Budget 2021/2022

Fiscal analysis

12 June 2021

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Introduction

Introduction

The 2021/2022 National Budget is characterised by various financial incentives for households and businesses across various sectors. As in prior years, several fiscal measures have been provided in the Explanatory Notes ("EN") that will be the subject matter of the Parliamentary debates.

Several tax incentives are based on extra income tax deduction: the acquisition of specialised software and systems and expenses on market and product development targeted to the African market by manufacturing companies are a couple of examples of such incentives. Such tax incentives may not be of benefit if the company is incurring tax losses that may remain unrelieved.

We reiterate the need to introduce a group relief provision in the ITA that would bring the taxable profit closer to the economic profit, which has been further exacerbated with the restriction of five years on the utilisation of tax losses not attributable to annual allowances.

We do not understand the rationale for certain amendments. For example, the EN provide that section 75 of the ITA will be amended so that it applies to Global Business Companies and not just domestic companies. Section 75 of the ITA is triggered by an income generating activity or business in Mauritius, irrespective of the resident status of the entity. It is effectively an anti-base erosion measure and already applies to a company with a Global Business Licence insofar as it has business activities in Mauritius.

We are hoping that the Finance (Miscellaneous Provisions) Bill will be provided to the relevant stakeholders in a timely manner so that there is a coherent approach on the implementation aspect of the policy decisions.

Fiscal analysis

Personal tax

Deduction for next of kin dependent

Affected persons	Resident individuals
Effective date	Year ending 30 June 2021
Financial impact	Increase in disposable income

Our analysis

- Any financial assistance under the National Pensions Act will not be considered as income to determine if the individual qualifies as a dependent.
- We presume that the measure will apply as from the year ending 30 June 2021.

Premium Visa Holders: incentive on Mauritian sourced income

Affected persons	A holder of a premium visa
Effective date	1 November 2020
Territorial restriction	None
Financial impact	Low to high

Our analysis

- Mauritian sourced income paid in a foreign country will be exempt.
- The exemption will also apply to spending in Mauritius through the use of a foreign credit or debit cards.
- Income remitted in Mauritius may still be exempt from tax if such income has been taxed in the country of origin or residence of the individual.
- This measure does not treat all individuals with Mauritian sourced taxable income on an equal footing.

IET as result of child studying tertiary education

Affected persons	Resident individuals
Effective date	Assumed to be July 2021
Conditions	Child pursuing tertiary education
Financial impact	Low/medium

Our analysis

- The IET will be increased to Rs 225,000.
- This measure is consistent with the Government's policy to invest in education. The actual costs and place of study are not relevant for the purposes of the deduction.

Relief for medical insurance premium

Affected persons	Resident individuals
Effective date	Assumed to be July 2021
Conditions	No change
Financial impact	Low/medium

Our analysis

- The relief has been increased by Rs 5,000 for individuals and their dependents.

Deductions for certain donations

Affected persons	Individuals
Effective date	Assumed to be July 2021
Conditions	(i) Maximum of Rs 30,000 (ii) Approved charitable NGO or religious bodies
Financial impact	Low/medium

Our analysis

- This measure aims to encourage individuals to contribute to NGOs and religious bodies

Relevant considerations to avoid unintended consequences

- To clarify if the measure will apply to non-resident individuals.
- List of approved NGOs and religious bodies.

Contribution to individual pension schemes

Affected persons	Individuals
Effective date	Assumed to be July 2021
Conditions	(i) Up to Rs 30,000 (ii) Individual pension scheme
Financial impact	It depends

Our analysis

- It is hoped that contributions to existing pension scheme would also qualify for the exemption.
- It appears that the exemption applies irrespective of the CSG obligations.
- Ideally, the tax system of retirement pensions should be reviewed to ensure that the individual is not penalised in the long run.

Relevant considerations to avoid unintended consequences

- To clarify if the measure will apply to non-resident individuals.
- Contributions to foreign pension schemes.

Fiscal analysis

Corporate tax

Tax credit on acquisition of patents

Affected persons	Biotechnology and pharmaceutical companies
Effective date	Not announced
Conditions	Not announced
Sectors	Pharmaceutical
Qualifying assets	Patents
Financial impact	Low/Medium
Time limit	Not announced

Our analysis

- This measure will not benefit companies engaged in the manufacture of pharmaceutical products whose income are already exempt.
- Companies engaged in the pharmaceutical industry will be able to benefit from a 100% credit on the costs of acquisition of patents.
- The incentive is a credit so that it will not benefit a company with a tax loss.
- To clarify the impact if the credit applies irrespective of the fact that the company may already benefit from annual allowances.

Foundations and trusts-substance requirement

Affected persons	Foundations and trusts
Effective date	Not announced
Objective	Compliance with OECD standards
Financial impact	It depends

Our analysis

- A company includes a trust and a foundation under section 2 of the ITA.
- The exemption introduced since FMPA 2018 already applies to a foundation and trusts provided they comply with the relevant prescribed conditions.
- If it is felt that this change is required to achieve certainty, then it is welcomed to the extent that the legal form a business is undertaken does not influence its tax results.

Investment tax credit for manufacturing companies

Affected persons	Manufacturing companies
Effective date	Not applicable
Conditions	Manufacture of certain qualified products
Sectors	Manufacturing sector
Financial impact	It depends

Our analysis

- This measure is welcomed as it confirms the policy decision to grant a maximum of 10 years for any unrelieved tax credit may be carried forward.

110% deduction in respect of direct expenditure on locally manufactured products

Affected persons	Large manufacturers
Effective date	Not announced
Territorial restriction	Yes
Conditions	Manufactured products by SMEs
Financial impact	Low to medium

Our analysis

- Direct expenditure on purchase of products from local SMEs manufactured locally will qualify for a 110% deduction.
- The tax incentive may be eroded in the long run, if the company incurs a tax loss and is unable to utilise its tax loss as a result of the 5 years restriction.

Implementation considerations

- To define "large" manufacturers: this may be based on the yearly turnover, cost, number of employees or tangible assets.

Double deduction on research and development

Affected persons	Individuals and companies
Effective period	1 July 2022 to 30 June 2027
Conditions	i. Applicable in the year expenditure is incurred; ii. The R&D should be carried out in Mauritius; and iii. No annual allowance has been claimed on the R&D
Sectors	All
Financial impact	Double deduction on expenditure incurred

Our analysis

- The current double deduction available for qualifying expenditure incurred with regards to R&D costs has been extended for another 5 years.
- Appropriate evidence should be kept to substantiate the nature of the expenditure and the fact that the research and development is performed in Mauritius.
- Consideration should be given on whether any loss that results from the 100% deduction will be subject to the 5 years restriction.

Double deduction on expenses relating to international accreditation

Affected persons	Private health institutions
Effective date	Not announced
Financial impact	Low

Our analysis

- Expenses on international accreditation will qualify for a 200% deduction.
- The incentive will only be relevant if the entity has is able to utilise the extra deduction that may be unrelieved as a result of the 5 years restriction on the utilisation of tax losses.

Contributions to COVID-19 Vaccination Programme Fund

Affected persons	Individuals and enterprises
Effective date	Not announced
Sectors	All
Financial impact	Low to medium

Our analysis

- A deduction is possible at the time the person submits the annual tax return.
- An individual may carry forward any unrelieved deduction for a maximum period of two subsequent years.

Double deduction on research and development expenditure

Affected persons	Companies
Effective date	Not announced
Scope	Market research and product development should be targeted at the African market
Sectors	Manufacturing
Financial impact	Low/Medium
Other implications	Tax rate of 3% on export

Our analysis

- An additional 100% deduction of the amount of the expenditure incurred, from the taxable income of manufacturing companies.
- Tax benefit may be eroded in the long run if the company has tax losses that remain unrelieved.
- Relevant companies should be able to demonstrate the intention to export to the African market and the nature of the expenses.

Corporate tax rate of 3% for private universities

Affected persons	Private universities
Effective date	Not announced
Conditions	Mauritius based activities
Sector	Tertiary education
Financial impact	It depends
Restrictions	Not announced
Time limit	Not announced

Our analysis

- CSR would apply on the net income of the private universities.
- Clarification is required for private universities already set up.
- Some educational institutions qualify as charitable institutions so that the concessional tax rate would not apply.

Double deduction on the acquisition of specialised software and systems

Affected persons	Persons engaged in a business
Effective date	Not announced
Conditions	Nature of asset acquired
Sectors	All
Financial impact	Extent varies

Our analysis

- Specialised software and systems should be defined and documentary evidence is critical.
- Deduction in respect of incidental expenses to the acquisition cost should be clarified.
- No territorial restriction for the supplier of the software.
- To clarify if 200% deduction will apply if software treated as non current asset for financial reporting purposes.
- Incentive may be nullified in the long run if the person is in a tax loss position as a result of the 5 years limitation on the utilisation of tax losses.
- Reverse charge may apply on the acquisition of software by VAT registered persons.

Exemption for employees of asset and fund managers extended by an additional 5 years

Affected persons	Employees of asset and fund manager
Conditions	Licenced by FSC on or after 1 September 2016 Management of an asset base of more than USD 100 million
Sectors	Financial

Our analysis

- This measure is expected to enhance the asset and fund management business in Mauritius.
- CSG and NSF apply irrespective of the income tax exemption.

Extension of tax holiday

Affected persons	Overseas family office
Scope	Licence issued by FSC on or after 1 September 2016
Sectors	Financial
Time limit	5 years

Our analysis

- To clarify if measure will apply irrespective of whether the corporation is issued with a Single or Multiple Licence.
- As is the case, the company should satisfy the substance requirements as prescribed by the FSC and ensure minimum employment.
- Any loss incurred during the exemption period is not allowable.

New incentive framework : Investment certificate

Affected persons	Companies
Scope	Newly set up companies
Conditions	Registration with the EDB
Sectors	See next slide
Financial impact	May be significant

Our analysis

- We presume that the income of the company will be exempt for 8 years.
- The exemption on land transfer tax and registration duty will apply to immovable property used for business purposes. To clarify if the exemption will also apply to the counter party to the transaction.
- Companies engaged in healthcare, nursing and residential care services: services will be zero rated for VAT purposes. In other cases, the respective supplies will be exempt.
- To clarify the scope of the measure on 5% tax credit on new plant and machinery available for the 3 years up to 30 June 2023.

Sectors/Activities concerned

- Aquaculture
- Industrial fishing
- Seafood processing
- High tech manufacturing
- Pharmaceutical Research and Manufacturing
- Agro processing
- Food processing
- Healthcare, Biotechnology and Lifesciences
- Nursing and Residential Care
- Digital Technology and Innovation
- Marina
- Tertiary education
- Seeds production
- Others, as may be approved by the EDB

New incentive framework : Export Development Certificate

Affected persons	Licensed company
Effective date	Assumed to be as from FY 21
Conditions	Registration with the EDB
Sectors	Financial
Financial impact	It depends

Our analysis

- This measure aims to encourage the setting up of export oriented enterprise.
- Income tax at the rate of 3% applies on the export of goods
- CSR would apply on the taxable income of the licensed company.
- Other non-fiscal incentives include : freight rebate scheme, trade promotion and marketing scheme, subsidy on the cost of Credit Guarantee Insurance Premium and preferential port and handling charges.

New incentive framework : Premium Investor Certificate

Affected persons	Approved business
Effective date	Assumed to be as from FY 21
Conditions	Registration with the EDB and minimum investment of Rs 500 million.
Sectors	Financial
Financial impact	Various incentives to be negotiated

Our analysis

- The incentives are conditional to the approval of a technical committee and the MOFED.
- Clarity is required on the applicable fiscal incentives.

Fiscal analysis

Value Added Tax

Exempt bodies

Affected persons	National Empowerment Foundation and New Social Living Development Ltd
Effective date	Not announced
Conditions	Construction of social housing
Financial impact	Medium

Our analysis

- The effect of this measure is comparable to a zero rate of VAT on the construction of social housing.

Maximum VAT refund of Rs 300,000 on construction or acquisition of house or residential apartment

Affected persons	Individuals
Effective date	Not announced
Conditions	(i) New and first residence property costing Rs 3 million or less; (ii) Annual household income threshold of Rs 1 million.
Financial impact	It depends

Our analysis

- This measure appears to be independent from the Home Ownership Refund Scheme.

Implementation considerations

- Documentary evidences would be critical.
- The time limit for the construction/acquisition of the property and for making the refund should be clarified.

Fiscal analysis

Transaction tax

Reduction in tax on transfer of leasehold rights in State lands

Affected persons	Transferor and transferee
Effective date	1 July 2021
Scope	Direct or indirect transfer of hotels built on state land
Sectors	Tourism: Hotels only
Financial impact	Low to medium
Time limit	2 years period

Our analysis

- Total tax reduced from 20% to 10%.
- It does not appear that the reduction will apply on share transactions where the hotel company has leasehold rights in State lands.
- To clarify if the effective date will apply to the date of the transaction or the date the deed of transfer is executed.

Exemption on tax on leasehold rights in State lands on the sale of a residential unit in a senior living under a PDS

Affected persons	Buyer and seller
Effective date	Not announced
Scope	Sale of residential unit in a senior living under a PDS developed on state land
Sectors	Real estate
Financial impact	Medium to significant

Our analysis

- Full exemption on tax on leasehold rights in State lands.

Ratification of waiver of 50% registration duty on first registration of an electric autocycle/motorcycle

Affected persons	Transferee
Effective date	Already effective. Applies to purchases made before 31 March 2021
Conditions	First registration
Financial impact	Low/Medium
Limitations	Applies to electric autocycle/motorcycle
Time limit	Deed of sale should be registered by 31 December 2021

The rate of duty is being reduced as follows:

Power rating capacity	Registration duty payable upon first registration in Mauritius	
	Rs	
Not exceeding 1.5 kW	1,000	500
Exceeding 1.5 kW but not exceeding 7.5 kW	2,500	1,250
Exceeding 7.5 kW	3,300	1,650

- A deed of sale for the transfer of a motor vehicle should be registered within 15 days from the execution of the deed. The measure seems to provide an incentive for unregistered acquisition of electric autocycle/motorcycle to get registered with the Registrar General. However, it appears that the penalty of 50% of the duty leviable would still apply for late registration.

Fiscal analysis

Tax administration

TASS

Affected persons	Taxpayers with outstanding debts
Conditions	Compliance with FIAMLA, POCA and POTA
Sectors	All
Financial impact	Reduction of interests and penalties on debts due as at 31 October 2020
Time limit	Application should be made by 30 June 2021 and payment should be made by 31 December 2021.
Other stakeholders	SMEs have up to 31 December to make the relevant applications

Our analysis

- This measure provides the necessary legal framework in connection with TASS.
- Clarification should be provided on the interest and penalties on tax due under assessments which may be subsequently reduced by the MRA. Logically, the MRA should waive all the interests and penalties in such cases.

Extension for SMEs to implement TASS

Affected persons	SMEs
Extended date	31 December 2021
Sectors	Any
Financial impact	Varies

Our analysis

- SMEs will have up to 31 December 2021 to benefit from the TASS.
- This measure is welcomed, particularly if the tax arrear is justified.
- To define SMEs for the purposes of this measure.
- Amending legislation to define when the tax should be paid by the SMEs.

Return of dividend

Affected persons	Foreign limited partnerships
Effective date	Not announced
Sectors	Financial services
Financial impact	None

Our analysis

- This amendment is strictly not required on the basis that the concept of dividend does not apply to a partnership. This is irrespective of the fact the partnership is not tax resident in Mauritius and is taxed in the same manner as a company.

Statement of financial transactions

Affected persons	Banks, non-bank deposit taking institutions, insurance companies and money changers
Effective date	Not announced
Sectors	Financial services
Time limit	15 August of every year in respect of financial transaction of the preceding year
Other implications	Record keeping and data collection

Our analysis

- Enhanced reporting of significant financial transaction which may be artificially split.
- Improved transparency and accountability.
- The thresholds applicable for reporting certain financial transactions have been halved.

Record keeping

Affected persons	Persons engaged in a business
Effective date	Not announced
Sectors	All sectors
Financial impact	It depends

Our analysis

- Regulations on documentary evidences to be kept on business premises would be issued.
- This enables better data storage and management.
- Reduces uncertainties and improve tax audit process.

Implementation considerations

- Consideration should be given to electronic documentation and cross border transactions.

Information request for exchanging data with treaty partners

Affected persons	Companies engaged in cross border transactions
Effective date	Not announced
Financial impact	It depends on the quantum of the penalties

Our analysis

- Penalties would apply where taxpayers do not provide relevant information.

Implementation considerations

- The timeliness and reasonableness of any such request should be considered when the law is drafted.
- This measure should not be applied to all cases and the reasons for the non-compliance should be understood.

Time limit to issue VAT and income tax rulings

Affected persons	All taxpayers
Effective date	Not announced
Financial impact	"Invisible"

Our analysis

- The time limit of 30 days for the MRA to issue rulings will apply as from the date all the relevant information and documents are submitted.
- Documents and information may be submitted electronically.

Implementation considerations

- The request by the MRA should be unambiguous and not effectively tantamount to an audit.
- Requests from the MRA should be reasonable and be based on the facts and circumstances of the request.
- It is hoped that the time limit of 30 days is adhered to by the MRA upon submission of the relevant documents.

Independent Tax Panel

Affected persons	Persons with unsubmitted tax returns or involved in fraud
Effective date	Not announced
Sectors	All
Financial impact	Maybe significant

Our analysis

- Authorisation is no longer required from the Independent Tax Panel.
- Assessments may be issued for periods exceeding the statute of limitation.

Implementation considerations

- A complete understanding of the facts and circumstances is required as it cannot be assumed that all cases are attributable to fraud.

Fiscal analysis

International tax

EY

Extension of the 80% exempt income

Affected persons	Companies
Activities of affected persons	Licensed investment dealers and leasing of locomotives and trains
Effective date	Not announced
Conditions	Not announced
Sectors	Financial services
Financial impact	Low/medium

Our analysis

- The 80% exemption introduced by FMPA 2018 and the FMPA 2019 regarding certain income streams has been broadened to include income from licensed investment dealers and income from activities on the leasing of locomotives and train, including rails leasing.
- We presume that any substance requirements to be met by a qualifying company will be made by way of Regulations.
- It would be useful if the substance requirements could be discussed with the relevant stakeholders.
- The amending laws should clarify the first year of application of the exemption.

Dividend paid by a non-resident to another non-resident is not taxable in Mauritius

Affected persons	Non residents
Effective date	Not announced
Conditions	Non-resident shareholder
Sectors	Various

Relevant considerations to avoid unintended consequences

- The foreign tax credit mechanism should apply in the context of dividend distributed by an AC to a resident company to eliminate any double taxation. Alternatively, 80% of the dividend may be treated as exempt.

Our analysis

- This measure is relevant in the context of dividend payment to a non-resident shareholder by a non-resident company, particularly an AC that is required by law to be non-resident.
- With the amendment, the fact that the company is incorporated in Mauritius would not impact on the source of the dividend.
- However, dividend payment by an AC to a resident company, including a company with a Global Business Licence, would be subject to tax in Mauritius as the dividend would be considered to be Mauritian sourced.

Other matters

10% tax on winnings: winners of Lotterie Vert

Affected persons	Individuals
Effective date	Not specified
Conditions	Winnings on a given date should exceed Rs 100,000
Limitations	Winnings below Rs 100,000 are not liable to the 10% withholding tax
Sectors	Gambling
Financial impact	Low/medium
Other implications	Compliance by operators to withhold tax

Our analysis

- The 10% tax on winnings introduced in 2018 will also cover winners of Lotterie Vert.
- Furthermore, the statement of winnings under section 123E of the ITA will apply to winnings exceeding Rs 20,000 instead of Rs 50,000.

Implementation considerations

- The operators should ensure that their systems are able to cope with the change.

Glossary

Authorised Company	AC
Base Erosion and Profit Shifting	BEPS
Contribution Sociale Généralisée	CSG
Corporate Social Responsibility	CSR
Financial Services Commission	FSC
Finance (Miscellaneous Provisions) Act 2018	FMPA 2018
Finance (Miscellaneous Provisions) Act 2019	FMPA 2019
Financial Intelligence Anti Money Laundering Act	FIAMLA
Global Business Corporation	GBC
Income Exemption Threshold	IET
Income Tax Act	ITA
Mauritius Revenue Authority	MRA
Ministry of Finance and Economic Development	MOFED
National Savings Fund	NSF
Organisation for Economic Co-operation and Development	OECD
Property Development Scheme	PDS
Prevention of Corruption Act	POCA
Prevention of Terrorism Act	POTA
Tax Arrears Settlement Scheme	TASS
Value Added Tax	VAT

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