BUDGET BRIEF FOR MAURITIUS 2017-2018

Key budgetary measures for 2017-2018

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On the 08th of June 2017, The Honourable Pravind Kumar Jugnauth, Prime Minister, Minister of Home Affairs, External Communications and National Development Unit and Minister of Finance and Economic Development presented the 2017/2018 Budget under the theme of "Rising to the Challenge of our Ambitions". The Budget is stated to be one of continuity, building on the thrust of last year's budget which, with a vision of a society without any families living in absolute poverty, where there will be a narrower gap between the rich and the poor, no gender bias, better opportunities for all, with modern infrastructure and a quality of life that will meet the standards reached by advanced countries.

This budget comprises of 5 main challenges, namely

- Encouraging growth for more job prospects
- Investing largely in the future's infrastructure
- Improving the quality of life of the Citizens
- To show a new social model
- To strengthen macro-economic fundamentals

In order to reach these objectives, there should be transparency on the path that will be followed. A 3 year rolling plan has been devised to support the medium and long term objectives.

FINANCIAL SERVICES

The financial services sector represents an important pillar of the economy but that it has nonetheless been subject to major challenges of late, amongst others from the OECD and the European Union.

The strategy is to take the global business sector to a new level, based on quality of product offerings rather than on fiscal advantages. Accordingly, Mauritius will strengthen its regulatory stance on substance requirements.

→ Henceforth, Category 1 Global Business Companies will be required to comply with at least 2 out of the 6 additional substance requirements introduced by the Financial Services Commission in 2014.

→ It has been announced that the tax regime of Global Business companies will undergo a reform to meet the moving goal post of the international community.

→ A Blueprint will be elaborated by the Ministry of Financial Services, Good Governance and Institutional Reforms in collaboration with stakeholders of the industry to shape the vision of the sector for the next 10 years.

→ Other measures include the setting up of a platform for the trading of derivatives and commodities, review of the legal and regulatory framework, strengthening of the AML/CFT framework amongst others.

Banking and Non-Bank Financial Services

BANK OF MAURITIUS ACT

The Bank of Mauritius Act will be amended to allow-

(i) the Central Bank to license and regulate the issue of commercial papers with a view to enable corporate borrowers to diversify their source of short-term borrowings and to provide an additional instrument for investment;

(ii) the Bank of Mauritius to invest in currencies as it may determine;

(iii) for the issue of Shariah compliant instruments as the Central Bank may determine.

BANKING ACT

The Banking Act will be amended to-

(i) allow for the licensing and regulation of the issue of commercial papers; and

(ii) raise the minimum capital of commercial banks from Rs 200 million to Rs 400 million. Transitional provisions will be provided to existing banks to increase their respective minimum capital to Rs 400 million.

FINANCIAL SERVICES ACT

The Financial Services Act will be amended to provide for an increase in the number of members on the Board of the Financial Services Commission from 7 to 9.

PROMOTION OF FINTECH

With a view to promoting Mauritius as a regional Fintech centre, the Financial Services Commission will issue relevant Rules.

SECURITIES ACT

To position Mauritius as a capital raising platform, the requirements pertaining to a prospectus as set forth under the Securities Act 2005 and Securities (Public Offer) Rules 2007 will no longer be applicable for companies holding a GBC1 Licence which are also listed in another jurisdiction. Only the requirements under the SEM Listing Rules will henceforth apply.

Companies Act

The Companies Act will be amended to:

(a) 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 Financial Reporting Standards;

(b) allow the Registrar to keep a register of beneficial owner/ultimate beneficial owner;

(c) allow companies using Extensible Business Reporting Language (XBRL) to pay a fee to the Registrar;

(d) allow companies to include a Corporate Governance Report in their Annual Report; and

(e) align the obligations of Special Purpose Funds under the Act with those of Category 1 Global Business Companies.

FINANCIAL REPORTING ACT

The Financial Reporting Act will be amended to provide that wholly owned subsidiaries need not comply with the National Code of Corporate Governance if its ultimate holding company is already complying with the same.

INCOME TAX

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NEGATIVE INCOME TAX

As from 1st January 2018, Mauritians in full time employment with earnings of Rs 9,900 or less in a month will be granted financial support from Government, in the form of a negative income tax, as follows:

- (i) an employee earning Rs 5,000 in a month: Rs 1,000 (i.e., Rs 12,000 in a year);
- (ii) an employee earning above Rs 5,000 but not exceeding Rs 7,000 in a month: Rs 800 (i.e., Rs 9,600 in a year);
- (iii) an employee earning above Rs 7,000 but not exceeding Rs 9,000 in a month: Rs 500 (i.e., Rs 6,000 in a year);
- (iv) an employee earning above Rs 9,000 but not exceeding Rs 9,750 in a month: Rs 250 (i.e., Rs 3,000 in a year); and
- (v) an employee earning above Rs 9,750 but not exceeding Rs 9,900 in a month: Rs 100 (i.e., Rs 1,200 in a year).

For the purpose of the negative income tax, monthly income is inclusive of overtime, leave pay, and other allowances in relation to the employment of the individual but excludes travelling and end-of-year bonus. Any basic retirement pension received will also be included.

INCOME EXEMPTION THRESHOLDS

The existing income exemption thresholds are being increased by amounts ranging from Rs 5,000 to Rs 15,000 as shown in table below.

In addition, a new income exemption threshold of Rs 550,000 is being introduced to cater for taxpayers having 4 or more dependents.

<table>
<tr><th>Category</th><th>From</th><th>To</th><th>Increase</th></tr>
<tr><td>Individual with no dependent</td><td>Rs 295,000</td><td>Rs 300,000</td><td>Rs 5,000</td></tr>
<tr><td>Individual with one dependent</td><td>Rs 405,000</td><td>Rs 410,000</td><td>Rs 5,000</td></tr>
<tr><td>Individual with two dependents</td><td>Rs 465,000</td><td>Rs 475,000</td><td>Rs 10,000</td></tr>
<tr><td>Individual with three dependents</td><td rowspan="2">Rs 505,000</td><td>Rs 520,000</td><td>Rs 15,000</td></tr>
<tr><td>Individual with four or more dependents (NEW)</td><td>Rs 550,000</td><td>Rs 45,000</td></tr>
<tr><td>Retired/disabled person with no dependent</td><td>Rs 345,000</td><td>Rs 350,000</td><td>Rs 5,000</td></tr>
<tr><td>Retired/disabled person with dependents</td><td>Rs 455,000</td><td>Rs 460,000</td><td>Rs 5,000</td></tr>
</table>

These new thresholds will be effective as from income year starting on 1st July 2017, i.e. on income received by an individual as from 1st July 2017.

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 percent of that excess.

For example, an individual who has received, during an income year, total chargeable income amounting to Rs 2 million as well Rs 2 million as dividends, will have to pay a levy of 5% on Rs 500,000, i.e. Rs 25,000.

Note: Interest income is not included in the computation of the Solidarity Levy.

Corporate Tax

3% Reduced Rate of Corporate Tax on Exports of Goods

A reduced corporate tax rate of 3% will, as from next financial year, be applied on the profits derived by any company from exportation of goods instead of 15%. The tax credit granted to those companies on investment in new plant and machinery will be prorated accordingly.

INCOME TAX HOLIDAY

An 8-year income tax holiday will be granted to a company engaged in the:

(i) manufacture of pharmaceutical products, medical devices and high tech products provided it is incorporated after 8th June 2017; and

(ii) (ii) exploitation and use of Deep Ocean Water for providing air conditioning installations, facilities and services.

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, that is the investment cost is fully amortised in 2 years;

(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); and

Qualifying expenditure includes:

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

(iii) 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 twice the expenditures incurred in respect of:

(i) its deep ocean water air conditioning bill for a period of 5 consecutive years; and

(ii) the acquisition and setting up of a water desalination plant.

UNRELIEVED INCOME TAX LOSSES

In the case of a manufacturing company, the accumulated unrelieved income tax losses will not lapse upon a change of more than 50% in its shareholding provided that the change in shareholding is deemed to be in the public interest and the conditions relating to safeguard of employment are complied with.

PROPERTY TAXES

HI-TECH MANUFACTURING ACTIVITIES

No registration duty and Land Transfer Tax will be payable on the transfer of a building or of land for construction of a building that will be used for qualifying Hi-Tech manufacturing activities.

Lease of Agricultural Land

No registration duty will be payable by a small planter on an agreement for lease or sublease of land for agricultural use, not exceeding 10 hectares. Moreover, a stamp duty of only Rs 150 will be payable thereon.

Lease of land and building for operating a health institution

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. This provision is being given retrospective effect as from December 2016.

Invest Hotel Scheme

The exemption from payment of the Tax on Transfer of Leasehold Rights in State Lands on the first acquisition of an immovable property under the Invest Hotel Scheme is being extended to cover a resale.

Remission/Refund of Duties and Taxes

The Land (Duties and Taxes) Act will be amended to allow remission or refund of registration duty, Land Transfer Tax and Tax on Transfer of Leasehold Rights in State Land in the following 3 specific cases, namely, where:

- (i) there is no effective change in ownership of an asset;
- (ii) a person makes an application for an existing exemption within one year from the date the relevant deed was registered; and
- (iii) several documents are required to be registered in order to complete a transaction or in relation to the same subject leading to multiplicity of taxation.

All such requests shall be examined by a joint Ministry of Finance & Economic Development and Registrar-General Committee which shall submit its recommendations to the Minister.

Value Added Tax

(a) Amendment will be made to clarify that security patrolling and monitoring systems that are integral part of an overall burglar alarm system will also be zero-rated.

(b) The provision governing VAT exemption on construction of a purpose-built building by a provider of tertiary education will be amended to cover the case where the building is constructed by a third party, purposely and exclusively, for lease to the provider of tertiary education.

(c) The VAT exemption granted to a corporate body on construction of a private hospital, nursing home or residential care home will be extended to cover a charitable institution.

(d) Provision will be made to allow claw-back of the VAT amount exempted in the above cases in case the building has been put to another use than agreed.

(e) The zero-rating of fees payable for examination of vehicles (fitness) under the Road Traffic Act will be extended by another year, that is, up to 30th June 2018.

(f) VAT and customs duty exemption will be granted on sterile water used for pre-operative, per-operative or postoperative cleaning of wound.

Company under Special Administration

It is proposed to bring a number of specific legal amendments relating to sale of assets and disposal of liabilities of a company and its subsidiaries under special administration with a view to maximise funds available for policy-holders or depositors:

(a) 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;

(b) no surcharges will be payable in respect of contributions due to the National Pensions Fund, the National Savings Fund and the Training Levy. This exemption will also apply in respect of an undertaking taken over by a Government owned company from such an insurance company or its subsidiaries. This exemption will be given retrospective effect as from 2015; and

(c) amounts of corporate tax, PAYE and VAT due to the MRA will be waived if deemed to be in the public interest.

Tax Administration

TAX ADMINISTRATION: GENERAL

Tax Arrears Payment Scheme

The Tax Arrears Payment Scheme is being re-introduced for another final year with new terms and conditions so as to expedite collection of long outstanding arrears of tax. The scheme will apply to assessments raised or a tax return submitted before 1st July 2015.

Under the new Tax Arrears Payment Scheme, up to 100% of interests and penalties due will be waived if the taxpayer agrees by 31st 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.

However, in case the taxpayer fails to abide by his undertaking and does not 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.

Expeditious Dispute Resolution of Tax Scheme

The Expeditious Dispute Resolution of Tax Scheme (EDRTS) will be re-introduced for another year. It will target settlement of disputes of less than Rs 10 million by allowing the MRA to review the assessed amount including penalties claimed from a taxpayer who could not lodge an objection, principally because of failure to pay the 30% or 10% of the amount assessed.

Registration of Tax Agents

As part of efforts towards modernisation of tax administration, the Mauritius Revenue Authority Act will provide for registration of Tax Agents with the MRA. A member of the Mauritius Institute of Professional Accountants or a member of the Bar Council will be deemed to be registered.

Receivership and Liquidation of a Company

Revenue laws provide that PAYE, TDS and VAT collected do not form part of the estate of a business in liquidation or bankruptcy and any amount still outstanding in respect of these taxes should be paid in priority to the MRA before any distribution of property is made. The Insolvency Act will be amended to specify that the priority of the MRA in cases of a company in receivership will be the same as in the case of a liquidation.

Real Estate Development

MORCELLEMENT ACT

Excision of land into lots provided each lot exceeds 5 hectares will not require a Morcellement Permit but only approval of the relevant local authority, in cases where there is no material change to the land.

INVESTMENT PROMOTION (SMART CITY SCHEME)

The time-limit imposed on a Mauritian citizen who purchases a serviced plot of land under the Smart City Scheme for completing construction of his residence will be extended from 5 years to 10 years. The owner of such a serviced plot will be allowed to transfer his property even if construction works have not started, provided the new owner undertakes to abide by the time-limit of 10 years as from the date of the first acquisition.

The provisions in the Code Civil Mauricien relating to 'Association Syndicales' (Syndics) will be reviewed to ensure smooth administration of common areas in a smart city.

As part of their social obligation, promoters of Smart City projects will have to make a contribution of Rs 25,000 upon the sale of every residential unit or serviced plot to a Social Fund to be set up as a Special Fund under the Finance and Audit Act. This contribution will be over and above the normal CSR obligations and will be applicable to all Smart City projects, including those already issued with a Letter of intent or an SCS Certificate.

PROPERTY DEVELOPMENT SCHEME

The processing fee payable on an application for acquisition of a property under the Property Development Scheme will be increased two-fold to Rs 20,000.

INVEST HOTEL SCHEME

A non-citizen who has invested at least USD 500,000 in the acquisition of a unit under the Invest Hotel Scheme (IHS) will be eligible to a residence permit so long as he retains ownership of the unit.

Acquisition of a unit under the Scheme will be governed by the standard provisions of the Code Civil Mauricien. Accordingly, the clause contained in the IHS Regulations relating to right or interest on the State land on which the hotel is located, will be removed.

Non-citizens

Non-citizens will be allowed to acquire life rights in residential care homes and other similar facilities outside smart cities on production of an authorisation from the Board of Investment granted after it has obtained the approval of the Minister. A retired non-citizen will be given the option of transferring at least USD 2,500 monthly to be eligible to a residence permit.