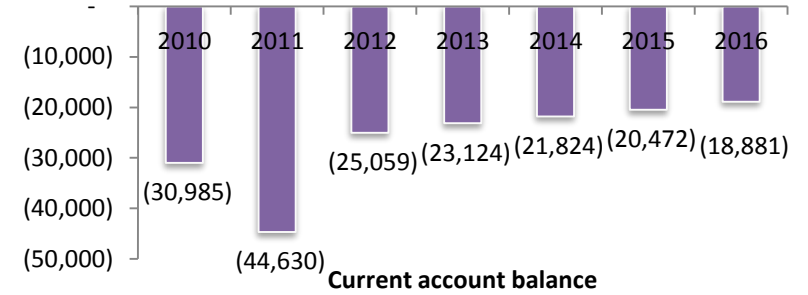
Headline inflation rate



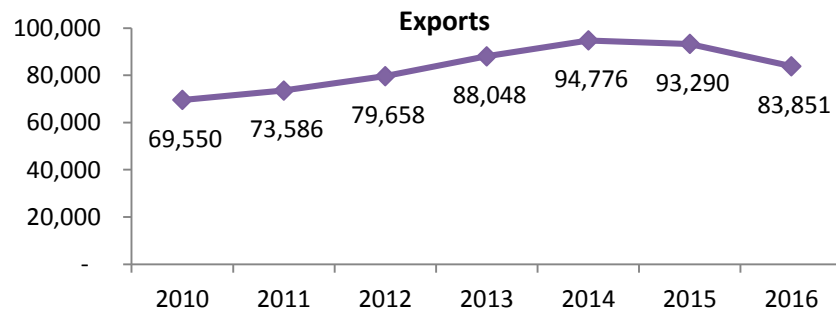
Imports



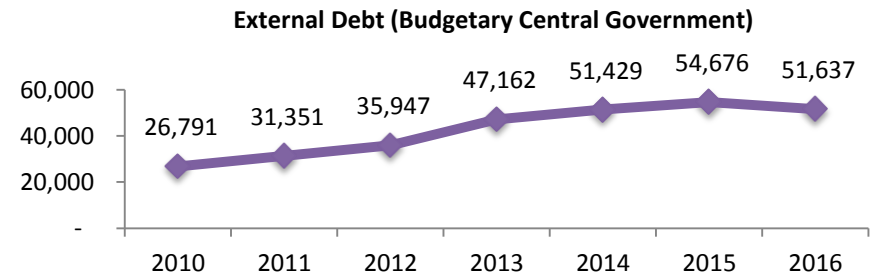
Current account balance



Exports



External Debt





Key budgetary measures 2017-2018

Corporate Tax



3% reduced corporation tax rate on exports of goods

- A reduced tax rate of 3% instead of 15% will be applicable on the profits derived by any company from exportation of goods.

Tax holiday

- Tax holiday of 8 years will be provided to companies engaged in the:
 - manufacture of pharmaceutical products, medical devices and high tech products provided it is incorporated after 8th June 2017; and
 - exploitation and use of Deep Ocean Water for providing air conditioning installations, facilities and services.
- Further, new companies involved in innovation-driven activities will also benefit from a tax holiday of 8 years on the income derived from the totality of Intellectual Property Assets.

Tax Incentives for Research and Development (R&D)

A company investing or spending on innovation, improvement or development of a process, product or service will be eligible to the following incentives:

- (i) accelerated depreciation of 50% in respect of capital expenditure incurred on R&D; and
- (ii) a double deduction (i.e. an additional 100%) in respect of qualifying expenditure on R&D directly related to the entity's trade or business and provided the R&D is carried out in Mauritius. This double deduction will be granted up to the income year 2021-2022 (i.e. for 5 years).

Corporate Tax (Continued)

- Qualifying expenditure includes:

- Staff costs
- Consumable items
- Computer software directly used in R&D
- Subcontracted R&D

where such expenditures are not related to an entity's existing trade or business they will be allowed as an expense, provided the R&D is carried out in Mauritius.

Double Tax Deduction

- A company will be allowed to set off against taxable profits 200% (i.e double deduction) of the expenditures incurred in respect of:
 - its deep ocean water air conditioning bill for a period of 5 consecutive years; and
 - the acquisition and setting up of a water desalination plant.

Manufacturing sector – Unrelieved Income Tax Losses

- Previously, upon a change of more than 50% in shareholding, accumulated unrelieved income tax losses were to be lapsed. It is now being announced that such income tax losses will not lapse upon a change of more than 50% in shareholding. This shall be applicable to the extent that this change of shareholding is deemed to be in public interest and the employment conditions are met.

Corporate Tax (Continued)

Corporate Social Responsibility

- Previously, business had to contribute 50% of their CSR fund to the MRA for CSR fund set up on or after 1 January 2017 and 75% for CSR fund set up on or after 1 January 2018; and
- It is now proposed to keep the 50% for another year to allow companies more time to adapt to the new CSR remittance mechanism.

Personal Tax

- The personal income tax rate remains at 15%.

Personal Tax Reliefs:

Deduction for Household Employees

- An individual will be allowed to deduct from his taxable income the wages paid to his household employees subject to a ceiling of Rs 30,000. The above shall be applicable only where the social security contributions have been fully fulfilled.

Relief of Medical/Health Insurance Premium

The maximum allowable deduction for medical or health insurance premiums is being raised.

Medical/Health Insurance Premium- maximum allowable deduction			
Category	Current	Proposed	Increase
	Rs	Rs	Rs
Tax payer himself	12,000	15,000	3,000
First dependent	12,000	15,000	3,000
Additional two dependents	6,000	10,000	4,000

Personal Tax (Continued)

Exempt Income

- The following income is being exempted from Personal Income Tax:
 - financial assistance provided by Government to disabled persons under the National Pensions Act such as the basic invalidity pension, carer's allowance and contributory invalidity pension; and
 - interest income derived by both individuals and corporates from debentures issued to finance renewable energy projects ("Green Bonds").

Solidarity Levy

- Any resident individual having a chargeable income plus dividends in excess of Rs 3.5 million will be required to pay a Solidarity Levy equivalent to 5 % of that excess; and
- Interest income shall not be included in the computation of the Solidarity Levy.

Income Exemption Threshold ("IET")

- The annual IET for each category of taxpayers has been increased and is effective as from income year starting on 1st July 2017 (i.e. on income received by an individual as from 1st July 2017). It is also being announced that a new category of IET is being introduced.

Personal Tax (Continued)

Income Exemption Threshold			
Year of Assessment	2016/2017	2017/2018	Increase
	Rs	Rs	Rs
Category A (1)	295,000	300,000	5,000
Category B (2)	405,000	410,000	5,000
Category C (3)	465,000	475,000	10,000
Category D (4)	505,000	520,000	15,000
Category DA (5)-New	505,000	550,000	45,000
Category E (6)	345,000	350,000	5,000
Category F (7)	455,000	460,000	5,000

Value Added Tax (VAT)

- The VAT rate has remained at 15%

VAT Refund Scheme – Small Planters

- The list of equipment under the VAT Refund Scheme for small planters is being extended to tea cultivators; and
- New items will be added to the existing list of qualifying equipment.

Zero-rated VAT

- Security patrolling and monitoring systems that are integral part of an overall burglar alarm system will be zero-rated; and
- Fees payable for examination of vehicles (fitness) under the Road Traffic Act will be extended by another year up to 30th June 2018.

VAT Exemption

- Sterile water used for pre-operative, per-operative or post-operative cleaning of wound; and
- Sanitary pads and tampons.

Other

- Mauritians travelling overseas will be allowed to purchase tax free articles from downtown duty-free shops but these should not be used for local consumption and delivery is made at the airport/seaport on the day of their departure.

Other Taxes

Tax Arrears Payment Scheme

- The Tax Arrears Payment Scheme has been re-introduced with new terms and conditions for another year to speed up the collection of overdue amount of tax;
- The scheme will apply to assessments raised or a tax return submitted before 1 July 2015;
- Up to 100% of interests and penalties due will be waived if the taxpayer agrees by 31 March 2018 to settle his debt and the full amount of the debt is settled by 31st May 2018;
- Upon full payment of the tax arrears, any on-going prosecution will be withdrawn by the MRA; and
- However, if the taxpayer fails to make the payment by the agreed date, the offer of full waiver of interests and penalty and suspension of prosecution under the Scheme will be withdrawn.

Registration Duty

- For company under Special Administration, registration duty and other transfer taxes will be exempted on the transfer of assets where the proceeds will be used, directly or indirectly, to repay policy holders or depositors;
- The current registration duty exemption granted on acquisition or construction of a health institution is being extended to cover the lease or sublease of immovable property for operating a health institution; and
- A first time buyer of an ex-CHA residence or of a residence originally acquired from the NHDC will be eligible to registration duty exemption even if the property is on leasehold land or situated in a complex not governed by a 'règlement de copropriété'.

Other Taxes (Continued)

Excise duties

- Effective 9 June 2017, excise duty on alcoholic products will increase by 5%;
- Excise duty on tobacco products will increase by 10% effective 9 June 2017; and
- The duty exemption on purchase of a single/double space cabin vehicle is being extended to a small tea grower.

Tax Administration

Corporate Tax

Annual Statement of Financial Transactions

- Banks, insurance companies and non-bank deposit taking institutions will be required to complete an Annual Statement of Financial Transactions in cases where a transaction by any person (individual, company, société, trust or succession) exceeds Rs 500,000 or if the aggregated amount of deposit in an year exceeds Rs 4 million; and
- The format of the Annual Statement of Financial Transactions is yet to be finalised.

Annual Statement of Dividends paid by companies

- It is proposed that Companies will be required to submit to the MRA a list of individuals who have been paid dividends exceeding Rs 100,000 in an income year.

Tax Deduction at Source (TDS)

- It has been announced that royalty income derived by a Mauritian from an artistic or literary work will not be subject to TDS;
- Further, the scope of TDS is being enlarged such that TDS of 15% will be withheld in lieu of PAYE if director fees are paid to the employer of a director instead of to the director himself; and
- Likewise, a company awarding contracts for construction works will be required to operate TDS irrespective of its level of turnover.

Electronic filing of tax returns

- It will be mandatory for all companies to file their income tax returns and pay taxes to the MRA electronically. This is also applicable to employers who are required to submit PAYE return.

Tax Administration (Continued)

Deduction of contributions made to a superannuation fund

- An anti-avoidance provision is being re-introduced in the Income Tax Act to disallow, as an expense, contributions to a superannuation fund which are providing unreasonable benefits to selected employees.

Tax Administration (Continued)

Personal Tax

Statement of Assets and Liabilities by High Net Worth Individuals

Previously, individual who derives net income and exempt income exceeding 15 million rupees or owns assets the cost of which exceeds 50 million rupees in an income year were required to submit a statement of assets and liabilities in such form and manner as may be prescribed.

Appropriate amendments will be made to the Income Tax Act to specify the following:

- The obligation to file this statement is on Mauritian citizens who are tax residents in Mauritius. Noncitizens who are tax resident in Mauritius will not be required to submit the statement;
- The Statement shall also provide for the disclosure of the assets of spouse and dependent children of the taxpayer;
- Assets costing less than Rs 200,000 are excluded from the disclosure requirements;
- A person will not be required to submit every year such statement but will have to report major additions to his net assets and those of his spouse and dependent children exceeding specified threshold values; and
- Disclosure of wrong information will constitute an offence under the law.

Transitional provisions for definition of Residence with respect to Individuals

- The 270 days criterion used to determine tax residence is being reduced to 225 days for income years ending 30th June 2016 and 2017.

Tax Administration (Continued)

Personal Tax

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

- It is being proposed that there will be no need for a person to compulsorily file an income tax return if he has acquired a high value immovable property, a motor vehicle or pleasure craft.

Tax Administration (Continued)

VAT

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

- Wholesalers of alcoholic drinks have to apply for compulsory VAT registration irrespective of the turnover amount of the taxable supplies;
- To be in line with the provisions in the Income Tax Act, several provisions of the VAT Act will be amended as follows:
 - It will be possible for an aggrieved taxpayer 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 Rs 50,000 to Rs 100,000;
 - The provision for adjustment in respect of a bad debt to be made in the tax return for the taxable period during which it is actually written off; and
 - The time limit to raise an assessment has increased from 3 years to 4 years.

Financial Sector



- The Bank of Mauritius Act will be amended to allow the Central Bank to:
 - license and regulate the issue of commercial papers -either as an alternative means of borrowing or investment;
 - issue Shariah compliant instruments; and
 - invest in currencies.
- The minimum capital requirements of banks will be raised from Rs 200 million to Rs 400 million.
- Companies holding a Global Business Licence Category 1 which are listed in another jurisdiction and seeking to be listed in Mauritius will no longer have to comply with the requirements pertaining to a prospectus as set forth under the Securities Act 2005 and Securities (Public Offer) Rules 2007.
- Companies holding Global Business Licence Category 1 are henceforth required to fulfill two of the six established criteria instead of one presently.
- The Companies Act will be amended to:
 - allow Islamic financial institutions and Islamic banks to adopt accounting standards issued by the Accounting and Auditing Organisation for Islamic Financial Institution instead of those issued by International Accounting Standards Board;
 - 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; and
 - align the obligations of Special Purpose Funds under the Companies Act with those of Category 1 Global Business Companies.

Financial Sector (Continued)



- Amendment of the Financial Reporting Act to provide that wholly owned subsidiaries need not comply with the National Code of Corporate Governance if their ultimate holding company is already complying with same.
- Establishment of the Mauritius National Investment Authority to invest, locally and globally, the surplus funds of the NPF and NSF which amount to some Rs 130 billion.
- Amendment to the Public Procurement Act to exclude bidders whose performance in previous public contract has shown deficiencies.

Real Estates



- Amendments will be brought to Sale of Immovable Property Act
 - fix the ‘mise a prix’ at a price which is not less than half of the value of the property mortgaged;
 - allow an inscribed or judgement creditor to ask for subrogation in the proceedings where there has been collusion, fraud or negligence on the part of the creditor or the financial institution, legal adviser and their agents to sue the person responsible for damages;
- Morcellement Permit is no more required for excision of land into lots exceeding 5 hectares. Only approval of the relevant local authority will suffice;
- A Mauritian Citizen who purchased a plot of land under the Smart City Scheme now has 10 years to complete construction of his residence instead of 5 years;
- Non-citizens investing at least USD 500,000 under the Invest Hotel Scheme will be eligible to a residence permit so long as he retains ownership; and
- A non-citizen acquiring a residential property for an amount below USD 500, 000 will be entitled to a Multi-Entry Visa for a maximum of 180 days per year for a consecutive period of 5 years and renewable every 5 years depending on the status of ownership.

SME's (Small and Medium Enterprises)



- Contribution of Rs 5,000 towards the costs of membership in the “Made in Moris” label;
- Development Bank of Mauritius will provide credit facilities to SMEs at 6 %;
- Reduction of the interest rate on loans to micro enterprises from 6 % to 3 %;
- The Code Civil Mauricien and the Code de Commerce will be amended to allow the use of movable assets as loan collaterals; and
- SMEs’ profits from exports of goods will be taxed at 3 % instead of 15 %.

Business Facilitation



- Establishment of a Business and Investment Platform for Africa (BIPA);
- Negotiations on Free Trade Agreements (FTA) with China and the European Free Trade Association;
- Finalisation of the Comprehensive Economic Cooperation and Partnership Agreement (CECPA) with India;
- High tech machines and equipment brought by an investor from abroad will now be considered as part of the minimum investment of USD 100,000 required to obtain an Occupation Permit;
- Introduction of an 8-year income tax holiday for new companies engaged in the manufacturing of pharmaceutical products, medical devices and high tech products;
- Extension of the Speed to Market Scheme to the export of jewellery, medical devices, fruits, flowers, vegetables and chilled fish;
- Introduction of the Innovation Box Regime for Intellectual Property assets which are developed in Mauritius and a tax holiday of 8 years on the income derived from the totality of Intellectual Property Assets for new companies involved in innovation-driven activities;
- Extension of the 8-year work permit policy for expatriate workers in the export-oriented enterprises to all manufacturing activities; and
- Incentive to businesses investing in solar energy whereby their investment in solar energy units will be deducted from their taxable income.

Business Facilitation (Continued)



- Elimination of Registration Duty and Land Transfer Tax on any transfer of immovable property for the setting up of a business for high-tech manufacturing;
- Registration duty payable on leases of agricultural lands of up to 10 hectares will be waived;
- Refund of VAT for the replacement of old lorries which are used for carrying harvested canes;
- Plan approvals from CEB, CWA or the WMA will not be required anymore when applying for a Building and Land Use Permit in zones which are well networked and serviced, as well as in morcellements; and
- Carrying out of a business process reengineering by BOI on more than 125 licenses and permits.

ICT & Technology



- Introduction of an Innovator Occupation Permit for innovative start-ups with a minimum operational expenditure of 20 per cent for R&D purposes;
- Accelerated depreciation of 50 per cent per annum in respect of capital expenditure incurred on R&D; and
- Companies can claim a double deduction in respect of qualifying expenditure on R&D.

Marine Industry



- Extension of the validity of the fishing rights permit from one year to five years for fishing vessels flying the Mauritian flag, subject to all their catch being unloaded and processed in Mauritius;
- Amendments to the Maritime Zone Act to cater for marina development; and
- Setting up a new Maritime Training Institute that will focus on training our youths for jobs on cruise ships and in the maritime sector.

Tourism

- Operation of an additional weekly flight to Singapore by Air Mauritius;
- KLM presence in Mauritius to further diversify our markets in Europe; and
- Hotels will be allowed to host gaming machines within their premises, subject to access being restricted to non-residents only.



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