Mauritius Budget 2019 Synopsis

Highlights and analysis of Mauritius National Budget 2019-2020

10 June 2019
Executive summary

BUDGET SPEECH 2019 - 2020: “EMBRACING A BRIGHTER FUTURE TOGETHER AS A NATION”
Foreword

“A budget which aspires to be modern, with emphasis on the environment, the social fabric, sport and wellbeing of Mauritians, whilst remaining responsible and not increasing the budget deficit (3.2%, as in prior year). Small planters are the biggest winners with MUR 25,000 per tonne for the first 60 tonnes of sugar. The budget provides continuity from a fiscal perspective which is always good as it creates a favourable investment climate. People want clarity, certainty and stability, and we have that!”

Gerald Lincoln
Country Managing Partner
The unemployment rate which is 6.9%, is now at its lowest level since 2001.

Foreign exchange reserves increased by MUR 117 billion to reach 241 billion, that is 94% and now represents 11.2 months of import cover.

Total expenditure is estimated at MUR 138.6 billion of which, 88% are recurrent expenditure.

The GDP growth rate is forecasted to be 3.9% in 2019 and 4.1% in 2020.

The overall budget deficit for 2019-20 will be MUR 16.9 billion, that is 3.2% of GDP.

MUR 70.5 billion of foreign direct investment (FDI) during 4-year period from 2015 to 2018.

... Statistics Mauritius is forecasting an inflation rate of 1.5% for 2019.

Total revenue is estimated at MUR 121.7 billion, comprising tax receipts of MUR 104.7 billion, non-tax and other revenue of MUR 10.7 billion and grants of MUR 6.3 billion.
Executive summary

Key facts

Business and Entrepreneurs

Human capital & Education

Digital

Sustainability

Fiscal measures

Budget lenses

Infrastructure & Social projects

Sectorial analysis

Human capital & Education

Digital

Sustainability

Fiscal measures

Budget lenses

Executive summary

Key facts

Budget lenses

Infrastructure & Social projects

Sectorial analysis

Business and Entrepreneurs

Human capital & Education

Digital

Sustainability

Fiscal measures

Budget lenses
Infrastructure and social projects

Ambitious economic and social infrastructure projects with privatisations and Public Private Partnerships to be further elaborated

Key facts

- Facilitate Private Sector Participation
- Sale of non-strategic assets
- Port Breakwater project: MUR 12 billion
- New airport terminal
- NHDC homes more accessible

Budget proposition

- The Government will dispose of certain non-strategic assets to reduce the level of government debt.
- PPP Act and the BOT Projects Act are being simplified to create opportunities for private sector entrepreneurs to invest in public sector projects.
- Continued investment in infrastructure projects such as a new terminal airport, expansion of the port capacity, road construction and upgrading.
- Investment in new gymnasiums, health tracks, market fairs, multi-use games areas across the island and expansion and modernisation of public hospitals.
- Improve affordability of housing by providing greater access to NHDC houses, increasing the exemption threshold for land and housing registration. Provides tax incentives and encourages Mauritians to become property owners.

Our point of view

- All over the world, evidence shows that business should be operated by the private sector, not Government. Also, Public Private Partnerships can be used as a mean to sustain continued growth in infrastructure projects. The legal framework was not conducive for such partnerships in the past. We therefore welcome the measures and await additional details.

- Other than obvious social benefits of these measures, this will also help sustain the construction sector over the next few years. Such investment in public infrastructure will help us match our ambition in becoming a high-income country.
Short term measures to support the sugar industry, MUR 695m is budgeted to promote the Mauritian tourism

**Key facts**

- **Sugar price for first 60 tons**
  - MUR 25,000

- **Modernisation of manufacturing industry**
  - MUR 1 billion

- **Export trade support**
  - MUR 120 million

- **MTPA advertising budget**
  - MUR 535 million

**Budget proposition**

**Sugar industry**
- Sugar price of MUR 25k per ton of sugar for the first 60 tons of sugar and waivers such as FORIP, 50% loan for fertilisers and SIFB insurance premium to support the sugar industry.
- National Biomass framework to be developed for the use of cane biomass including cane trash, for electricity generation.

**Manufacturing**
- A new framework will be established to assist manufacturing companies to modernise their processes under a new vehicle called ISP Ltd and to protect employment in case of liquidation.

**Tourism**
- Allocation of MUR 535m to the MTPA and an additional MUR 160m to increase the visibility of Mauritius and develop a new tourism brand to reposition Mauritius as a premium destination.

**Our point of view**

- The biggest winners of this budget are the small planters. These measures will help alleviate the financial difficulties for at least, the 2019 crop. However, these measures are only short term and do not address the long term competitiveness of our cane industry or help identify alternatives.

- The new framework is expected to improve the competitiveness of Mauritian products internationally and protect employment at the same time.

- Mauritius will benefit from greater visibility and will attract tourist arrivals from traditional markets as well as countries such as China, Saudi Arabia, Kenya, Scandinavian countries, Ireland and Eastern Europe.
Business and Entrepreneurs

New trading platform on SEM to help medium-sized enterprises to raise funds

Key facts

- **Ease of doing business**: 20th globally
- **New category of enterprises**: MME’s
- **Reduced interest rates**: LEMS I 3.9% LEMS II 4.25%
- **Business facilitation bill**: 25 amendments
- **DBM Micro-Credit Loan Scheme**: Up to MUR 500k

Budget proposition

- A new trading platform will be created on the Stock Exchange of Mauritius for medium-sized profitable enterprises that do not qualify for listing on the Official market and the DEM to raise capital.
- New category of businesses (Mid-market Enterprises (MMEs)) with annual turnover of MUR 50m – MUR 250m to benefit from favourable financing, USD and EUR credit line on export factoring, and access to Lease Financing Schemes and funding under SME Equity Fund.
- Several SME financing schemes have been extended and interest rates have been reduced under the including the existing SME Funding Scheme and LEMS I scheme.
- A new business facilitation Bill will be introduced to facilitate business start-ups, licensing and permits, port and airport clearance and protection of minority investors among others.
- Firms with revenue <MUR 10m in specific activities will have the option to pay 1% on their revenue as final income tax.

Our point of view

- We support this measure as access to funding will boost MME growth, create employment, and should attract more investors to our IFC.
- The introduction of this new category with supportive financing options is a positive move to support business and address the issue of financing for mid-size corporates.
- Reducing red tape is key to encourage and attract new businesses and create an environment conducive to doing business.
Human Capital & Education

Decent efforts made to invest in education and skills, but there are still opportunities for more

Key facts

- **Labour force**: 584k in 2018
- **Youth unemployment**: 25.1% in 2018
- **Unemployment**: 6.9% in 2018
- **Cost of Free Tertiary Education**: MUR 600 million
- **New MITD training centre budgeted cost**: MUR 219 million

Budget proposition

- Introduction of a “Post-Study Work Visa” to allow international students in ICT, Fintech, AI and Biotechnology to work for 3 years in Mauritius after undergraduate studies.
- Recruitment of 20 more international lecturers.
- Creation of a National Skills Matching Platform to address training requirements and directs job applicants towards the relevant employability scheme with the guarantee of a job.
- A number of measures announced to promote development of new skills such as the Introduction of a new programme focused on socio-emotional competencies “Leader in Me”.
- Other investments also done in ICT in primary education, inclusiveness, and accessibility to education.

Our point of view

- We commend the Government’s initiative to allow graduate in these fields to stay after their studies and contribute to the economy. We would encourage more of these measures to actively attract talent in these new fields of expertise to Mauritius beyond local graduates.
- Matching jobs to skills is a great measure to reduce youth unemployment. We expect this measure to be extended beyond tourism (pilot).
- We believe that the small incremental changes and improvement to the educational framework in our primary schools is required to match the gradual shift of Mauritius toward new industries which increase focus on the individual’s social and leadership skills.
Moving towards digital transformation
The evolving digital landscape in public sector, financial services and surveillance

Key facts

- **National Innovation & Research Fund**
  - MUR 100 million

- **AI Skills Development Programme**
  - 100 students

- **Free access to broadband internet**
  - 11,000 families

- **Recruit International Faculty**
  - 20 lecturers

- **Post-Study Work Visa**
  - 3 years

Digitalisation in Public Sector
- National Authentication Framework: Unique ID & Password for accessing e-services provided by government
- The e-health project as a major reform to make medical history of patients available to all hospitals across the country in real time

Surveillance
- 4,000 Intelligent Surveillance Cameras and 300 Intelligent Traffic Surveillance Cameras are installed as part of the Safe City Project
- Drone Team to be set up to increase surveillance and support targeted operations

Making Mauritius a FinTech hub
- EDB to avail services of “Idea Foundry” to identify appropriate technology & upgrade FinTech Sandbox Licensing Framework
- Introduce E-signatures & E-licenses (on pilot basis) & crowdfunding
- Develop data handling Code of Conduct to address cyber risks

Our point of view

- The public sector has operated in traditional ways. Such a digital transformation will bring in efficiency. While pursuing this transformative journey, Government should consider re-skilling or changing hiring criteria to build the workforce of the future, i.e. employees who are more technology-savvy.

- Whilst this may assist in combatting crime, there is a lack of transparency on where and for how long data will be stored. Since the Data Protection Act 2017 does not apply to sharing of personal data between public agencies, there is a risk of potential data misuse. Transparency on data protection measures can assist in wider adoption of such an initiative.

- FinTech and other disruptive technologies such as Crowdfunding applications are proven and already operating on a global stage. One of the main reasons for this success is ‘Trust’, which Mauritius can secure by strengthening the regulation on financial services.
**Sustainability**

Towards a “cleaner” and a more sustainable Mauritius

### Key facts

- **150% of cleaning expenditure is tax deductible**
- **2-day National Cleaning & Embellishment Campaign**
- **Reduction of 5% - 15% excise duty on hybrid cars**
- **Refund of MUR 2,000 per ton of recycled waste tyres**
- **Increase of export incentives for PET bottles by 200%**

### Budget proposition

- Setting up of a Centralised Cleaning Coordination (3C) Committee to coordinate and monitor cleaning activities across the island.
- Demarcation of cleaning activities amongst local authorities.
- Incentivising hotels to participate in national cleaning campaigns.
- Excise duty on environmental friendly vehicles/boats decreased/removed. Extension of the Bus Modernisation Scheme to subsidize the acquisition of buses with fully electric engines.
- Implementation of a Waste to Energy project to convert 1,000 tons of municipal wastes into 20 MW of electricity.
- 3C Committee to devise a ‘Segregation of Waste’ programme. Current focus is on PET bottles, with increase in incentives to export same.

### Our point of view

- This addresses some of the negative headlines on the poor state of some of our beaches and rivers. We therefore support this great initiative towards a “cleaner” and a more sustainable Mauritius.
- Though these are good measures, the Bus Modernisation Scheme contradicts the diesel compensation measure announced for individual bus operators. Also, taxi operators have not been incentivised to acquire environmental friendly vehicles.
- Good waste management initiatives but can be enhanced as Mauritius generated 543,000 tons of waste in 2018.
- The ‘Segregation of Waste’ programme should be extended to the recycling of other wastes such as carton, glass, metal, etc.
<table>
<thead>
<tr>
<th>Fiscal Measures</th>
<th>Executive summary</th>
<th>Key facts</th>
<th>Budget lenses</th>
<th>Infrastructure &amp; Social projects</th>
<th>Sectorial analysis</th>
<th>Business and Entrepreneurs</th>
<th>Human capital &amp; Education</th>
<th>Digital</th>
<th>Sustainability</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Fiscal measures</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
This is the fourth Budget presented by the Minister under the current regime. Unlike the previous Budgets, this Budget does not have any significant fiscal changes. This was no surprise to us.

While most Mauritians were expecting that the budget would take draconian measures to finance the increase in old age retirement pension, the pleasant surprise was that the Minister did not announce any drastic measures.

The Minister banked on the business dynamism that prevails in the country. He did not raise the standard rate of VAT, but instead zero rated several goods and services. This can be viewed as a cut in the “standard” rate of VAT, although there are not many goods that will be subject to the VAT rate of 0%.

The Minister announced that a number of amendments will be made to the revenue laws to correct identified loopholes, improve tax compliance and administration and streamline certain provisions. It would, however, be useful if the draft legislations and regulations could be circularised to all stakeholders for consultation to avoid any knee-jerk reactions.

We are disappointed to see that there is no change to the time limit on the use of tax losses, despite the representations made. The existing law is not fair as losses cannot be carried back and group relief is only available in limited cases. It must be remembered that certain changes that are made in the law may not necessarily mentioned in the Budget Speech; in the past, such changes included both welcoming and non-welcoming measures.

Some of the key financial measures are summarised in the following pages. We would recommend you read our full EY Tax Alert to obtain more detailed comments on these measures.
Fiscal measures

**Introduction of CFC rules**

- The principle of tax sovereignty may no longer be appropriate with the introduction of Control Foreign Corporation ("CFC") rules. We are not aware of cases where entities have been set up outside of Mauritius to shift profits to countries that have a lower tax rate.

**Tax regime of banks**

- Income from banking transactions with Global Business companies would be outside the scope of the bank levy;
- The levy rate of 4% is being increased to 4.5% where the relevant income is more than MUR 1.2 billion;
- A cap will be introduced on the income that is subject to the rate of 4.5%;
- The levy would not be deductible for corporate tax purposes;
- Foreign tax credit would not be allowed; and
- The reduced rate of 5% would apply to a bank that has a taxable profit that is higher than the taxable profit for the year of assessment 2017/2018 if the bank grants at least 5% of its new banking facilities to certain categories of businesses.
It would appear that the law would be fine-tuned to remove any doubt or uncertainty on its application. In our view the scope of the anti-avoidance section on the arm’s length test is clear and unambiguous and no change in the law is warranted.

A notice by the Registrar-General for additional duty or tax would be accompanied by a concise valuation report as well as the following:

► Reasons for making the assessment;
► Basis of assessment;
► Valuation methodology; and
► Comparable transactions, where relevant.

The Registrar-General would also amend its IT system so that information on immovable property transactions would be available in the public domain: the identity of the contracting parties would not be disclosed.

These are welcoming measures that would assist the relevant parties and would hopefully decrease the number of conflicts on the value of immovable properties.
Mauritian sourced dividend received by a partnership or succession

The law would be clarified so that the share of dividend income in a partnership or succession is considered for the purposes of the Solidarity Levy ("SL")

We have already emphasised more than once that the inclusion of Mauritian sourced dividend for the purposes of the SL is contrary to the principle of single taxation and the levy in its current form does not place all shareholders on an equal footing. A resident individual may be taxed at a rate of nearly 20% so that cases of tax arbitrage may occur.

Dividends received by a partnership or succession may not be passed on to the associates: for instance, the partnership or succession may incur a loss. Individual associates may thus be taxed on an income they may not receive.

We doubt it if any corresponding relief would be granted where a partnership incurs a loss on its Mauritian sourced dividend.

Resident partnerships and successions would have to provide individual associates the relevant information so that the associates are able to discharge their compliance obligations.
EY contacts

Gerald Lincoln
Country Managing Partner
Gerald.Lincoln@mu.ey.com
+230 403 4777

Ryaad Owodally
Partner
Ryaad.Owodally@mu.ey.com
+230 403 4717
About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

Disclaimer

The information in this document is intended to provide only a general outline of the subject covered. It should not be regarded as comprehensive or sufficient for making decisions, nor should it be used in place of professional advice.

Accordingly, Ernst & Young accepts no responsibility for loss arising from any action taken or not taken by anyone using this Alert.

If you require any further information or explanations, or specific advice, please contact us and we will be happy to discuss matters further.