

Budget 2005

Painting a clearer picture

The Honourable Pravind K. Jugnauth presents this Government's last budget on 4 April 2005.

Dear Clients and Friends,

We are pleased to present our Newsletter highlighting the main economic, social and fiscal measures proposed in the budget presented by the Honourable Pravind K. Jugnauth, Deputy Prime Minister and Minister of Finance and Economic Development.

We trust that this overview of the Budget 2005/2006 will be of assistance to you in assessing to what extent the proposed budgetary measures will affect your personal and business affairs.

Kemp Chatteris Deloitte

Budget Night

4 April 2005



The Budget at a glance

The Honourable Pravind Kumar Jugnauth presented the fifth and last budget of the current Government as a 'Budget de continuité', prepared around the long-term vision of transforming Mauritius into a high-income economy. With a view to support a higher growth rate and improve quality of life, a 'big-push approach' to investment built on seven priorities is proposed. The most important measure is the extensive reduction of duties with the aim of making Mauritius a duty free island and stimulating growth.

Customs Duty

- Customs Duty abolished on numerous items under the bold and ambitious decision to transform Mauritius into a duty-free shopping paradise.

Personal Tax

- Basic personal deduction increased by Rs5,000.
- Deduction for dependent spouse raised by Rs20,000.
- Emoluments relief ceiling increased by Rs10,000.
- Deduction for dependent handicapped person increased by Rs20,000.

Corporate Tax

- Tax incentives available to spinning companies extended to weaving and dyeing companies.
- Tax losses available for transfer on merger of manufacturing companies.
- Introduction of Knowledge Hub Investment Certificate Scheme providing 10 year tax holiday.

Value Added Tax

- Payment of 30% of tax claimed under a VAT assessment required on lodging of objection.
- Zero-rating of aeronautical services, jet fuel and bread.
- Exemption of VAT on buses extended to all licensed public bus operators.

Capital Gains Tax

- Capital Gains Tax on land parcelling reduced from 24.2%, 30.25% and 36.3% to 20%, 25% and 30% respectively.

Registration Duty

- Reduction of registration duty on transfer of immovable property from 13.2% to 10%.
- Decrease in duty payable by companies falling under the Investment Promotion Act on acquisition of immovable property from 5% to 2.5%.

Excise Duty

- Excise duty on motor vehicles from 1501 to 1600 cc cut to 95% and the duty on dual purpose vehicles reduced to 40%.

Fiscal Measures

Customs duty

Customs duty abolished on:

- Basic foodstuffs including rice and noodles, calculators, cash registers, cellular phones, clothing items, electric fans, energy saving lamps, fax machines, fluorescent tubes, gas cookers, jewellery, leather goods, PABX, paper from size A3 to A5, photocopying machines, pressure cookers, rechargeable batteries, refrigerators, sport goods, sportswear, vacuum cleaners, washing machines, watches.

Our view

- The abolition and reduction in customs duty on 1,850 items as part of the Government objective in making Mauritius a duty-free paradise and improving the purchasing power of all Mauritians is a visionary initiative.
- However, the constant decline of the value of the rupee against major currencies and inflationary pressures must be controlled. Otherwise, the laudable objective of bringing down prices on a wide range of items might not be achieved.

Personal tax

- Basic Personal deduction will be increased from Rs80,000 to Rs85,000.
- Deduction for dependent spouse raised from Rs65,000 to Rs85,000.
- Ceiling on emoluments relief raised by Rs10,000 to reach Rs135,000.
- Additional allowance for dependent handicapped person raised from Rs50,000 to Rs70,000.
- Ceiling for medical expenses incurred in Mauritius and overseas raised to Rs25,000 and Rs35,000 respectively.

Our view

- The alignment of deduction for dependent spouse with the basic personal deduction is commendable.
- The combined increases in personal deduction, dependent spouse and emoluments relief will result in a maximum tax saving of Rs10,500 for top-rate taxpayers.

Corporate tax

- Knowledge Hub Investment Certificate holders will enjoy a tax holiday of 10 years.
- Investment in weaving and dyeing companies will attract a tax credit of 60 percent and the profits will be exempt from tax for a period of 10 years.
- Transfer of unrelieved losses of manufacturing companies is now extended in cases of merger.

Our view

- The incentives for promotion of the 'Knowledge Hub' are in line with Government's long term view on education and a service oriented economy.
- Textile companies contemplating vertical integration will appreciate the tax incentives granted for weaving and dyeing activities.
- The measures for manufacturing companies are welcome. However, group relief measures announced in the 2003 budget have not yet been implemented.

Value Added Tax

- VAT exemption on new buses previously applicable to bus operators with a fleet in excess of 75 buses, is extended to all licensed public transport bus operators.
- Provision of aeronautical services and supply of kerosene including jet-type fuel will be zero-rated.
- Construction costs of tertiary campus by Knowledge Hub Investment Certificate Holders will be VAT exempted.
- Payment of 30% of the tax claimed will now be required on lodging an objection.

Major customs duty reductions	From %	To %
Perfumes and deodorants	80	15
Colour TV	80	30
Box files and folders, carpets, cosmetics and toiletries, diaries and note books, paintbrushes	80	40
CD players, microphones, MP3 players, instant noodles	40	15
Wall/Ceiling lighting fittings	80	55
Canned vegetables, microwave, electronic ovens, paints	40	20
Chairs and sofas	80	65

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Value Added Tax - Cont'd

Our view

- The exemption for all road service licence holders should provide a level playing field for all licensed transport operators.
- The 30% deposit will not be welcome by VAT registered persons in cases where assessments are felt to be arbitrary and unjustified.

Capital gains tax

- The rates of capital gains tax payable on the transfer of a lot forming part of a morcellement will be brought down as follows:

Period of Ownership	From %	To %
Up to 5 yrs	36.30	30
Between 5 and 10 yrs	30.25	25
Between 10 and 15 yrs	24.20	20

Registration duty

- Registration duty on the transfer of immovable property will be reduced from 13.20% to 10% as from 2 May 2005. In addition, the 10% surcharge imposed on top of the duty payable on the registration of certain documents is being scrapped.

Our view

- The reduction in registration duty on transfer of immovable property is long overdue. It remains to be seen whether it will revive the property market.

Excise duty

- Imported and locally-manufactured cigarettes will now be subject to the same rate of duty and be classified by the Tobacco Board in four categories and each category will carry a different duty rate.
- Excise duty on whisky of 54 degrees imported in bulk for bottling will be increased from Rs100 to Rs200 per litre.
- Motors cars with an engine capacity between 1,501cc and 1,600cc will attract a duty of 95% instead of 135%.
- The duty on certain types of dual-purpose vehicles will be reduced to 40%.

Personal Reliefs and Allowances

Income Year Ending 30 June		2005 Rs	2006 Rs	Increase %
1.	Basic personal deduction	80,000	85,000	6.25%
2.	Deduction for dependent spouse	65,000	85,000	30.77%
3.	Deduction for handicapped person including dependent child	50,000	70,000	40.00%
4.	Emoluments relief	125,000	135,000	8.00%
5.	Deduction for medical expenses			
	Expenses incurred in Mauritius	20,000	25,000	25.00%
	Expenses incurred outside Mauritius	30,000	35,000	16.67%

Budget Summary

The Honourable Minister of Finance presented the fifth and last Budget of this Government's mandate, '*un budget de continuité*'. As part of the long-term vision of transforming Mauritius into a high-income economy, the Finance Minister considers it vital to take a 'big-push' approach to ensure sustained investment in the modernisation of infrastructure, on stimulating private investment and productivity and on creating new space for investment.

Seven priorities have been set out in this budget:

1. Modernising the physical fabric of Mauritius.
2. Putting our industries and our workers on a more solid foothold to invest, to compete and to create wealth.
3. Opening up substantial new economic space for investment.
4. Securing greater social protection for Mauritians.
5. Further improving the quality of life in Mauritius.
6. Protection of the purchasing power of the population.
7. Further strengthening the finances of the nation.

Modernising the physical fabric of Mauritius

Transport:

- Fiscal and investment measures in the air, maritime and land transport sectors.
- Extension of zero-rating to provision of aeronautical services and supply of kerosene including jet-type fuel.
- Extension of VAT exemption on acquisition of new buses to all licensed public transport bus operators.
- Provision of customs duty exemption on equipment and vehicles used for collection, transportation treatment of solid waste for companies engaged in solid waste management activities.

Energy:

- The Government plans investment and demand management focusing on key aspects of efficiency and safety, including reduction of duty on energy saving devices and appliances.

Water resources:

- Key investment in modernising and expanding the infrastructure for harnessing and distributing water.

Putting our industries and our workers on a more solid foothold

Agriculture:

Government renews its commitment to ensuring the long term viability and sustainability of the sugar industry. Measures announced cover:

- Implementation of the Accelerated Action Plan for the Sugar Industry.
- Creation of Energy Equity Fund to own 6-8% of the equity capital of all present and future private independent power producers over and above the shareholding of the Sugar Investment Trust (SIT).
- Setting up a Rs18M state-of-the-art hydroponic village.

Manufacturing:

- Abolishing duty on packing and packaging materials, a range of industrial inputs, trailers and special purpose vehicles.

- Extension of the concessions of take over of unrelieved losses in cases of merger.
- Extension of 10 year tax holiday and special tax credit of 60% for equity investments made in spinning companies to cover weaving and dyeing activities.
- Incentive registration duty on land acquisition for manufacturing companies reduced from 5% to 2.5% until the end of 2007.
- Revamping of the Scheme for Attracting Professionals in Emerging Sectors (SAPES) to attract high level talent in all sectors and issuing of work permits for applications recommended by the Board of Investment (BOI) in less than one week.

Opening more investment space

In elaborating on the growth priority of the budget, the Finance Minister announced a historic decision to make Mauritius a Duty Free Island with the national purpose of transforming Mauritius into a shopping paradise for tourists.

The Government collects over 4 billion every year from customs duty. The Treasury cannot afford to sacrifice that much revenue in one go. Accordingly, the reduction is phased over a period of 4 years, with the first phase effective as from 5th of April 2005.

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Other measures to further support the Duty Free Shopping Project:

- Setting up of a Shopping Mall Scheme.
- Repeal of the Shops Act which will allow all retailers, except those dealing in alcoholic beverages, free to choose their opening hours.

Social protection

In continuity with the previous year's budget, much emphasis has been put on social measures for the protection of the disabled, elderly and the economically vulnerable groups and the alleviation of poverty with an expected cost of Rs6.8bn.

Quality of life

As in last year's budget, the Finance Minister has made extensive provisions for measures to improve the quality of life by investing in health care, education, arts and culture, law and order, the judiciary, the environment, fire services, housing and youth and sports.

Measures to encourage investment in education include a new Knowledge Hub Investment Certificate Scheme whereby investors constructing a tertiary education campus enjoy a 10 year tax holiday and VAT exemption on construction costs.

Protection of consumers

The 2005/2006 budget builds on measures announced in last year's budget to protect the purchasing power of consumers. The Finance Minister announced duty removal and reduction on the widest possible range of consumer products and linked this with the national purpose of making Mauritius a Duty Free Island for not just a few but for all consumers.

Strengthening the finances of the nation

The Finance Minister announced further tariff reductions bringing the total of tariff cuts in this budget to 1,850 tariff lines representing three quarters of the lines currently subject to duty.

Following the cuts, 80% of the tariff lines will become duty free and the average tariff rate will come down from 17% to 7%. In line with the vision of a Duty Free Island, the Government expects in four years' time to have removed duty on virtually all items. The estimated revenue foregone under the first phase of duty exemption and reduction will amount to Rs1.4bn.

Together with the tariff revisions, the Government has proposed reform of excise duties, increases in income tax allowances and reductions in registration duty with a total cost of over Rs1.7bn.

Economic Review

Table 1 - Main Economic Indicators

	2002	2003 ¹	2004 ¹	2005 ²
GDP at market prices (Rs Bn)	142	157	175	193
GDP growth rate (%)	1.8	4.3	4.2	5.1
Unemployment rate (%)	9.7	10.2	8.4	9.5
Inflation rate (%)	6.3	5.1	3.9	5.7
Balance of Visible Trade (Rs Bn) – CY	(10.7)	(12.9)	(16.6)	(14.7)
Overall Balance of Payments (Rs Bn) – FY	5.9	9.1	3.2	(1.2)
Net International Reserves (RM) – CY	44,042	48,901	50,613	51,800

1: revised estimates 2: forecasts

Sources: CSO, MoF, BoM and MCB estimates

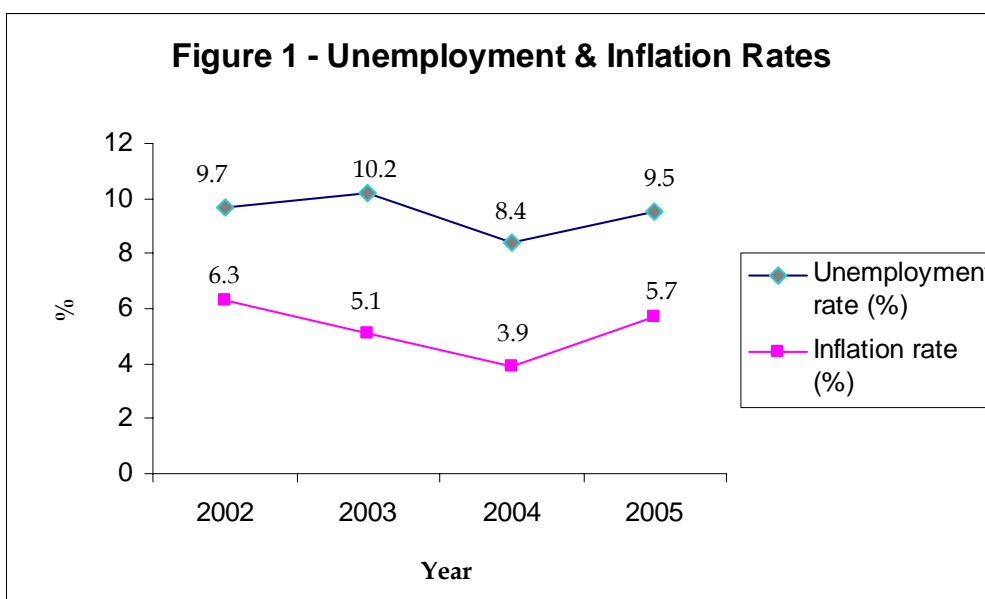
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Table 2 - Other Selected Economic Indicators

	2002	2003 ¹	2004 ¹
Investment rate (%)	1.9	10.0	5.5
Consumption rate (%)	3.2	4.5	6.3
Savings rate (% of GDP at market prices)	27.3	25.4	23.3

1: revised estimates

Sources: CSO



Unemployment has been a major problem over the past four years. The unemployment rate was reported at 8.4% in September 2004 based on latest continuous multipurpose household survey.

The inflation rate decreased between 2002 and 2004 but it is expected to reach 5.7% in 2005.

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Public Finance

	2001/02	2002/03	2003/04	2004/05 ¹	2005/06 ²
Total Government Revenue and grants	25,270	30,298	33,676	36,493	38,595
Total Government Expenditure	33,569	39,533	42,567	45,561	48,141
Net Budget (Deficit)/Surplus	(8,299)	(9,235)	(8,892)	(9,068)	(9,546)
Total Government Expenditure includes					
Net Interest Payment and Management/Service Charges	4,589	6,473	6,690	7,395	6,923
Net Capital Repayment (Internal and External)	708	836	882	922	1,013
Contribution to Consolidated Sinking Fund (Internal Debt)	1,017	1,151	1,227	1,667	2,063
Total Public Debt Servicing	6,314	8,460	8,799	9,984	9,999

Source: Ministry of Finance

¹ Revised Estimates ² Budget Estimate

For the year 2005/2006, the budget deficit is estimated to reach Rs9,546M. The stock of public debt is estimated to reach Rs105,500M at end of June 2005.

Public Debt

	Actual			Estimates
	Jun 2002	Jun 2003	Jun 2004	Jun 2005
Internal Public Debt	67,415	86,413	85,002	96,331
- Medium & Long Term (at nominal prices)	11,808	12,274	16,669	37,131
- Short Term (at nominal prices)(1)	55,607	74,139	68,333	59,200
External Public Debt	8,785	9,074	8,445	9,146
- Long Term	8,465	8,550	8,320	8,946
- Short Term (2)	320	524	125	200
Total Public Debt	76,200	95,487	93,447	105,477
Surplus cash balance (at end of period)	3,786	10,566	644	-
Total Public Debt (excluding surplus cash balance)	72,414	84,921	92,803	105,477
External Debt of Public Corporations	18,597	17,629	15,221	15,200
Total Public Sector Debt	91,011	102,550	108,024	120,677
- As % of GDP	66.20%	68.50%	65.30%	66.0%

Source: Ministry of Finance

(1) Value at cost (2) Foreign Investment in Treasury Bills

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The Medium Term Expenditure Framework (MTEF) remains the Government's most comprehensive debt management strategy to curb the growing public sector debt and to improve public expenditure management. This year MTEF is extended to Social Security, Wastewater, Environment, Solid Waste and Health.

With the objective of minimising debt servicing cost within acceptable risk levels, the Government proposes:

1. To improve foreign currency debt management operations.
2. To diversify and lengthen the maturity structure of public debt.
3. To develop a secondary market to trade Government securities.

**Table 5 CONSOLIDATION OF BUDGETARY CENTRAL GOVERNMENT ACCOUNTS
(In Million Rupees)**

	Actual			Estimates	
	2001/02	2002/03	2003/04	Revised	Budget
				2004/05	2005/06
REVENUE & GRANTS					
Individual Income Tax	1,618	1,859	2,265	2,630	2,900
Corporate Tax	1,875	2,154	2,405	3,260	3,700
Taxes on Property	1,299	1,375	1,469	1,659	1,755
Excise Duties	2,299	2,332	2,408	2,950	2,900
Value Added Tax	7,050	9,812	11,189	12,470	13,400
Other Domestic Taxes on Goods and Services	1,471	1,813	1,934	2,130	2,655
Customs Duty and Excise Duty on Imports	5,894	6,523	7,385	7,825	7,540
Other Tax Revenue: Stamp Duty	13	12	13	13	14
1 Tax Revenue	21,519	25,878	29,068	32,937	34,864
2 Non-Tax Revenue	3,307	4,033	3,920	2,572	3,230
3 Capital Revenue	128	23	70	419	5
4 Total Derived Revenue	24,954	29,935	33,058	35,928	38,099
5 Grants	317	363	618	565	496
6 Total Derived Revenue And Grant	25,270	30,298	33,676	36,493	38,595
7 Current Expenditure	27,881	31,538	34,885	38,026	40,375
8 Capital Expenditure	5,043	7,015	7,078	6,918	7,853
9 Total Derived Expenditure	32,925	38,553	41,963	44,944	48,228
10 Lending Minus Repayments	645	980	604	617	(87)
11 Total Derived Expenditure And Lending Minus Repayments	33,569	39,533	42,567	45,561	48,141

Kemp Chatteris Deloitte would be pleased to advise readers on how to apply the principles set out in this budget brief to their specific circumstances.

We recommend that professional advice be sought, as the budget brief has been written in general terms and therefore cannot be relied on to cover specific cases.

Kemp Chatteris Deloitte does not accept any liability for loss to any person from acting or refraining from acting in reliance on any material in the budget brief.

The budget proposals are subject to amendments during the coming parliamentary debates. Once the proposals are incorporated in the Finance Act 2005, it is intended to follow up this budget brief with an update to our manual the Kemp Chatteris Deloitte consolidated version of the Income Tax Act 1995 and Value Added Tax Act 1998.

Budget Night

4 April 2005

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Kemp Chatteris

3rd Floor, Cerné House
La Chaussée
Port Louis, P.O. Box 322
Mauritius

Tel: +230 203 8000

Fax: +230 208 8002

Email: kcd@deloitte-mu.com

<http://www.deloitte-mu.com>