

## Budget Summary

The National Budget 2019/2020 themed “*Embracing a Brighter Future Together as a Nation*” was presented on Monday 10 June 2019 by Hon. Pravin Kumar JUGNAUTH, Prime Minister, Minister of Home Affairs, External Communications and National Development Unit and Minister of Finance and Economic Development.

The backdrop for the Budget could not have been any less benign. Global economic outlook is sluggish and faces the prospects of downturn if those fears that have gripped major economic hotspots and global financial markets materialize, namely prospects of escalated trade wars between US and China, uncertainties surrounding Brexit and post-Brexit deals, stalling growth prospects in Europe and only timid recovery in Asia amid divergences in global monetary cycles.

Moreover, amidst the backdrop of emerging economic challenges both domestically and abroad, the budget 2019-2020 has been presented during an electoral year. Media and pundits have been running galore about the dangers associated with any bonanza spending concocted as sweeteners to entice an electorate, thereby sacrificing macroeconomic engineering to the altar of pure opportunist social considerations. There was no dearth of the latter in the budget. Sure, the Honorable Minister of Finance had his reticle on the populace when he announced 'feel good' measures such as reductions in the price of necessity items such as cooking gas, mogas, and gazoil but refrained from hiking price of inelastic products such as cigarettes, alcohol and beverages.

The Honorable Minister of Finance provided a list of measures designed to address some of the difficulties plaguing the sugar, textile, and tourism sectors.

Some fiscal measures to boost investment and business include new five-year tax holiday for E-commerce platforms and Peer-to-Peer Lending operators, and an option for SMEs engaged in manufacturing of goods and trading activities to pay a final income tax of 1 percent of their turnover. Taxation of banks is also being revised provided they grant at least 5 percent of new facilities to SMEs, targeted sectors or operators in Africa or Asia.

Old age pensions have been hiked by a relatively modest margin, while public sector workers have been given a modest compensation, ahead of forthcoming publication of the Pay Research Bureau (PRB) report. Of major impact to employers will be the Portable Pension Scheme which will be introduced through the legislation of a Workers Right Bill.

In a nutshell, the 2019-2020 budget has been announced with an electorate in mind. It remained silent about how to bridge the savings gap, especially among the middle-class. Measures announced in sectors such as sugar, textiles, financial services may not go a long way towards adding a few digits to the growth rate, given their overwhelming income distribution orientation.

In a climate characterized by relatively low investment as a percentage of GDP and by opportunity costs represented by structural unemployment which the honorable minister announced was on a declining trend, lowering the debt to GDP ratio to under 60 per cent over the short term, may prove to be quite a challenge. The announcement that reserves of the Bank of Mauritius will be used to meet debt obligations could be met with skepticism.

In addition, using the central bank's reserves would constitute one part of the equation designed to lower the stock of debt as a percentage of GDP. However, the other part of the equation, namely the flows component, should not be ignored.

To wrap up, the 2019-2020 budget does offer respite to numerous stakeholders. Being an electoral year, the Budget places considerable emphasis on social justice and alleviation of poverty, with some interesting fiscal measures to boost business. The budget seems to have been prepared more from a bottom-up rather than from a top-down fashion, with paucity of bold growth-enhancing measures but glut of income redistribution palliatives.

# PERSONAL TAX

## Income Exemption Thresholds

New exemptions thresholds will be effective as from income year starting on 1st July 2019, as follows:

CATEGORY	From Rs	To Rs	Increase Rs
A. Individual with no dependent	305,000	310,000	5,000
B. Individual with one dependent	415,000	420,000	5,000
C. Individual with two dependents	480,000	500,000	20,000
D. Individual with three dependents	525,000	550,000	25,000
E. Individual with four or more dependents	555,000	600,000	45,000
F. Retired/disabled person with no dependent	355,000	360,000	5,000
G. Retired/disabled person with dependents	465,000	470,000	5,000

## Tax Band of 10%

The reduced income tax rate of 10% will continue to apply. To this end, such an employee will benefit from a tax credit of 5% of chargeable income at time of submission of his income tax return. Moreover, the employee will be subject to PAYE at the rate of 10% if his average cumulative emolument in a month is below Rs 53,845.

## Additional Deduction for Tertiary Education

The additional deduction will now be available for a maximum of 4 dependents instead of 3 dependents.

## Relief for Medical or Health Insurance Premium

Additional relief of up to Rs 10,000 in respect of medical insurance premium paid for a fourth dependent.

## Peer-to-Peer Lending

Interest income received by an individual from Peer-to-Peer lending will be subject to income tax at the rate of 3%.

## Solidarity Levy

Lump sum income received by a person by way of commutation of pension, death gratuity or as compensation for death or injury will be excluded from the computation of the Solidarity Levy, effective as from 1<sup>st</sup> July 2017.

# CORPORATE TAX

## SMEs

A company having annual turnover not exceeding Rs 10 million and engaged in specific activities such as manufacturing or trading of goods will have the option to pay 1% of its turnover as final income tax or file the normal income tax return.

## Income Tax Holiday

Income tax holiday will be available as follows:

CATEGORY	Duration of tax holiday
Innovation Box Regime	8 years
E-Commerce Platform	5 years
Peer-to-Peer Lending	5 years

## Accelerated Depreciation

Capital expenditure incurred on plant or machinery may be fully expensed in the year incurred if the amount does not exceed Rs 60,000 (previously Rs 30,000).

## Fine-tuning of Taxation of Banks

- income derived by banks from Global Business Companies will be exempted from the levy under the Value Added Tax Act;
- the rate of the levy will be increased from 4% to 4.5% of operating income for banks having operating income exceeding Rs 1.2 billion in a year;
- no foreign tax credit will be allowed.
- A reduced tax rate of 5% is applicable on the chargeable income of a bank in excess of its chargeable income in the base year (year of assessment 2017/2018) if the bank grants at least 5% of its new banking facilities, to any of the following categories of businesses: SMEs, businesses engaged in agriculture, manufacturing, production of renewable energy and operators in African or Asian countries.

## Freeport Regime

A freeport operator engaged in manufacturing activities will be allowed to apply as private freeport developer to build, develop and manage its own infrastructural. A freeport company engaged in manufacturing will be liable to income tax at the rate of 3% and CSR on profits derived from local sales. Existing freeport manufacturing companies will have to meet the following substance criteria:

- employ a minimum of 5 employees;
- incur an annual expenditure exceeding Rs 3.5 million.

## Carry Forward of Unrelieved Tax Losses

Special derogation, subject to the Minister's approval, may be available to the following enterprises for the carry forward of unrelieved tax losses if there is a change in ownership:

- Manufacturing companies
- Any company facing financial difficulties

Effective as from 1<sup>st</sup> July 2018.

## Global Business

Taxation and the partial exemption régime:

- Outsourcing of core income generating activities:

The Income Tax Regulations 1996 will be amended to lay down the conditions that must be satisfied where a company outsources its core income generating activities, namely:

- the company must be able to demonstrate adequate monitoring of the outsourced activities;
- the outsourced activities must be conducted in Mauritius; and
- the economic substance providers must not be counted multiple times by multiple companies when evidencing their own substance in Mauritius.

- Extension of partial exemption régime

The partial exemption régime which was introduced last year will be extended to companies engaged in leasing and provision of international fibre capacity, companies involved in reinsurance and reinsurance brokering as well as companies engaged in the sale, financing arrangement and asset management of aircraft and its spare parts, including aviation related advisory services.

# VALUE ADDED TAX

## Special levy

Special levy for banks

- Income derived by banks from GBC exempted from levy.
- Increase in levy rate from 4% to 4.5% for banks with annual operating income exceeding MUR 1.2 billion.
- the resulting increase in levy subject to a cap.

## Key VAT measures and exemption

- Compulsory VAT registration
- Compulsory registration for each entity of a business enterprise, which was purposely split to avoid being registered.

- Repayment of input tax  
Claim for repayment of input tax extended to VAT paid on:
  - Goodwill on acquisition of a business.
  - Acquisition of intangible assets, such as software, patents, or franchise agreements.
- VAT exemption on:
  - Management of insurance schemes.
  - Construction of marinas.
  - Subscription fees to prescribed professional bodies.

### Zero-rated

Zero-rating extended to:

- Light rail transport fares of passengers.
- Cooking gas for domestic use by households in cylinders of up to 12kg.
- Specialised compression garments used for medical purposes.
- Bread (with retrospective effect from 1 March 2019).

### VAT refund scheme

Scheme for planters/breeders.

The list of equipment qualifying for VAT refund extended to include the following:

Equipment	Greenhouse cooling pads
Machinery for preparing animal feed	Greenhouse grow lights
Agricultural dehumidifiers	Hydroponic trough systems
Netcups and pots	Vertical grow towers
Mesh bags Plant support clips Insect traps	Aquaponics test kits
Dutch buckets/pots system	Greenhouse fans
Generators	

### Scheme on accommodation costs

Scheme introduced on accommodation costs for events (such as business meetings, conferences and weddings) with a minimum of 100 foreign attendees staying for at least three nights.

### Scheme on residential building, house or apartment

Conditions for eligibility to VAT refund scheme updated as follows:

- Maximum cost of construction of residence or purchase of apartment increased to MUR 5 million.
- Aggregate annual income of applicant, including spouse, increased to MUR 3.5 million.
- Construction or purchase completed by 30 June 2025.

## OTHER TAXES

### Property tax

- Exemption from registration duty on transfer of movable property between spouses.
- Property returned by a descendant, or spouse if jointly owned, to an ascendant.
- Exemption threshold for registration duty increased to MUR 2.5 million for first-time buyer of bare land.
- MUR 5 million for first-time buyer of existing house/apartment.
- MUR 2.5 million for housing loan for first time buyers.

## TAX ADMINISTRATION

### General

#### Voluntary disclosure scheme

- Introduction of voluntary disclosure scheme to allow for 15% tax on undeclared income held in overseas bank accounts or used to purchase foreign assets exemption of penalties and interests provided on disclosures of foreign assets done on or before 31 March 2020.
- Waiver of penalties and interests on voluntary disclosure of undeclared or under-declared income by enterprises with a turnover not exceeding MUR 50 million.

#### Expeditious Dispute Resolution of Tax (“EDRTS”) and Alternative Tax Dispute Resolution (“ATDR”)

- EDRTS and ATDR extended to assessments raised in connection with the environment protection fee and duties and taxes under customs laws.

#### Arrears payment scheme

- Re-introduction of arrears payment scheme for an additional year to provide for full waiver of penalties and interests if tax arrears due as at 10 June 2019 are settled on or before 31 March 2020.

#### Duty exemption

- No additional duty or tax payable on re-assessment of the value of immovable property for claims less than MUR 5,000.

#### Cases settled at Objection, Appeal, Dispute and Resolutions Department (“OADRD”)

- No representation with Assessment Review Committee (“ARC”) allowed for cases settled at objection unit level.

### **Registration duty and land transfer tax**

- Person eligible for exemption can apply for refund of registration duty or land transfer tax paid on registration of deeds within the past three years; time limit for application is one year.

### **Value Added Tax ("VAT ")**

- Compulsory disclosure of name, business address and BRN on VAT invoices issued to non-VAT-registered person.
- Mandatory electronic filing and payment of VAT from 1 March 2020.

## **OTHER MEASURES**

### **Mauritian licensed funds and management companies**

The Mauritius Financial Services Commission will enter into an agreement with the Gujarat International Finance Tec City in India to recognise Mauritian licensed funds and management companies as being qualified to operate in the Gujarat jurisdiction as well.

### **Fintech**

To promote Mauritius as a fintech hub in the region.

- establish a regime of robotics and artificial intelligence (AI) enabled financial advisory services;
- introduce a new license for fintech service providers;
- encourage self-regulation for fintech activities in consultation with United Nations Office on Drugs and Crime;
- introduce the use of e-signatures and e-licenses on a pilot basis; and
- create crowdfunding as a new licensable activity.

### **Wealth management activities:**

An umbrella license will be granted to the service providers offering wealth management services.

### **Real Estate Investment Trusts (REITs)**

New rules and attractive tax regimes will be introduced to promote the development of REITs.

### **Headquartering of e-commerce activities**

A new scheme for the head quartering of e-commerce activities will be set up to promote the carrying out of such activities from Mauritius.

### **Tourism Industry**

To incentivise the development of marinas in Mauritius, a 8-year income tax holiday will be granted to newly set up companies developing a marina and VAT exemption will be provided on the construction of marinas.



**Facilitation of business**

The Government will introduce a new Business Facilitation Bill which will amend 26 legislations with a view to, inter alia, expedite the start of business, eliminate unnecessary licences and permits, expedite clearances at the port and airport and protect minority investors. Additionally, a single window system will be set up at the Financial Services Commission to allow for submission of documents for financial services and global business applications.