AAA
GLOBAL SERVICES

BUDGET BRIEF

2018 - 2019

Foreword

The Honourable Pravind Jugnauth presented the National Budget for the fiscal year 2018 – 2019 on 14 June 2018, his second Budget presentation since becoming the Prime Minister of Mauritius. Mauritius, which celebrated its 50th year of Independence earlier this year, finds itself in a new phase with a new vision and having to adapt to a rapidly changing global environment. This was reflected in the National Budget.

This year's Budget will target a minimum of 4% GDP for the fiscal year 2018 - 2019 in line with "The Three Year Strategic Plan" which was launched at the previous National Budget. GDP is expected to grow at an annual average of 4.5% between 2018 and 2020, and at 4.75% after 2020. At this rate, Mauritius is expected to reach the high-income threshold by 2023.

The key areas covered during the presentation of the budget were:

- shaping the new Mauritius with modern infrastructure;
- consolidating traditional and emerging productive sectors and anchoring the economy firmly to the digital revolution;
- developing a class of innovative entrepreneurs including in the blue economy;
- embracing Fintech and making Mauritius a hub for Africa;
- further opening up of the economy and country to the rest of the world;
- investing in the youth so they are better prepared for the future;
- achieving gender equality;
- resolving the problem of absolute poverty;
- building a more inclusive and equitable society; and
- adapting policies and strategies on sustainable development so as to build better resilience to the new challenges of climatic change.

One of the major objectives of the Government will be to complete the first phase of the flagship project "Metro Express" which will upgrade and modernise the public transport system in Mauritius. Simultaneously, a number of new infrastructure projects have been announced.

As for the Financial Services sector, it was announced in the previous National Budget that a Blueprint which will elaborate the vision of the Mauritius IFC for the next 10 years would be prepared and the Prime Minister and Minister of Finance declared during the Budget speech that the Blueprint would be available soon after the Budget presentation.

Important aspects of the Blueprint would include, amongst others, the Base Erosion Profit Shifting, the European Union Fair Taxation Initiative and making Mauritius a Fintech hub. As for Fintech, a Fintech and Innovation-driven Financial Services Regulatory Committee has already been set up in February 2018 and a number of incentives and measures have been announced to position Mauritius as a regional Fintech hub.

The salient measures of the National Budget have been highlighted in this brief for your good reading.

Best wishes

Tax team
AAA Global Services Ltd
15 June 2018

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Budget Measures

The Africa Strategy

- A 5-year tax holiday for Mauritian companies collaborating with the Mauritius Africa Fund for the development of infrastructure in the Special Economic Zones (SEZ).

- The Government is working with the EU on the setting up of a loan guarantee facility to support cross border investment within the Mauritius Africa Strategy.

- Setting up of the Africa Infrastructure and Industrialisation Fund by the State Bank of Mauritius and the Mauritius Africa Fund to assist Mauritian investors to execute projects in the SEZs on the African continent.

Forging New Path for our Economic Diplomacy

- Boost up demand for Mauritian products and go beyond the concentric circles of regional cooperation with SADC, COMESA, IOR-ARC and IOC.

- Government has finalised / is finalising negotiations as follows:
    - A framework agreement for the continental FTA in Africa has been signed;
    - The Comprehensive Economic Cooperation Partnership Agreement (CECPA) with India;
    - The Free Trade Agreement with China;
    - The enhanced bilateral cooperation with Saudi Arabia and Middle East countries; and
    - Renewed partnership with the member states of the Commonwealth Group.

Reforming the Financial Services Sector

- Set up of a Steering Committee to ensure the timely and effective implementation of the recommendations of the Blueprint elaborating the vision of the Mauritius IFC for the next 10 years.

- Introduction of a new harmonised fiscal regime for domestic and Global Business Companies and a specific fiscal regime for banks (please refer to page 5 below).

- The Category 2 Global Business Licence (GBL2) will be abolished as from January 2019. GBL2s granted prior to 16 October 2017 will be grandfathered up to 30 June 2021.

- Global Business Companies will be required to comply with enhanced substance conditions.

- Establishment of a new framework to govern and improve the oversight of Management Companies.

- Development of equivalence frameworks with other key jurisdictions in view of enhancing the competitiveness of Mauritius as a financial centre.

- Hosting of a Regional Centre for capacity building and best practices in the mutual combat against financial malpractices by the FSC, in collaboration with the Organisation of Economic Cooperation and Development (OECD).

Fintech

- Set up a National Regulatory Sandbox Licence Committee to consider all issues relating to Sandbox licencing for Fintech activities.

- New licensable activities, namely Custodian of Digital Assets and Digital Asset Marketplace for safe custody of digital assets by investors and enable digital assets exchange.

- Put in place guidelines on investment in crypto currency as a digital asset ensuring that appropriate cyber-security and cyber-resilience policies and capacities are in place.

- Regulatory framework against money-laundering and terrorist financing for banking and non-banking financial services will be harmonized and updated to cater for Fintech.

Single Licensing Agency

- Establishment of a one-window system for investors to apply for business permits and licenses through the Single Licensing Agency, the Economic Development Board (EDB).

- EDB will receive applications, liaise with the relevant Ministries and Authorities for determination, and issue licenses and permits. Relevant Authorities will remain responsible for policy, enforcement and monitoring.

Further Opening up of the Economy and Country

- Introduction of two schemes to attract High Net Worth individuals:

    - Opportunity for foreigners to obtain Mauritian citizenship provided they make a non-refundable contribution of USD 1 million to a Mauritius Sovereign Fund and an additional contribution of USD 100,000 for each member of their family (spouse and dependents);
    - Opportunity for foreigners to obtain a Mauritian passport provided they make a contribution of USD 500,000 to the Mauritius Sovereign Fund and an additional contribution of USD 50,000 for each member of their family (spouse and dependents).

- The schemes will be managed by EDB and the Mauritius Sovereign Fund will be managed by the Mauritius National Investment Authority.

- Introduction of a Foreign Manpower Scheme to attract foreign talents, particularly in emerging sectors such as AI, Biotechnology, smart agriculture and the Ocean Economy, amongst others.

- Foreign retirees will be exempted from payment of customs duties on the import of personal effects up to a value of Rs 2 million.

- Streamlining the procedures for recruitment of foreign workers.

Amendment to the Companies Act

- Fine of up to Rs 100,000 and imprisonment for a term of up to 1 year for a director committing an offence for breach of duty where he fails to disclose that he has an interest in a transaction or a proposed transaction with the company.

- Any major transaction of a company should feature in its Annual Report.

Amendment to the Insolvency Act

The Insolvency Act shall be amendment to allow for:

- The continuation of supply of essential goods to an insolvent company throughout the insolvency process.

- The filing of the declaration of solvency with the Director of Insolvency Service to be effected on the same date as the resolution for winding up of the company.

- The period for which a liquidator can keep records of a company from the date of dissolution of the company to be extended from 3 to 5 years.

- The FSC to make a petition to wind up a company which is a past licensee of the FSC to cater for situations where the licences have been terminated and the company is no longer a licensee.

- To review the order of payment to MRA in the context of a receivership or a winding up.

Amendment to the Bank of Mauritius Act

- The Bank of Mauritius Act will be amended to:
    - reinforce the powers of the BoM with a view to counter money laundering and for the prevention of financing of terrorism;
    - increase fine to Rs 1 million where a financial institution fails to comply with guidelines issued by the BoM.

Fiscal Measures

Individual

- Persons with earnings of up to Rs 650,000 will pay tax at a maximum rate of 10% instead of 15%.
- The income exemption threshold for all employees have been increased by Rs 5,000, hence, an employee with an annual income of Rs 305,000 will not be subject to income tax.

	2017/18 MUR	**2018/19 MUR**
Individual with no dependent	300,000	305,000
Individual with one dependent	410,000	415,000
Individual with two dependents	475,000	480,000
Individual with three dependents	520,000	525,000
Individual with four or more dependents	550,000	555,000
Retired / disabled person with no dependent	350,000	355,000
Retired / disabled person with one dependent	460,000	465,000

- Additional income tax deduction in respect of a dependent child who is pursuing tertiary studies raised as follows:
  - if abroad, from Rs 135,000 to Rs 200,000; and
  - if in Mauritius, from Rs 135,000 to a maximum amount of Rs 175,000.

Corporate

Global Business and Financial Services

- The deemed foreign tax credit available to companies holding a Category 1 Global Business Licence will be abolished from 31 December 2018.

- It will be replaced by a partial exemption regime (not applicable to banks) whereby 80% of income which are specified below will be exempted from income tax (provided that the licensee satisfies the pre-defined substantial activities requirements of the Financial Services Commission):
  - foreign source dividends and profits attributable to a foreign permanent establishment;
  - interest and royalties; and
  - income from provision of specified financial services.

- The existing credit system for relief of double taxation will continue to apply where partial exemption is not available.

Banks

- Banks will be subject to a progressive tax rate of 5% and 15% as follows:
  - chargeable income up to Rs 1.5 billion will be taxed at 5%; and
  - chargeable income exceeding Rs 1.5 billion will be taxed at 15% (but an incentive system has been introduced whereby if pre-defined conditions are satisfied, any chargeable income in excess of the chargeable income for a set base year will be taxed at a reduced tax rate of 5%).

- The Special levy under the Income Tax Act will be removed with effect from 1st July 2019. A Special levy will be introduced under the Value Added Tax Act and will be charged on the net operating income derived by banks from its domestic operations.

Freeport

- Corporate tax exemption granted to freeport operators and private freeport developers on export of goods will be removed but will continue to be exempted from Corporate Social Responsibility (CSR) contribution.

- Companies which have been issued freeport certificate before 14 June 2018 will be grandfathered until 30 June 2021.

- The 50% cap imposed on sales of goods on the local market will no longer apply.

- The maximum period for warehousing of goods in the Freeport will be 24 months. A moratorium period of 42 months will be granted on goods warehoused in the Freeport before 14th June 2018.

3% Reduced Rate of Corporate Tax

- The corporate tax rate of 3% applied on profits derived by any company from export of goods will be extended to global trading activities effected by companies.

Corporate Social Responsibility

- Companies will not be allowed to offset any unused tax credit such as the foreign tax credit against CSR payable.

- Companies which have been granted tax holidays will be required to contribute to CSR.

Tax Deduction at Source (TDS)

- TDS will be extended to 'commission payment' at the rate of 3%.

- The TDS rate applied on rent paid to a non-resident will be increased from 5% to 10%.

- TDS will not apply to director fees.

"Work @Home" Scheme

- A double deduction from tax, of the wage and salary costs of employees for the first two years.

- Grant of an annual tax credit of 5% to the employers for three years on investment in the required IT system.

Agricultural farms

- All income derived will be exempted from tax for the first 8 years.

National Regeneration Scheme (NRS)

(An initiative to regenerate and revitalise the central areas of the cities, towns and large villages in Mauritius)

- Incentives will be provided to an approved project under the NRS as follows:

    - a property developer undertaking approved projects under the NRS and meeting the relevant criteria, will be eligible to an investment income tax credit of 5% over 3 years over qualifying capital expenditure;
    - a 5-year income tax holiday on income derived from smart parking solutions and other green initiatives;
    - exemption from income tax over 2 years on newly rented space for cultural purposes or to artists as from the date the plan is approved; and
    - expenditure on approved renovation, embellishment works in the public realm by private companies as well as cleaning of public infrastructure will be deductible for income tax purposes.

Investment Tax Credit

- An investment tax credit of 5% over 3 years will be granted in respect of expenditure in new plant and machinery (excluding motor cars) by a company importing goods in semi knocked-down form on the condition that at least 20% local value addition is incorporated therein. The credit will be available in respect of investment made up to 30th June 2020.

Value Added Tax

Supply of manual labour in Agricultural or Construction Sector

- An individual supplying manual labour to a VAT registered person in the agricultural or construction sector will be exempt from VAT.

Burglar alarm systems

- Services in relation to upgrading, repairs and maintenance, patrol and monitoring or rental of burglar alarm systems will be zero-rated for VAT purposes.

Public buses

- The VAT exemption granted on bus bodies built on chassis for semi low-floor buses will be extended to cover bus bodies built on chassis for all buses meant for public transport.

Photovoltaic system

- All components forming an integral part of a photovoltaic system will not be subject to VAT.

Recovery of VAT in Hospitality Sector

- A VAT-registered person, whose main activity is the supply of accommodation, catering, entertainment or rental/lease of motor vehicles services, will be able to recover VAT paid on these activities.

Claw Back of VAT on Capital Goods

- MRA will be empowered to claw back VAT refunded on capital goods exceeding Rs 100,000 (other than building) in case of abuse of the VAT refund system.

Contact

If you have any queries about the Budget Brief, or if you would like to discuss its implications and planning opportunities, please do not hesitate to contact us.

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