Executive summary

On 29 July 2016, the Mauritian Minister of Finance and Economic Development, the Hon. Pravind Kumar Jugnauth presented the Budget Speech (the Budget) to the National Assembly. This was the first Budget of the Minister under the present regime. This Budget does not have any significant tax rate changes. The personal tax changes are aimed at widening the significance and scope of some of the exemptions and relief.

From a business perspective, various tax holidays have been introduced to certain entities. For example, the eight-year tax holiday on the business income of a registered company with the Small and Medium Enterprises Development Authority is being extended to certain qualifying new enterprises. Tax holidays profits have also been introduced for five years for the following entities: (i) a company providing treasury management center services; (ii) law firms with regional offices in Mauritius; (iii) investment banks issued with an Investment Banking and Corporate Advisory License; and (iv) Overseas Family Corporations. The tax holiday is eight years for a Global Headquarters Administration company licensed by the Financial Services Commission (FSC), provided that it has a minimum degree of substance. In the same context, personal income tax holidays have been granted to the following individuals for a period of five years: (i) an asset and fund manager by the FSC and managing a minimum asset base of US$100 million; and (ii) Foreign Ultra High Net Worth Individuals (HNWI) investing a minimum amount of US$25 million in Mauritius.
The Mauritius Revenue Authority (MRA) will be empowered to request an HNWI, defined as an individual with a yearly net income of more than Rs15 million or having assets of more than Rs50 million, to submit a statement of assets and liabilities.

The current scope of the investment tax credit available to certain manufacturing companies is being widened as from the financial year 2016/17.

In terms of the Value Added Tax (VAT) proposal, the Annex to the Budget Speech provides that it is being clarified that output tax should be accounted for by the registered person even though the person has neither issued an invoice nor received payment. This measure will have a significant impact on businesses that are not able to issue an invoice or request an advance payment for commercial or other reasons. The measure will also have a cash flow effect and lead to a timing mismatch where the contracting party with the registered person can claim the whole or part of the output tax. The interaction of this proposal with the income tax and accounting aspects of business transactions should also be understood.

With a view to treat nonresident service providers on a level playing field with resident service providers, the reverse charge provision will be applied to businesses who are not VAT registered.

Detailed discussion

Corporate Tax

Small and Medium Enterprises

Currently, a small company qualifying under a scheme referred to in section 5A of the Small and Medium Enterprises Development Authority (SMEDA) Act is exempt from income tax for a maximum period of eight consecutive years. The tax holiday of eight years is being extended to new qualifying enterprises set up by individuals or co-operative societies registered with the SMEDA.

With a view to eliminate unfair competition against existing small companies, a tax holiday will apply to all existing enterprises registered with SMEDA with an annual turnover of less than Rs10 million. To benefit from the exemption, the enterprises should be engaged in qualifying activities under the scheme.

The tax holiday will start as from the year of assessment 2016/2017; it will apply for a maximum period of four years. It is believed that the corporate tax exemption will also apply to the Corporate Social Responsibility charge.

Tax holidays for Global Business Companies

Various tax holidays will be provided to Global Business Companies as follows:

<table>
<thead>
<tr>
<th>Type of company/license</th>
<th>Maximum period for corporate tax exemption</th>
</tr>
</thead>
<tbody>
<tr>
<td>Companies with a Global Headquarters Administration license</td>
<td>8 years</td>
</tr>
<tr>
<td>Companies providing Treasury Management Center services</td>
<td>5 years</td>
</tr>
<tr>
<td>Law firms with their regional offices in Mauritius to provide legal advisory and international arbitration services to global business clients</td>
<td>5 years</td>
</tr>
<tr>
<td>Investment banks issued with an Investment Banking and Corporate Advisory License</td>
<td>5 years</td>
</tr>
<tr>
<td>Overseas Family Corporations</td>
<td>5 years</td>
</tr>
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Asset and Fund Managers licensed by the FSC which manage a minimum asset base of US$ 100 million will be exempt from personal income tax for a period of five years.

Foreign Ultra HNWIs who invest a minimum of US$25 million in Mauritius will be exempt from personal income tax and corporate tax for a period of five years.

Investment tax credit

A company engaged in the manufacture or production of the specified products is allowed to claim a tax credit (TC). The following measures in connection with the TC have been proposed with effect from financial year 2016/2017:

- There will be no minimum level of capital expenditure that should be incurred by a company in order to qualify for the TC
- Capital expenditure up to the financial year 2019/2020 qualify for the TC
The capital expenditure should be in connection with new plant and machinery excluding motor cars.

Any unutilized TC can be carried forward beyond five consecutive years of the year of acquisition.

Corporate Social Responsibility

Following the repeal of the Corporate Social Responsibility (CSR) guidelines, companies were able to allocate 2% of their chargeable income in accordance with their own CSR framework.

To ensure greater transparency in the application of the CSR funds, a National CSR Foundation (National Foundation) will be set up and managed jointly by the public and private sectors.

Companies will be required to contribute at least 50% of their CSR funds to the National Foundation. This will be increased to 75% in the following year. Companies may use the remaining balance to implement projects in accordance with their own CSR framework. Any unspent amount will be remitted to the National Foundation which will allocate the funds to six priority areas.

Deduction of tax at source mechanism

The deduction of tax at source (DTS) mechanism will be extended to services provided by accountants and tax advisers as well as management fees paid to individuals.

In the context of the DTS for nonresident entertainers and sportspersons, the DTS rate of 10% will be made final and an individual will also be required to apply DTS on any payment made to a nonresident entertainer or sportsperson.

The fact that the rate of 10% will be a final tax may imply that tax is being charged in a case where the nonresident has a tax loss.

Penalties

A penalty will be introduced on losses or a refund that has been overstated.

A taxpayer will also be allowed to express doubt on the interpretation and application of the law in his tax return and he will be treated as having made a full and true disclosure. Such a disclosure is expected to grant the taxpayer protection from interest and penalties where a genuine doubt has been expressed.

Criminal offense

The non-remittance of taxes withheld from payments and the VAT charged on supplies made to the MRA will constitute a criminal offense. It has been announced that the penalties will be increased.

VAT

Time of supply

It has been clarified that a supply is deemed to have taken place even though no invoice has been issued or payment has been made to the registered person.

Reverse charge provision

Persons who are not registered for VAT will be required to apply the reverse charge provision. The measure is aimed at ensuring a level playing field between domestic and local service providers. Licensees under the Financial Services Act will be outside the purview of this measure.

Removal of VAT on certain products

The Minister announced that VAT would be removed on certain products including plant, machinery and equipment to be used in the exploration and mining of seabed minerals.

Tax Administration

Time limit for submission of amended income tax returns

A time limit of two years is being introduced for the submission of amended tax returns for individuals and companies. The measure does not apply to arrears of emoluments.
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