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PRECISE. PROVEN. PERFORMANCE.

Budget Summary

The Mauritian economy faces some very serious headwinds going forward, and this unfortunately comes at a time when the economy is not in the best of shapes to face those challenges, with high unemployment rate (7.6%), public debt (55.6%) and economic growth at only 3.4%. Key economic targets in the last budget have been missed. Brexit and Eurozone uncertainties have come to add to an already difficult global context to worsen matters. The Mauritius economy is therefore caught up in an economic impasse which requires immediate attention.

With this difficult backdrop, the Budget for 2016/2017 was presented by the new Minister of Finance, Hon. Pravind Jugnauth on Friday 29 July 2016, with the aim of stifling the economy with some 'bold and audacious' measures for '*a new era of development*', as well as reducing extreme poverty with a good dose, if not unprecedented amount, of social measures. Against all odds, it is also a 'no tax budget' … except for cigarettes and alcohol!

To stimulate the economy and attract investors, much focus has been placed in opening up the economy to foreigners, modernizing business, improving and modernising infrastructure, encouraging a new breed of SMEs, job creations, reforming and fusion of some government institutions to make them more efficient and to facilitate business and providing tax holidays for some specific categories of business. These are bold and brave measures, though not innovative. The decision to remove registration duty for the acquisition of a new house or apartment whose price does not exceed Rs 6 Million is highly laudable and will hopefully help in kick-starting the revival of the morose construction industry by increasing demand.

Inside

Though there are plenty of good intentions and measures in the Budget and more could have been done, all will depend on its successful and timely implementation. As billions will be pumped in landmark projects to modern our infrastructure (Metro Express, Heritage City, utilities, etc.), the judicious use of the funds earmarked without waste, including the Rs 12 billions boon from India is of paramount importance. There will be no other bonanza to plug the holes if we miss this opportunity to ‘create a new era of development’!

TAXATION AND PUBLIC FINANCE

INCOME TAX - INDIVIDUALS

Income Exemption Thresholds

Increase in the income exemption thresholds by Rs 10,000 effective as from income year starting on 1st July 2016, as follows:

	FROM	TO
Individual with no dependent	Rs 285,000	Rs 295,000
Individual with one dependent	Rs 395,000	Rs 405,000
Individual with two dependents	Rs 455,000	Rs 465,000
Individual with three or more dependents	Rs 495,000	Rs 505,000
Retired/disabled person with no dependent	Rs 335,000	Rs 345,000
Retired/disabled person with dependents	Rs 445,000	Rs 455,000

Other Exemptions and Reliefs

(i) *Additional Exemption - Child Pursuing Tertiary Education*

Exemption on actual tuition fees payable to the education institution exceeding Rs 44,500 reduced to Rs 34,800.

(ii) *Interest relief on secured housing loan*

Date restriction removed regarding a first-time home-owner to deduct from his taxable income the interests he paid on a secured housing loan.

(iii) *The Income Eligibility Criteria*

The additional exemption in respect of a child pursuing tertiary education and interest relief on secured housing loan is raised from Rs 2 million to Rs 4 million in respect of points (i) and (ii) above.

(iv) *Exempt Income*

Seafarers will be exempted from income tax on their emoluments *(either vessel registered in Mauritius or on a foreign vessel)*

Co-operative societies will be exempted from payment of income tax in respect of income derived from non-sugar agricultural activities.

INCOME TAX - CORPORATE

Income Tax holiday

(i) *SMEs*

An 8-year income tax holiday granted to a newly incorporated SME'S and a 4 tax holiday will be granted to SME's already registered with the SMEHDA with a turnover of Rs 10 m or less.

(ii) *Global Business Companies*

- Tax holiday of 8 years to Global Headquarters Administration companies licensed by the FSC and meeting conditions of minimum employment and substance.
- Tax holiday of 5 years to companies providing Treasury Management Centre services licensed by FSC and meeting conditions of minimum employment and substance.
- Personal income tax holiday of 5 years to Asset and Fund Managers licensed by the FSC and managing a minimum asset base of USD 100 million.
- Personal and corporate tax holiday of 5 years to Foreign Ultra High Net Worth Individuals' investing a minimum of USD 25 million in Mauritius.
- Tax holiday of 5 years to law firms which set up their regional offices in Mauritius to provide legal advisory and international arbitration services to global business clients.
- Tax holiday of 5 years for investment banks issued with an 'Investment Banking and Corporate Advisory Licence' and regulated by the FSC.
- Tax holiday of 5 years to Overseas Family Corporations licensed by the FSC.

(iii) *Industrial Fishing Companies*

8 - year tax holiday will be introduced under a new incentive scheme to attract industrial fishing companies.

Trade fees

- Suspension of the payment of trade fees for licences of Rs 5,000 and below, for a period of three years for all SMEs, except those engaged in activities such as gambling, and sales of liquor and cigarettes.

Investment Tax Credit

- An investment tax credit of 5 percent over 3 years will be granted to Companies engaged in manufacturing in respect of investment in plant and machinery.

TAX ADMINISTRATION

Tax Deduction at Source (TDS)

Tax deduction at source will be extended to:

(a) services provided by accountants and tax advisers; and

(b) management fees paid to individuals.

As regards tax deduction at source applicable on non-resident entertainers and sportspersons, the 10 percent withholding rate will be made final and an individual will also be required to withhold tax in relation thereto.

Statement of Assets and Liabilities by High Net Worth Individuals

The MRA will be allowed to request an individual with net income exceeding Rs 15 million in a year or having assets exceeding Rs 50 million to submit a Statement of Assets and Liabilities.

Time limit for Submission of Amended Income Tax Returns

A time limit of 2 years is being introduced for submission of amended income tax returns both by individuals and corporates. However, this time limit will not apply to arrears of emoluments paid by an employer. In such cases, an employee will be allowed to submit amended income tax returns to offset emoluments accruing in those years against any unused income exemption threshold and other deductions.

VALUE ADDED TAX (VAT)

VAT is being removed on the following products:

- ✓ Breakfast cereals
- ✓ Photovoltaic inverters/batteries
- ✓ CCTV camera systems, including CCTV digital video recorders
- ✓ Burglar alarm systems and sensors
- ✓ 3D printer
- ✓ Locally manufactured bus bodies built on semi low-floor chassis
- ✓ Hospital beds with mechanical or electrical fittings
- ✓ Commode chairs with toilet bowls
- ✓ Briefs for incontinent persons
- ✓ Urinary and fecal incontinence bags
- ✓ Motor vehicles examination fee (fitness) for a period of one year
- ✓ Plant, machinery and equipment to be used in the exploration and mining of seabed minerals

ACQUISITION OF IMMOVABLE PROPERTY & TAXES

In a bid to boost the morose construction industry and to also encourage ordinary Mauritians to invest in constructing and acquiring their residences, the Government has come forward with some bold fiscal measures:

- full exemption from registration duty for the acquisition of a new house or a new apartment during the period 1st September 2016 to 30th June 2020 and whose price does not exceed Rs 6 million. There will be no age restriction.

- full exemption from registration duty on the first Rs 2 million to a first time buyer who buys bare residential land, provided the acreage does not exceed 20 perches.

- threshold of VAT refund regarding the construction of a new dwelling or acquisition of a newly built apartment increased from Rs 300K to 500K max. and relaxing the 'eligibility criteria' up to the year 2020 by:

- ✓ removing the '*maximum floor area'* criteria,
- ✓ increasing the '*household income eligibility'* from Rs 650K to Rs 2 M p.a,
- ✓ increasing the limit of construction cost from Rs 2.5M to 4M
- ✓ extending the VAT refund to construction on top of an existing building

It therefore follows that after 2020, the eligibility criteria for VAT Refund Scheme regarding construction may be reviewed by the government.

- No registration duty on secured Housing Loan not exceeding Rs 2 million, (previously Rs 1M)

- A first-time home-owner allowed to deduct the interests he pays on a secured housing loan from his taxable income. Eligibility criteria that the loan must have been contracted after 1st July 2006 is removed.

- No *Land Transfer Tax* on Promoters who sell residential units of up to Rs 6 million (instead of Rs 4 million currently). The scheme is being extended to 2020.

- Non-citizens, registered with the BOI will be able to acquire apartments and business spaces in buildings. The *Non-Citizens (Property Restriction) Act* must be amended first. No exemptions of registration duty.

GAMBLING

The Gambling Regulatory Authority Act will be amended to:-

a) introduce a 2 percent levy on the net stakes of all licensees, except the Mauritius National Lottery Operator, to finance projects to be undertaken under the Responsible Gambling and Capacity Building Fund;

b) make provision for a number of Central Electronic Monitoring Systems to have multiple softwares for the purpose of recording, monitoring and control of lottery games, VLTs, gaming machines, limited payout machines, gambling activities and betting and gaming transactions;

c) set up the necessary legal and operational framework for the introduction of on-line betting games for non-resident and foreign punters. A tax of 30 percent will be imposed on winnings;

d) allow for new games to be organised in hotels for non-residents and foreigners;

e) increase the betting duty for bookmakers operating outside the racecourse from Rs 16,000 to Rs 30,000 in respect of each race meeting; and

f) set up a Lotto Fund to finance schemes or projects relating to promotion of sports, arts and culture and protection of national heritage.

FINANCIAL SERVICES

“Reaching out to new markets”

With the revised Indo-Mauritian Double Tax Treaty in the background (and which has lost its attractiveness apparently), the Hon. Minister of Finance has said in his Budget Speech that *‘the financial services industry also needs to branch out and reach out to new markets with a wider spectrum of products*.’ To attract new players to bring new financial products, it seems that the government has opted to offer them generous tax holidays ranging from 5-8 years, which is both interesting and paradoxical since tax holidays are regarded as a ‘harmful practice’ by OECD and BEPS. No sum earmarked and no mention about the marketing of our financial products in the Budget Speech.

The measures announced for the further development of the financial services sector are:

- ✓ GBC2 companies will now be allowed to invest in listed securities in Mauritius.
- ✓ Introduction of the new ‘**Mauritius International Derivatives & Commodities Exchange’ (MINDEX)**
- ✓ Development of a full-fledged **‘International Arbitration Centre’**
- ✓ Amendments to the *Bank of Mauritius Act* and *Banking Act* to adapt to change.
  (It remains to be seen if the Banking Act will be amended or regulations brought in to stop banks from charging unfair and/or excessive bank charges/penalties).

Refer to page 2 for new tax incentives introduced for Global Business Companies.

OTHER BUDGET MEASURES

Financial Reporting Act

The Financial Reporting Act will be amended:-

- ✓ to introduce a mandatory audit firm rotation policy of every 7 years for listed entities;
- ✓ to introduce the concept of penalties and fines on licensees of the Financial Reporting Council (FRC); and
- ✓ to provide for a line of reporting by the National Committee on Corporate Governance to the FRC.

Borrowers Protection Act

The Borrowers Protection Act will be amended to increase the maximum sum under a credit agreement from the current limit of Rs 2 million to Rs 3 million.

Facilitation of investment projects

Investors who wish to operate a private hospital, nursing home or residential care home shall register with the Board of Investment and benefit from the business facilitation services provided by the latter. The Investment Promotion Act will be amended accordingly.

Occupation Permit by Investors and Self-Employed and a Residence Permit by Retired non-citizens

The current process for dealing with applications for Occupation Permits (OP) will be reviewed through the OP online system without prior registration of business or transfer of funds and be issued with an approval in principle subject to complying with the set criteria. Validation of the proposed business activity and required checks on the person will be carried out upstream.

Acquisition of property for business purposes

Companies in which non-citizens in total do not hold more than 25 percent of the shareholding will not be required to seek the approval of the Prime Minister's Office when there is a transfer of property.

Freeport

Amendments will be brought to the Freeport Act as follows:

(a) With respect to manufacturing activities, the restriction of 80 percent of the annual export value towards Africa for all export activities undertaken in the Freeport is being reduced to 50 percent;

(b) A new legislative framework will be worked out by the Board of Investment to enable the transition from a Freeport to a Free Zone concept; and

(c) To review the Second Schedule to cater for companies incorporated in Mauritius and providing freeport related services outside Mauritius such as advisory, marketing, engineering, project management, technical support and related services.

Fraud Bill

The introduction of a Fraud Bill is envisaged to deal with cases, including, dishonesty, deception, falsification, concealment and false representation leading to financial prejudice.

Lease of State Lands

(a) Moratorium on Rental

A moratorium on rental is being granted to lessees who have been allocated State lands far from infrastructure networks. Those lessees are currently being required to pay rent even if they are unable to implement their project.

As a consequence, State lands at Les Salines (Black River) and Palmar are yet to be serviced with infrastructure (access road, electricity and water). A lessee in those regions is accordingly required to contribute with other co-lessees under a cost-sharing mechanism to connect the site with existing infrastructure networks.

However, implementation of the cost-sharing takes time since, on a specific site, there are several lessees, with different project types, implementation time schedules and infrastructure requirements. Rental is currently payable even if the cost-sharing mechanism is yet to be implemented.

In order to rectify this unfair situation, rent will become payable when State lands leased by the Ministry of Housing and Lands have vehicular access allowing construction works to start. Lessees who have already paid rent will be allowed to offset past rentals paid against future rental liability.

(b) Facilities for hotel reconstruction and renovation

A scheme was operational during the financial years 2013 and 2014 whereby a hotel on State Lands that closes to undergo renovation or reconstruction was granted a reduction of 50 percent in its rental payable in respect of its lease for a maximum of one year provided that:

(i) the hotel had opted for a fresh lease under the Industrial Lease Policy; and

(ii) the hotel safeguards employment, including the terms of service of all employees during the period of renovation/reconstruction

This scheme is being renewed for 2 years that is covering renovation/ reconstruction which starts in the financial years 2016-2017 or 2017-2018.

Disclaimer

This publication is only an overview and a summary of the Budget Speech delivered by the Hon. Minister of Finance on 29 July 2016. It has been written in general terms and should be interpreted as a guidance only and should not be relied upon or construed as a tax advice or planning and should not be used or relied upon for investment strategy. The Budget proposals may be amended significantly before enactment. Please do not hesitate to contact Moore Stephens to discuss any matters and to seek professional advice on any issue related to this publication. Moore Stephens and its Partners and staff do not assume any liability or responsibility for any financial loss or other prejudice suffered from any action taken or reliance from the information published in this publication.

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