Budget 2020-21

The Economy of Life

June 4, 2020

finctax
Sharpen your edge

CIO
Chartered Tax Advisers

The economy of life

The ultimate measure of a man is where he stands at times of challenge and controversy

Martin Luther King Jr

In the face of a difficult economic climate, amplified by the COVID-19 pandemic, the recovery of Mauritius rests on the vision of its government. The COVID-19 pandemic has not only affected our personal lives but has also shaken our economy. The closure of our borders and enforced lockdown has been detrimental to our tourism industry. The naming of Mauritius as one of the jurisdictions to be included on the European Union's blacklist for anti-money laundering has undermined another pillar of our economy, its financial sector.

It is against this challenging backdrop that Dr The Honourable Renganaden Padayachy delivered his first budget speech at the National Assembly on 4 June 2020.

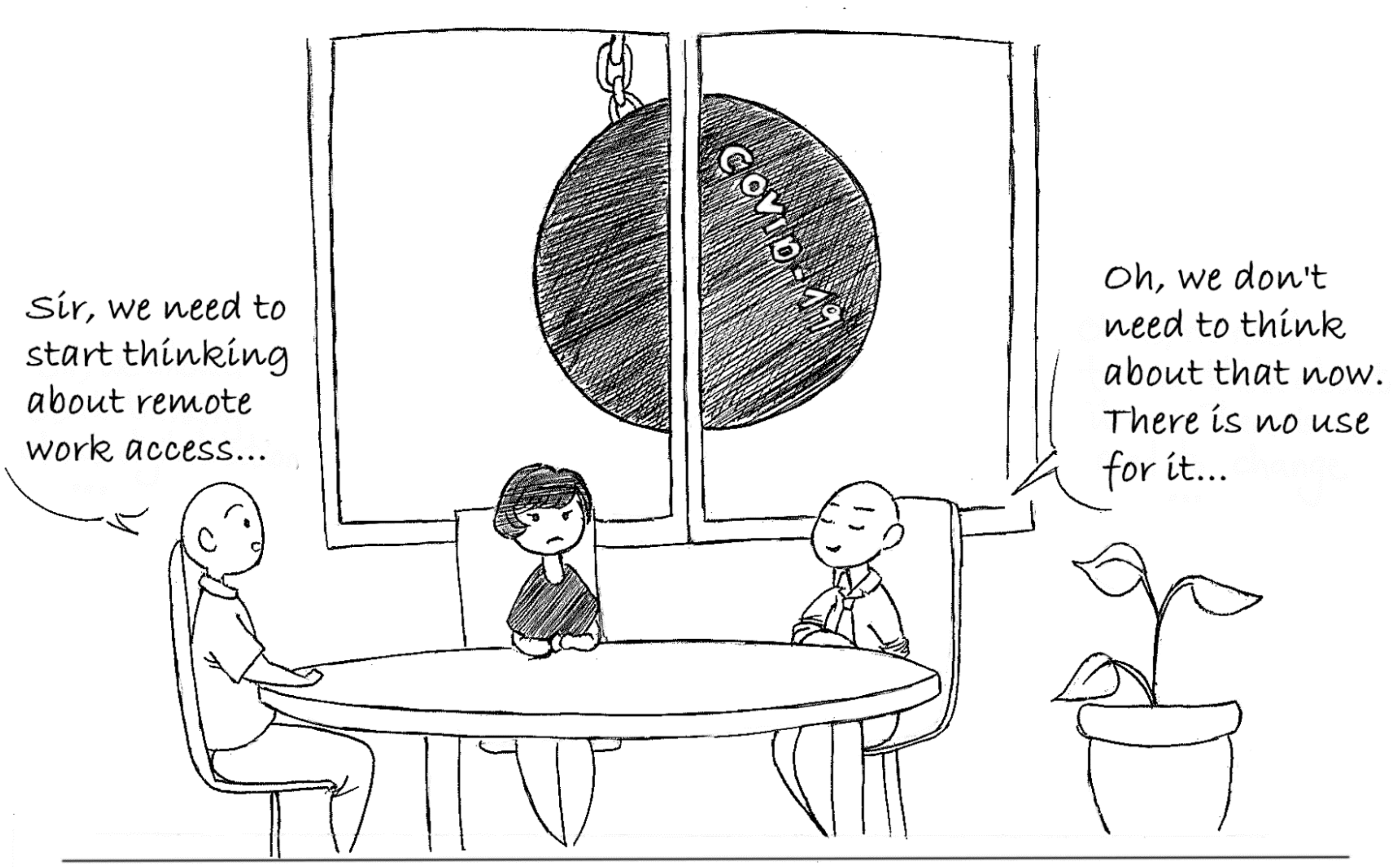
As expected, the Minister announced measures to revive the economy, boost investor confidence and encourage government spending in the construction industry. These measures were complemented by some social measures to ease impact caused by the pandemic and encourage self-sustainability.

In our view, the tax measures announced in the budget were largely expected given the government's focus on addressing social inequalities. We agree that a reform of the national pension scheme was required to keep up with an ageing population. However, the reform measure is likely to impact employers with high-earning employees who may already be stricken by the effects of the COVID-19 pandemic.

In addition, the significant increase in the solidarity levy will demand that high-earners contribute more to the fiscal take. Whilst it is debatable whether this is socially fair, it is undeniable that middle income earners will benefit from these measures. As we await for clarification on whether the solidarity levy will apply to Mauritian citizens or residents, it remains to be seen whether, despite the measures announced opening up the country to foreigners, Mauritius will attract sufficient foreign investments or whether the solidarity levy and pension reform will incite high net-worth individuals relocating to other jurisdictions.

We invite you to take a look at the tax and compliance measures announced in the Budget 2020-2021 and enjoy our Finctax cartoons.

Measures impacting businesses



Measures impacting businesses

Partial exemption regime

- The **80% partial exemption** on interest income does **not apply** on the following sources:

  (i) non-bank deposit taking institutions;

  (ii) money changers;

  (iii) foreign exchange dealers;

  (iv) insurance companies;

  (v) leasing companies; and

  (vi) companies providing factoring, hire purchase facilities or credit sale facilities.

Levy on corporates

- Companies with **gross income exceeding MUR 500 million** in an accounting year or within a group of companies with total gross income of Rs 500 million or above, will be subject to a levy.
- The levy will be calculated on its **annual gross income** at the rate of –

  (i) **0.3%** for **insurance** companies, **financial institutions**, **service providers** and **property holding companies**; and

  (ii) **0.1%** for **other companies**.
- The levy will **not apply** to a company which operates in the tourism sector or which holds a Global Business License.

Finctax comment: There is no definition of what constitutes a group for companies within the existing fiscal legislation and therefore, it is hoped that Finance Bill 2020 will provide clarity.
In addition, as with a number of other business tax measures, there is no indication of when this measure will apply.

There is no definition in the fiscal legislation of financial institution or service providers and none is provided in the budget annex. The **lack of clarity** leads to **concern** that a **group** of company may be **taxed** on the **same income twice or more** as it escalates its income up a group structure.

Measures impacting businesses

Tax Incentives

- Accelerated **deduction** on capital expenditure of electronic, high precision machinery in the **year of purchase**.
- **200% tax deduction** for investment in plant and machinery in the period 01/03/2020 to 30/06/2020 for enterprises impacted by COVID-19.
- **8 year** income **tax holiday** granted to companies engaged in the manufacture of **nutraceutical** products from 4 June 2020.
- **8 year** income **tax holiday** granted to companies operating on or after **8 June 2017** that are engaged in the manufacture of **pharmaceutical** products, **medical devices** or high-tech products.

Introduction of Alternative Minimum Tax ("AMT") for life insurance companies

A life insurance company will pay tax on the **higher** of the **actual basis** of tax **or 10% of** its **profits** attributable to shareholders, **before** taking into account **capital gains** and **losses**.

Solidarity levy on telephony service providers

- The **solidarity levy** on telephony service providers will be made **permanent**. The rates has remained the same for profitable companies. However, if a **company** has **not made** any **profits,** it will still need to pay **1.5% of its turnover** as solidarity levy.

Reform of the National Pension Scheme

- The budget speech contained reforms to the existing national pension scheme. The **National Pension Fund ("NPF")** will be abolished and will be **replaced** by the Contribution Sociale Généralisée ("CSG").
- Under the **NPF scheme**, employees contributed **3%** of their basic salary up to a maximum of **MUR 18,740** whilst **employers** contributed **6%** on the corresponding amount. Under the **CSG** scheme, **employees** earning up to MUR 50,000 per month will contribute **1.5%** of their **monthly salaries** to the fund and employers will contribute **3%**. Employees earning more than MUR 50,000 per month will contribute **3%** and employers' contributions will be **6%** of the employee's monthly salaries.
- **Self-employed** individuals will also be expected to **contribute** to the CSG.

Finctax comments: We agree that the current national pension system was not sustainable in the long-term. However, the removal of a maximum threshold is expected to create a **significant financial burden on employers** whose main costs are often high-skilled and hence, high-earning employees. In the wake of the financial impact of the COVID-19 pandemic, employers may not be prepared for this additional cost. We set out a comparison at Appendix 1.

In our view, the measures seem to targeted at **Mauritian citizens** employed in the **private sector**, many of whom may **already have** a **private pension**. We note there were no changes announced in respect of the National Savings Fund.

Corporate compliance

Corporate Compliance

Financial Action Task Force ("FATF") Action Plan

- The government has reiterated its commitment to adhering to the remaining 5 recommendations of the FATF by implementing the following measures:

a) risk-based supervisions in accordance with the recommendations of the FATF;

b) Targeted outreach programmes to promote clear understanding of money-laundering and terrorist financing risks;

c) Increased reporting of suspicious transactions;

d) Targeted financial sanctions in cases of terrorist financing; and

e) Timely access to beneficial ownership information.

Finctax comments: A new bill will be proposed to detail the measures above. It remains to be seen whether, like some other jurisdictions, Mauritius will implement a beneficial ownership register and whether this register will be made public.

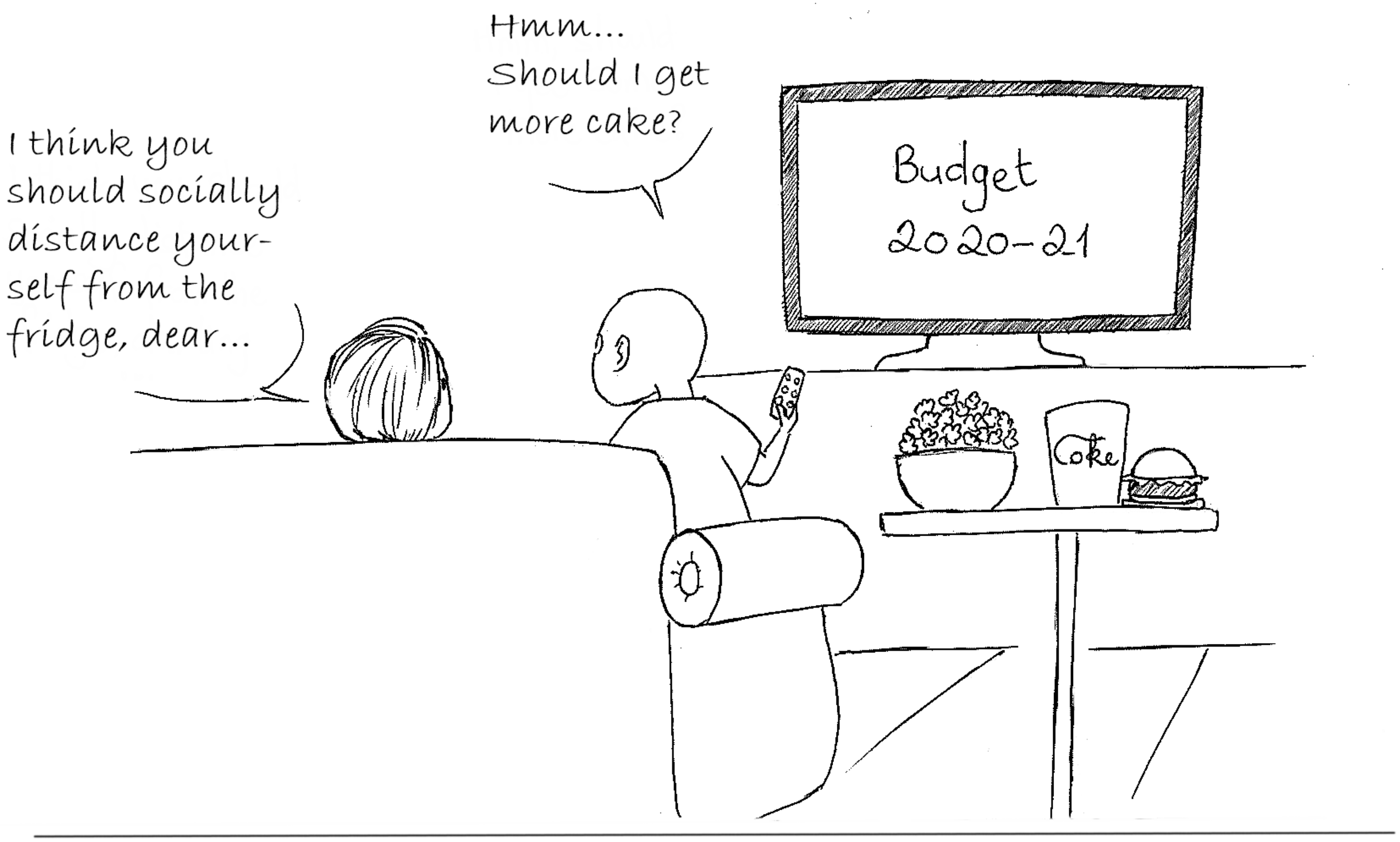
Best practice measures

- Companies Act 2001 will include provisions to protect the interests of shareholders by **defining** deemed **prejudicial conduct** and rendering **directors liable** for **prejudicial practices.**
- Companies listed on the Stock Exchange of Mauritius will **statutorily** need to **appoin**t at least **2 independent** and **non-executive directors**.
- The **registration** of **ultimate beneficial owners** as well as VAT registration will be done at time of business registration and company **incorporation**.

Other measures for the financial services sector

Finance Act (Miscellaneous Provisions) Act 2019 introduced several incentives for **peer-to-peer lending** without defining the term. The government proposes to include a **definition** in the Financial Services Act 2007.

Measures impacting individuals



Tax measures impacting individuals

Income Exemption Threshold

- The **Income Exemption Threshold** will be **increased** as from 1 July 2020. We set out the new rates at Appendix 3.
- The **definition** of **dependent** has been **extended** to include a bed-ridden next of kin who is in an individual's care provided that the individual does not have more than 4 dependents.

Solidarity Levy

- As from 1 July 2020, the rate of the **solidarity levy** will increase from **5% to 25%.**
- The **threshold** of the application of the solidarity levy will be reduced from **MUR 3.5 million to MUR 3 million**.
- The levy will be **payable** through **the Pay As You Earn** ("PAYE") system. It was previously payable through the self-assessment system.

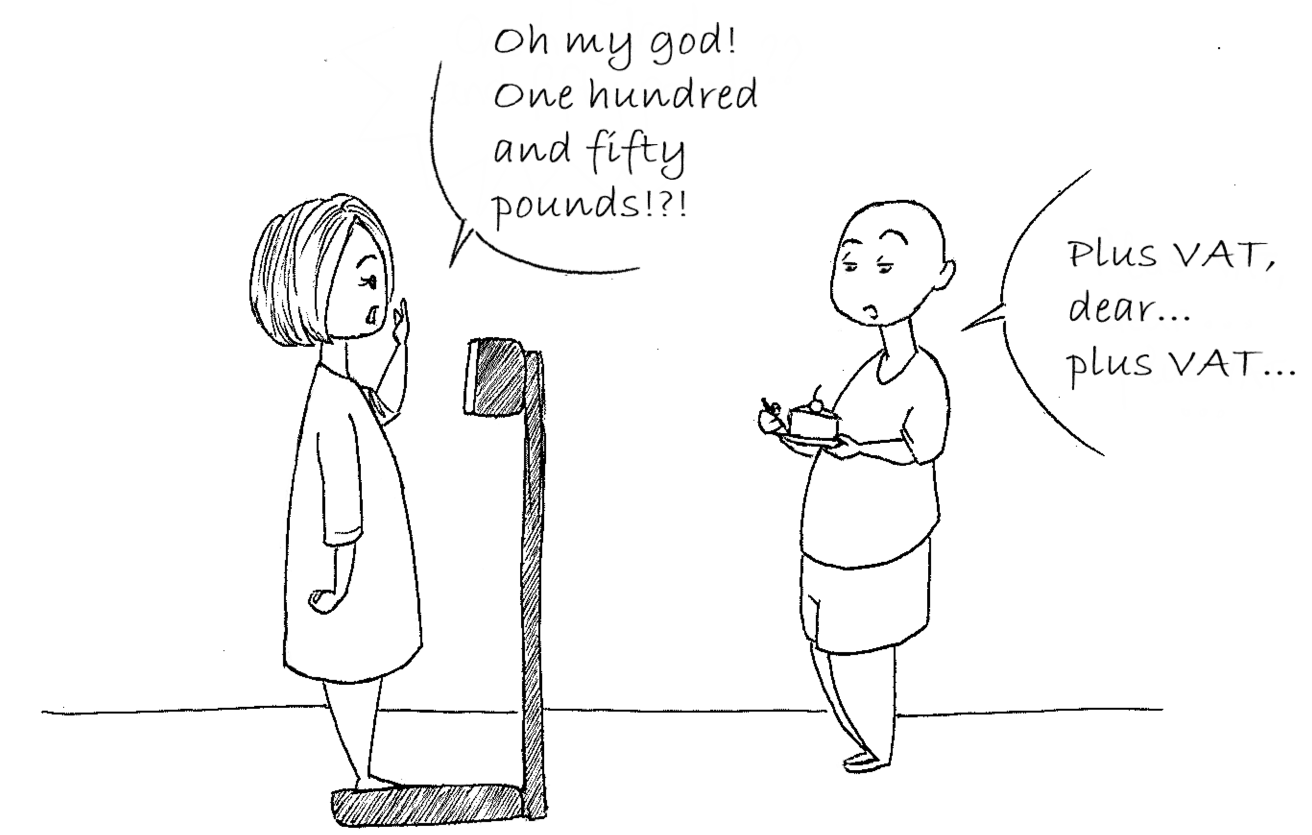
Finctax comments: The levy is applicable on the **total chargeable income and dividends** derived by an individual in excess of the threshold

Our reading of the budget explanatory notes indicates that dividends in excess of the threshold will be taxed at the rate of **25%, up from 5%** and that other taxable income such as emoluments in excess of MUR 3million will be subject to Income Tax at **15% plus solidarity levy of 25%,** leading to **a total tax rate of 40%.** We set out at Appendix 2 an example of how this will impact individuals deriving leviable income above MUR 3 million.

Tax Incentives

- An individual will be eligible for the **registration duty exemption** applicable to **first-time buyer** even if their spouse inherited a property of up to 20 perches.

Other tax measures



Other tax measures

Value Added Tax

- Digital and electronic services provided through the internet by non-residents for local consumption will be subject to VAT.

Finctax note: It is uncertain on the specific services which will fall under this measure or how the charging mechanism will work in practice. However, it may apply through a reverse charge mechanism.

- If a transaction is not at arm's length, the tax authority will have the power to charge VAT on what it deems to be the market value of the supply.
- The tax authority will have the power to apply a alternative basis of apportionment if the taxpayer makes both taxable and exempt supplies.
- The amount of VAT refund in respect of construction of residential building is no longer limited to a minimum of MUR 25,000 per quarter.
- Exempt goods and services

The following exempt goods will now be zero-rated to allow the seller to recover the VAT he incurs:

- Unprocessed agricultural and horticultural produce;
- Live animals of a kind generally used as, or yielding, or producing food for human consumption, other than live poutry;
- Transport of passengers by public service vehicles excluding contract buses for the transport of tourists and contract cars;
- Medical, hospital and dental services.

Property Taxes

- A Mauritian is exempt from registration duty of 5% on the purchase of a newly-built dwelling as follows:

Purchase price	Period of purchase
MUR 6m	01/09/16 to 30/06/2020
MUR 7m	01/07/2020 to 30/06/2022

- A promoter constructing housing projects for Mauritians will benefit from land transfer tax exemption. In specific circumstances, the developer may also be exempt from registration duty.

Tax Administration

- The time limit to effect an Income Tax refund will be 60 days from the date all necessary documents has been received by the tax authorities.
- For the purpose of the Customs Act, a principal officer of a company can be held liable for any taxes due by the company in line with the Value Added Tax Act.
- An administrator, executor, receiver or liquidator winding up the business of a taxable person will need to notify the MRA within 15 days.
- If a party repeatedly fails to attend or be represented at the Assessment Review Committee, the case be struck off unless the failure is attributable to illness or other reasonable cause.

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Appendix

Appendix 1

AB Ltd employs Mr X and Mrs Y. Mr X's salary is MUR 48,000 per month and Mrs Y's salary is 62,000 per month. We set out on the table below the impact of the introduction of the CSG charge for employees and employers.

Scheme	Employee	NPS/ CSG Employee (MUR)	NPS/CSG Employer (MUR)	NSF Employee (MUR)	NSF Employer (MUR)	Training Levy	Total contributions
NPF Scheme	Mr X	562	1,124	187	469	720	3,063
CSG Scheme	Mr X	720	1,440	187	469	720	3,536

Scheme	Employee	NPS/ CSG Employee (MUR)	NPS/CSG Employer (MUR)	NSF Employee (MUR)	NSF Employer (MUR)	Training Levy	Total contributions
NPF Scheme	Mrs Y	562	1,124	187	469	930	3,273
CSG Scheme	Mrs Y	1,860	3,720	187	469	930	7,166

Finctax comments

In the case of Mr X, the introduction of the CSG has led to an increase of 15% to the total employer/ employee contributions. However, in the case of a higher- earner like Mrs Y, the CSG leads to an increase of 119% of the total employer/ employee contributions.

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Appendix 2

Illustration of the impact of the increase in the rate of the solidarity levy

Mr Z earns a monthly salary of MUR 300,000 (total annual emoluments of MUR 3.9 million after the IET). He also receives dividends of MUR 600,000 from a domestic company. The table below demonstrates the impact of the increased solidarity levy.

Income		Income year ended 30.06.2020		Income year ended 30.06.2021	
	(MUR)	Income Tax @ 15% (MUR)	Solidarity Levy @ 5% (MUR)	Income Tax @ 15% (MUR)	Solidarity Levy @ 25% (MUR)
Salary	3,900,000	585,000	20,000	585,000	225,000
Dividends	600,000	-	30,000		150,000
Total	4,500,000	585,000	50,000	585,000	375,000

Finctax comments

In this scenario the increase in the solidarity levy rate leads to an effective tax rate of 21% up from 14%. However, for ultra-high earners with a total leviable income of approximately MUR 15m, the effective tax rate could rise up to 32%.

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Appendix 3

Income Exemption Threshold from 1 July 2020

Bands	Application	IET	IET for disabled or retired individuals
A	No dependent	MUR 325,000	MUR 375,000
B	1 dependent	MUR 435,000	MUR 485,000
C	2 dependents	MUR 515,000	MUR 565,000
D	3 dependents	MUR 600,000	MUR 650,000
E	4 dependents or more	MUR 680,000	MUR 730,000