

## Budget 2006

*We interpret. You act.*

The Honourable Ramakrishna Sithanen presents the Government's eagerly awaited first Budget.

*Dear Clients and Friends,*

*We are pleased to present our Newsletter highlighting the main economic, social and fiscal measures proposed by the Government's first budget presented by Honourable Ramakrishna Sithanen, Deputy Prime Minister and Minister of Finance and Economic Development.*

*We trust that this overview of the Budget 2006/2007 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, 9 June 2006*



### **The Budget at a glance**

*The Honourable Ramakrishna Sithanen presented the first budget of the new government as one to face the challenges of globalisation. With a view to improving the ease of doing business, opening up the economy and increasing the flexibility of the labour market, the budget includes bold and imaginative fiscal reforms to simplify the tax system.*

#### **Personal Tax**

- All personal reliefs consolidated into a single exemption.
- Gradual tax rate reduction to a flat rate of 15% in 3 years.
- New National Residential Property Tax introduced.
- Increase in car benefit from Rs12,000 to Rs48,000 / Rs60,000.
- PAYE on a cumulative basis.
- Interest, royalties and rental income taxed at source.
- CPS returns on a quarterly basis.

#### **Corporate Tax**

- A gradual reduction to a flat rate of 15% for all sectors over next 3 years.
- Annual allowances on a reducing balance basis.
- Annual allowance of 5% on non industrial buildings.
- Investment allowance of 25% removed.
- Current tax losses carried forward for maximum of 5 years.
- AMT rate increased from 5% to 7.5%.

#### **Value Added Tax**

- No change in the VAT rate or tax base.
- Registration threshold reduced to Rs2million.
- Threshold for monthly returns reduced from Rs12million to Rs10million.

#### **Registration Duty**

- Reduction of duty on transfer of immovable property from 10% to 5%.

#### **Customs Duty**

- Top rate reduced to 30%.
- Duty removed on 275 items used in industry and small businesses.
- Existing 4 categories of vehicles reduced to 2:
  - 1600 c.c. or less – 55%
  - Over 1600 c.c. – 100%

#### **Excise Duty**

- Taxation of spirits proportionate to absolute alcohol content.
- Categorisation of alcoholic products rationalised.

#### **Solidarity Levy**

- Temporary levy of 0.85% of turnover of profitable hotels and destination management companies for 4 years.

## Fiscal Measures

### Personal Tax

- All reliefs, allowances and deductions to be abolished and replaced by a new income exemption threshold divided into 4 categories - Rs215,000, Rs325,000, Rs385,000 and Rs425,000.
- A flat rate of tax of 15% to apply as from the income year ending 30 June 2010.
- Tax bands to be reduced to two over the next 3 income years – 15% on taxable income up to Rs500,000 and marginal top rate of 22½%, 20% and 17½%.
- Interest on bank deposits over 3 years and lump sum pension payments now taxable. Severance and retiring allowances are now wholly taxable.
- Interest income taxed at source if in excess of Rs120,000 in a year and at the rate of 15%.
- Introduction of a National Residential Property Tax. Will apply to any property-owning taxpayer with total income over Rs215,000 as from income year ending 30 June 2007. Charged at the rate of Rs10 per sq mt for residential land and Rs30 per sq mt for flats and apartments before set-off of municipal rates.
- Increase in car benefit ranging from Rs48,000 to Rs60,000.
- CPS returns are to be filed on a quarterly basis.
- Taxpayers are required to declare exempt income in their tax returns.
- Any individual owning two residences or more, an immovable property costing more than Rs2M, a car with an engine capacity over 2,000cc or a private pleasure craft is required to file a tax return.
- Taxation of Mauritians on income

remitted instead of worldwide income.

#### Our view

- The simplification of the personal tax system and the shift towards a flat tax rate of 15% are visionary measures and will serve to bolster individual enterprise. Moving 40,000 taxpayers out of the tax net demonstrates real political courage and determination.
- In spite of the uplift in taxable car benefit, a company car still remains an attractive perk.
- The National Residential Property Tax removes the discrimination against city-dwellers.

### Corporate Tax

- A flat rate of 15% to replace the present dual tax rates of 15% and 25% as from the income year ending 2010.
- The rate for non-tax incentive companies will be gradually reduced to 22½%, 20% and 17½% over the next 3 income years.
- Freeport activities that were previously exempt from tax are now taxable at 15%.
- Annual allowances will henceforth be calculated on a reducing balance basis instead of the straight line basis. The rates will be 30% for hotel buildings, 50% for computers and 35% for plant and machinery.
- Non-industrial buildings will now qualify for annual allowance of 5% on a straight-line basis as is the case for industrial building.
- Assets costing up to Rs30,000 each will qualify for 100% annual allowance.

- The investment allowance of 25% on new assets is scrapped.
- Tax losses, other than losses arising out of the new regime for capital allowances, will no longer be available for carry-forward beyond 5 years.
- Tax credits and holidays abolished subject to transitional provisions.
- The rate of Alternative Minimum Tax increased from 5% to 7½%.

#### Our view

- Adopting a single corporate tax rate and extending annual allowances to commercial premises are highly commendable initiatives. These measures will result in a level playing field for all economic operators and provide a much-needed boost to the business sector as a whole. A uniform tax rate will also enhance our reputation as a low-tax jurisdiction.
- The amendment to the system of capital allowances is in line with the objective of simplifying the tax system.
- Capping the carry-forward of tax losses mirrors the practice prevailing in many countries.

### Value Added Tax (VAT)

- Registration threshold has been lowered from Rs3M to Rs2M.
- Threshold for submission of monthly return reduced from Rs12M to Rs10M.
- The concessionary rate of 0.5% payable on import of raw materials by EPZ companies will be removed.
- Yarn and fabrics will be zero-rated whilst cotton and precious stones will be VAT exempt.

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- Jewellers will now be required to be VAT registered irrespective of their turnover.

### *Our view*

- The first two measures have been long expected and will contribute toward boosting VAT revenue.

## **Registration Duty**

- Registration duty on transfer of immovable property will be reduced from 10% to 5%.
- Fixed rates ranging from Rs1,000 to Rs50,000 charged on registration of loan agreements.

### *Our view*

- These measures will provide a welcome boost to a stagnant property market.

## **Customs Tariffs**

- Customs Duties now capped at 30% alongside two other bands of 10% and 15%.
- Duties removed on 275 items used by both industry and small businesses.
- Customs Duties on buses reduced from 20% to 10% and concessions relating to buses removed.
- Special 15% duty rate will apply to cars below 550cc.
- Motor cars will be classified into 2 categories '1600 cc or less' and 'above 1600 cc' with applicable duty rates of 55% and 100% respectively.

### *Our view*

- Customs tariff cuts and removals represent further steps towards Mauritius becoming a Duty Free Island.

- Car dealers will be rubbing their hands with glee with the implementation of the reduced tariffs.

## **Solidarity Levy**

- Introduction of a temporary solidarity levy of 0.85% of turnover applicable to profitable hotels, destination management companies and tour operators for four years starting 1 July 2006.

## **Campement Site Leases**

- Campement site lessees will be given the option to enter into new agreements by 31 December 2006 on payment of a premium ranging from Rs2.5M to Rs5M per arpent and of an annual rent between Rs125,000 and Rs250,000 per arpent. Otherwise, their current lease will not be renewed on expiry.

### *Our view*

- The new premium and rentals are unlikely to be welcomed by lessees of Campement sites on Pas Géométriques but will be viewed as a necessary measure by the public at large.

## **Tax Administration**

- Change to a cumulative PAYE system.
- Deduction of tax at source on interest, royalties, rental income, fees for technical income and payments to contractors and sub-contractors.

### *Our view*

- These measures are geared towards streamlining tax collection system. However, their practical application remains uncertain.

## **Special Tax Holiday Scheme**

- Special tax holiday for 4 years will be granted to small enterprises converted into companies to encourage businesses to move out of the informal sector.

### *Our view*

- This is a commendable measure aimed at bringing the small entrepreneur into the formal economy thereby increasing economic stability.

## Budget Summary

The Honorable Minister of Finance presented a budget full of bold and imaginative measures under the title "Securing the Transition: From Trade Preferences to Global Competition", recognising that the economy, having benefited from a cycle based on trade preferences, is showing the danger signs of slowing growth and must now adapt to the climate of global competition.

The budget includes 40 major reforms designed to improve the ease of doing business, open up the economy to overseas talent and investment and increase the flexibility of labour markets.

Underpinned by fiscally responsible governance, the budget introduces a radical simplification of the tax system with a progressive reduction in tax rates towards a single rate of 15% for both corporate and individual income taxes by July 2009.

The move to a simplified tax system with a single eventual rate of 15% is both bold and visionary. It should stimulate the economy and leave Mauritius favourably placed to compete globally.

The Finance Minister announced that there would be no increase in VAT this year and no broadening of the VAT base.

A new tax is introduced, "National Residential Property Tax", but overall the budget is designed to be tax neutral. The move to transform Mauritius into a Duty Free Island continues with further reductions in Customs Duties. The budget also simplifies registration, excise duties and motor vehicle taxation.

### **Enhancing investment climate**

- Health, fire and police clearances are being abolished.
- Trade licence replaced by a Municipal fee payable after start of operations.
- Rationalisation of incentive certificate, integrating EPZ and non-EPZ sectors.
- Labour laws and wage determination system to be revisited to remove labour market rigidities.
- Combination of residence and work permit into an 'occupation permit' for certain foreign investors

and professionals to be issued within 3 working days.

- Commercial and industrial zones will be pre-designated to relieve investors of search delays and allows for "plug-in" operations.

### **Restructuring major sectors**

#### *Sugar Industry*

- Transformation of the sugar cane industry into a cluster: various types of sugar, bagasse for power generation, molasses for ethanol and spirits production.
- Regrouping of small planters for yield enhancement and cost reduction.
- Rs500M earmarked for derocking, irrigation, improved cultural practices.

#### *Manufacturing*

- Integration of EPZ and non-EPZ sectors.
- Elimination of bonded warehouses.
- Elimination of Customs Duties on all inputs.
- Move towards a uniform tax regime.

#### *Tourism*

- Training of skilled and semi-skilled workers under Empowerment Programme.
- Expansion of National Apprenticeship Scheme (NAS).
- Aggressive marketing campaigns by Mauritius Tourism Promotion Authority (MTPA) - Rs300M allocated.
- Promotion of Mauritius as a leisure, business and shopping destination.

#### *Financial Services*

- Setting up of the Development and Enterprise Market to democratise the economy.
- Amendment of the Banking Act to

provide for private banking services.

- Review of commercial law to facilitate major cross-border financial transactions.
- Extension of the regime of the Gage Special to transactions involving global business companies.
- Management Companies in the Global Business sector to provide fund administration services to funds established in other financial centres.

### **Developing emerging sectors**

#### *ICT*

- Formulation of a National ICT Strategy Plan.
- Reduction of cost of International Private Leased circuits on SAFE by at least 25% as from 1 July 2006 which is expected to trigger a reduction in ADSL tariffs.
- Financing of computers by DBM to include laptops and software.

#### *Duty Free Shopping*

- Development of Mauritius as a duty-free island through the elimination of Custom Duties and rationalisation of the investment incentive regime.

### **Public sector reform to improve efficiency and cut costs**

- Set up of a "Cut Waste Squad" to identify waste in the public sector.
- Consideration of a performance-related reward system.
- Establishment of Audit Committees in key Ministries for effective and efficient management.
- Outsourcing vehicle testing to private operators.
- Set up of sector Ministry Support Teams for the formulation of sector

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policy and budget and monitoring execution.

- Planned closure of the Development Works Corporation (DWC).
- Merger of the Financial Services Promotion Agency (FSPA) with the Board of Investment (BOI).
- State Investment Corporation (SIC) to move from commercial activities to strategic investment.
- Restructuring of DBM Ltd and Business Parks of Mauritius Ltd (BPML).

### Enhancing social protection

#### Aid targeted to the needy

- Food aid income support to increase by 15%.
- Additional social aid on CEB bills.
- SC and HSC exam fees will be paid in full.

#### Pension reform

- The retirement age and the Basic Retirement Pension (BRP) entitlement age to be gradually raised as from 60 to 65, starting from August 2008 and achieving the target by 2018.
- Increase in old age pensions and benefits to widows, orphans, disabled and inmates of charitable

institutions by 5%.

### Tax and duties reforms

- Consolidation of all reliefs, allowances and deductions, except those relating to the family situation, into a general exemption threshold.
- 4 categories of taxpayers with different thresholds in line with number of dependents.
- Compression of tax bands from 4 to 2.
- Tax bands to be reduced to two for the next 3 income years – 15% on taxable income up to Rs500,000 and marginal top rate of 22½%, 20% and 17½%.
- Introduction of a National Residential Property Tax on residential property including bare land.
- Corporate tax to be reduced gradually from 25% to 22.5% and down to 15% by 1 July 2009.
- Revamping of the capital allowances structure.
- Reviewing of the PAYE system whereby employers will cumulate the monthly emoluments before effecting the tax deduction.
- Deduction at source to be extended to other types of income

such as interest, royalties and rental income.

- Reduction of registration duty on transfer of immovable property from 10% to 5%.
- Registration duties relating to loans will be of fixed amounts ranging from Rs1,000 to Rs50,000.
- Custom tariff cuts from 65%, 55%, and 40% to 30%.
- Tariff structure of 3 non-zero bands - 10%, 15%, 30%.
- Duty at 55% on motor vehicles of 1600cc or less and at 100% for those above 1600cc.

### Economic Empowerment Programme

- A project value of Rs5Bn earmarked in the capital budget.
- Rs750M allocated for the next financial year.
- Critical activities include land for social housing and small entrepreneurs, training and reskilling, special programme for unemployed women, tourist villages, assistance for outsourcing and support for development of new entrepreneurs and SME's.

## Economic Review

Table 1 - Main Economic Indicators

	2003 <sup>1</sup>	2004 <sup>1</sup>	2005 <sup>1</sup>	2006 <sup>2</sup>
GDP at market prices (Rs Bn)	157	175	187	196
GDP growth rate (%)	4.4	4.7	2.7	3.5
Unemployment rate (%)	7.7	8.5	9.5	9.5
Inflation rate (%)	5.1	3.9	5.6	5.0
Net International Reserves (Rs M) *	48,901	50,613	51,800	60,000**

\*Calendar Year      \*\* Financial year

1: revised estimates      2: forecasts

Sources: CSO, MoF, BoM and MCB estimates

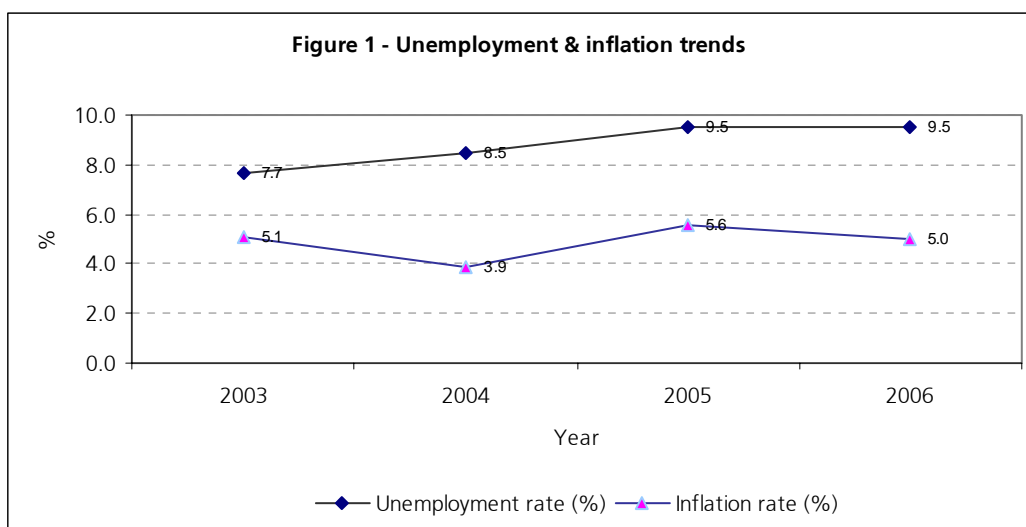
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*Table 2 - Other Selected Economic Indicators*

	2003 <sup>1</sup>	2004 <sup>1</sup>	2005 <sup>1</sup>
Investment rate (%)	22.6	22.3	21.0
Consumption rate (%)	4.5	6.3	7.0
Savings rate (% of GDP at market prices)	25.4	23.3	17.5

1: revised estimates

Source: CSO



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## Public Finance

	2002/03	2003/04	2004/05	2005/06 <sup>1</sup>	2006/07 <sup>2</sup>
Total Government Revenue and grants	30,299	33,676	36,493	39,150	43,093
Total Government Expenditure	39,533	42,567	45,561	49,870	51,646
<b>Net Budget (Deficit)/Surplus</b>	<b>(9,234)</b>	<b>(8,891)</b>	<b>(9,068)</b>	<b>(10,720)</b>	<b>(8,553)</b>
<b>Total Government Expenditure includes</b>					
Net Interest Payment and Management/Service	6,473	6,690	7,297	7,561	9,717
Net Capital Repayment (Internal and External)	836	882	930	1,324	949
Contribution to Consolidated Sinking Fund (Internal)	1,151	1,227	1,667	2,063	2,557
<b>Total Public Debt Servicing</b>	<b>8,460</b>	<b>8,799</b>	<b>9,894</b>	<b>10,948</b>	<b>13,223</b>

Source: Ministry of Finance

<sup>1</sup> Revised Estimates <sup>2</sup> Budget Estimates

For the year 2006/2007, the budget deficit is estimated to reach Rs8,553M. The total public sector debt is estimated to reach Rs128,938M at end of June 2006.

**Table 4: CONSOLIDATION OF BUDGETARY CENTRAL GOVERNMENT ACCOUNTS (Rs M)**

	Actual		Estimates		
	2002/03	2003/04	Revised	Revised	Budget
			2004/05	2005/06	2006/07
<b>REVENUE &amp; GRANTS</b>					
Tax Revenue	25,880	29,068	32,937	35,194	38,562
Non-Tax Revenue	4,033	3,920	2,572	3,314	3,631
Capital Revenue	23	70	419	91	110
Total Derived Revenue	29,936	33,058	35,928	38,599	42,303
Grants	363	618	565	551	790
<b>Total Derived Revenue and Grants</b>	<b>30,299</b>	<b>33,676</b>	<b>36,493</b>	<b>39,150</b>	<b>43,093</b>
<b>EXPENDITURE</b>					
Current Expenditure	31,538	34,885	38,026	42,053	44,090
Capital Expenditure	7,015	7,078	6,918	7,114	7,663
Total Derived Expenditure	38,553	41,963	44,944	49,167	51,753
Lending Minus Repayments	980	604	617	703	(107)
<b>Total Derived Expenditure and Lending Minus Repayments</b>	<b>39,533</b>	<b>42,567</b>	<b>45,561</b>	<b>49,870</b>	<b>51,646</b>

Source: Ministry of Finance

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**Table 5 : TAX REVENUE (RS M)**

	Revised Estimates	Budget Estimates
	2005/06	2006/07
Individual Income Tax	2,720	2,525
Corporate Tax	4,700	5,275
Taxes on Property	1,924	2,509
Taxes on Goods and Services	25,835	28,218
Other Tax Revenue: Stamp Duties	15	35
	<b>35,194</b>	<b>38,562</b>
<b>Source: Ministry of Finance</b>		



*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*

*9 June 2006*

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