

Budget 2007

What are the new rules of the game?

The Honourable Ramakrishna Sithanen delivers the Budget Speech 2007/2008, a balancing act between demands of the International Monetary Fund and social expectations.

Dear Clients and Friends,

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

We trust that this overview of the Budget 2007/2008 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, 15 June 2007



The Budget at a glance

The Honourable Ramakrishna Sithanen presented his second budget with the main themes of accelerating the transition to global competitiveness, securing full employment and improving the living standard for the whole nation.

Except for the unexpected reduction to a flat rate of corporate and personal tax of 15% as from 1st July 2007, two years earlier than planned, the budget largely represents a continuation of previous policies and measures.

Personal Tax

- Flat rate of 15% as from 1st July 2007.
- No change in Income Exemption Threshold.
- Small sugar cane and tobacco growers exempted from submission of quarterly CPS return.
- Unbuilt or bare land exempted from National Residential Property Tax (NRPT).
- Threshold for payment of NRPT increased from Rs215,000 to Rs385,000.
- NRPT capped at 5% of total income inclusive of exempt income.

Corporate Tax

- Flat rate of 15% as from 1st July 2007.
- Special levy of 0.5% of turnover and 1.7% of accounting profit imposed on profitable banks.
- Companies now required to make quarterly tax payments under the Advanced Payment System (APS).

Tax Administration

- Two amnesty schemes introduced for the six-month period to 31 December 2007:
 - Tax Arrears Payment Incentive Scheme (TAPIS) to recover overdue income tax.
 - Voluntary Disclosure Incentive Scheme (VDIS) to encourage disclosure of undeclared or under-declared income and turnover.
- Electronic submission of Income Tax and VAT returns compulsory for companies with annual turnover in excess of Rs30m or having more than 50 employees.

Registration Duty

- Duty on lease of immovable property reduced to 1.25%.
- Fixed duty ranging from Rs200 to Rs200,000 on transfer or lease of movable property to replace proportionate rate of 4% or 5%.
- Duty on cancellation of lease removed.
- Time limit for registration of lease agreements introduced.

Customs Duty

- Duty on certain sound equipment and accessories removed.
- Duty on certain kitchen and household electrical appliances removed.

Fiscal Measures

Personal Tax

- Flat rate of tax of 15% to be implemented as from the income year ending 30 June 2008, two years earlier than provided in the Finance Act 2006.
- Small sugar cane and tobacco growers will no longer be required to submit CPS returns. They may opt for a presumptive method of taxation.
- National Residential Property Tax (NRPT) will only be payable by a taxpayer with total income exceeding Rs385,000. NRPT will be limited to 5% of total income and will not be charged on bare land.

Our view

- The application of a single tax rate of 15% as from the next income year is aimed at rewarding personal enterprise and will serve to attract much needed skills from abroad. A low tax regime will also enhance tax compliance.
- Sugar cane and tobacco growers will welcome this measure as it will alleviate their tax compliance obligations.
- The measures amending the application of NRPT are in response to public outcry over this new tax and should lessen its impact on the population.

Corporate Tax

- Implementation of flat tax rate of 15% as from 1st July 2007, two years earlier than planned.
- Banks to be charged a special levy of 0.5% on turnover and 1.7% on accounting profits. Only 30% of the levy will be payable in the first year of implementation (2007/2008).
- In line with the PAYE system and

CPS for individuals, companies will soon be required to make quarterly provisional tax payments under the Advance Payment System (APS) based on their previous years taxable profits. For a company with an annual turnover over Rs100M, APS will be applicable as from 1st July 2008 and for other companies as from 1st July 2009. To mitigate the impact on cash flow, a company will be allowed to spread its final tax due under the previous payment system in equal instalments over the next three years.

Our view

- The earlier than planned implementation of a single corporate tax rate of 15% will bolster our reputation as a low-tax jurisdiction, thereby encouraging existing enterprises to expand and attracting new business ventures.
- Banks are still expected to pay less tax as the impact of the special levy will be offset by the drop in tax rate to 15%.
- The introduction of APS was expected and creates a level playing field for all categories of tax payers.

Tax Administration

- Two amnesty schemes for income tax and VAT have been announced:
 - Tax Arrears Payments Incentive Schemes (TAPIS) aimed at early settlement of tax arrears and prompt agreement of assessments under dispute.
 - Voluntary Disclosure Incentive Scheme (VDIS) aimed at encouraging disclosure of undeclared and under-declared income.
 - Under both schemes, the statutory penalty of 2% per month will be reduced to

0.5% per month. They provide for immunity from prosecution and will operate for a period of 6 months to 31 December 2007.

- VDIS will apply to revenue undeclared and under-declared during the 5 income years ended 30 June 2006.
- Any employer failing to submit the annual statement of tax withheld under PAYE and Tax Deduction at Source (TDS) is liable to penalties.
- All companies with annual turnover exceeding Rs30M or with more than 50 employees will be required to file their income tax and VAT returns electronically.

Our view

- It is hoped that these schemes will achieve their stated objective of collecting tax arrears and bringing back funds (black money) into the formal economy.

Registration Duty

- Registration duty in respect of the lease of immovable property is reduced from 4% to 1.25% and is now calculated on the rental value for the first ten years compared to the entire lease period.
- On the transfer or lease of movable property, a fixed registration duty ranging from Rs200 to Rs200,000 is now payable instead of proportionate duty of 4% or 5%.

Our view

- These measures are in line with the reduction in registration duty on transfer of immovable property last year.

Budget Summary

The Honourable Minister of Finance presented the second budget speech under the title "Consolidating the transition and securing full employment."

As widely expected the budget represents a continuation of the policies and measures embarked upon last year although both corporate and personal tax payers receive a pleasant surprise from the acceleration to a flat rate of tax of 15% which will now be effective from 1 July 2007, two years earlier than planned. This move is driven by the need to utilise the narrow window of opportunity open to benefit from competitiveness in the global arena and to reward effort, hard work and enterprise.

At the start of his speech, the Minister highlighted the positive signs of economic renewal, the reduction of unemployment and the record level of foreign exchange reserves at Rs83.3 billion with an overall balance of payments surplus of Rs5 billion after taking into account Rs7.2 billion of inflows from Foreign Direct Investment. The Minister also identified Rs3 billion of hidden liabilities inherited from the previous government which he described as skeletons in the cupboard.

The positive results from the measures introduced in last year's budget represent an early harvest and this has permitted the Finance Minister to share some of the early gains with those most in need of help. Accordingly, the budget includes a wide variety of measures to address unemployment and use the growing fiscal space to focus more strongly on our neediest citizens.

The theme of the budget is to accelerate the transition to global competitiveness, to secure full employment and improve the living standards for the whole nation.

Business facilitation and openness of the economy

Business complaints

- Reinforcement of business facilitation measures. SEHDA and BOI will set up a mechanism for businesses to report complaints and difficulties.

Land management

- Extension of the validity period of the Building and Land Use Permit (BLP) to 24 months. Amendment of the local Government Act and Business Facilitation Act to ease application for BLP. Provision of silent agreement after 15 days from submission of application.
- Simplification of application process for Land Conversion Permit.
- Rs150M earmarked for the implementation of the Land Administration, Valuation and Information Management System.
- Setting up of an Inter-Ministerial Committee for the review of land taxation, rationalisation of land use and simplification of land allocation for development.

Environment

- Establishment of a Panel of Environmental experts to accelerate the process of approval for projects requiring an EIA.

Social Security

- Rs20M to be allocated for the design phase of the replacement of the National ID.

Residence Permit and Business Visa

- Eligibility for Permanent Residence Permit and the right to purchase property to foreigners having at least 3 years working experience in Mauritius and earning a minimum monthly basic salary of Rs150,000.
- Extension of business visa to 180 days.

Education and Training

- Introduction of a fast track process to grant visas to foreign students pursuing full time studies in Mauritius.

- Facilitation of the setting up of foreign training and educational institutions in Mauritius.

Others

- Setting up of relevant legal framework to promote the pharmaceutical sector (clinical and bio-medical research).
- Facilitation of appeals to the Privy Council. The Privy Council is expected to have its sittings in Mauritius by mid-2008.

Investment in Infrastructure

Road infrastructure and utilities

- Investment of Rs752M in 13 road projects to address the problem of land, transport and traffic congestion.
- Upgrading of utilities: increase/improve (i) electricity supply (Rs201M) (ii) water supply (Rs280M).

Airport infrastructure

- Modernisation and expansion of the Airport Passenger Terminal at a cost of Rs4billion.

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New city

- Provision of Rs25M as an initial contribution for the building of an entirely new and totally planned city in Highlands. 920 hectares have been earmarked for this project and will be carried out on a PPP basis.

Flood ordeal

- Reduce risk of floods by appointing contractors for drainage projects in some 30 areas at the cost of Rs150M.

Environment and quality of life

- Provision of Rs1.8billion to combat the increasing threat of waste disposal.
- Increase in provision (from Rs117M to Rs288M) for the implementation of a solid Waste Disposal Strategy.
- Relocation of inhabitants of Mare Chicose at the cost of Rs82M.

Democratisation of various economic spheres

Sugar

- Creating conditions to allow the restructuring of the industry.

Manufacturing

- Providing manufacturers a one year respite on the way to a duty free island.
- Allocation of Rs40M to Enterprise Mauritius to support the manufacturing sector to attain global competitiveness through brand development, innovation, capacity building, etc.
- Assisting the food and agro industry, textiles, clothing, jewellery and furniture sectors to encourage exports.

Tourism

- Setting up an air-access policy committee and organising special activities to enhance the image of Mauritius.

- Pursuing marketing of Mauritius by:-
 - Organising special events through 'Events Mauritius Ltd'.
 - Upgrading and rehabilitating tourist attractions.
 - Government contribution to MTPA marketing budget of Rs300M.

- Creating a unique tourist destination identity through branding.
- Implementing tourist villages.

Financial services

- Revamping the fee structure for licenses in the financial services sector.
- Promoting the setting up of funds.
- Amending legislation to allow development of alternative financial services such as Islamic Financial Services.
- Supporting the Stock Exchange of Mauritius (SEM) to develop a derivative market.
- Developing the equity market and democratising share ownership through:
 - Encouraging the listing of Mauritius Telecom and SICOM Ltd on the SEM.
 - Selling government shares in state owned companies.

New sectors

Seafood

- Funding accreditation of laboratories performing tests for export consignments.
- Constructing a fish auction market (Rs25M), setting up the Fishermen Investment Trust (Rs15M).

Land-based oceanic industry

- Granting a 30 years concession contract to the Mauritius Land-Based Oceanic Parks Company Ltd to pump, desalinate and distribute deep sea water.

Creating arts industry

- Removing duty on musical and entertainment equipment (CD players, MP3, head-phones & ear-phones, loudspeakers and amplifiers).

IRS scheme

- Allowing the benefits from the sector to accrue to the society as a whole:
 - A social contribution of US\$6,000 per residential unit;
 - Special efforts to encourage outsourcing with local SMEs; and
 - Rs100M has been allocated to support the Integrated Social Development Project.

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SMEs as a vehicle of long term employment

- Increase the maximum loan on the Booster loan from Rs50,000, to Rs75,000 to both new and existing SMEs.
- Registration charges on loans at the DBM will be lowered.
- Constitution of a pool of consultants to advise SMEs on their business plan.
- Creation of a solid network of institutions and organisations to support the Empowerment programme.
- Rs100M has been allocated to support the Integrated Social Development Project.

Solidarity

- The Honourable Minister proposed 23 separate measures to focus more strongly on our neediest citizens by using the additional fiscal space created by regenerating growth in the economy and controlling spending.

Restructuring of the public sector

- Reform of the budgetary process by linking spending with results.
- Development of a capital budget process manual as a guide for effective project management and ensuring the implementation of capital projects on time and within budget.
- Review of work methods and elimination of overlapping and duplication.
- Improvement of expenditure mix (expenditure on public infrastructure increasing for the first time after many years).

- Abolishment of the Consolidated Sinking Fund with effect from 1st July 2007 (helping cut Central Government debt by Rs6 billion)
- Retail issues of treasury bills and treasury notes will be traded directly to the public by the Bank of Mauritius.
- Re-engineering of the Parastatal Sector by:
 - Setting Key Performance Indicators for all parastatals;
 - Liberalising public sector monopolies so as to increase competition;
 - Outsourcing activities where possible;
 - Encouraging rationalisations and mergers to ensure efficiency; and
 - Reviewing the roles and functions of the Parastatals to evaluate their *raison-d'être* and the need for government intervention.

Economic Review

<i>Table 1 - Main Economic Indicators</i>	2004 ¹	2005 ¹	2006 ¹	2007 ²
GDP at market prices (Rs Bn)	176	185	206	225
GDP growth rate (%)	4.8	2.2	5.0	4.9
Unemployment rate (%)	8.5	9.6	9.6	9.1
Inflation rate (%) FY	3.9	5.6	5.1	10.7
Balance of Visible Trade (Rs Bn) CY	(21.5)	(30.1)	(41.4)	(45.6)
Overall Balance of Payments (Rs Bn) CY	(0.86)	(4.89)	(4.57)	5.0
Net International Reserves (Rs Bn) *	52.8	56.5*	74.2	83.3

*with effect from June 2005, the figure includes the Net Foreign Assets of banks adjusted for transactions of Global Business Licence holders.

¹: revised estimates

²: forecasts and budget estimates

FY: Financial Year

CY: Calendar year

Sources: CSO, Ministry of Finance, Bank of Mauritius, MCB estimates

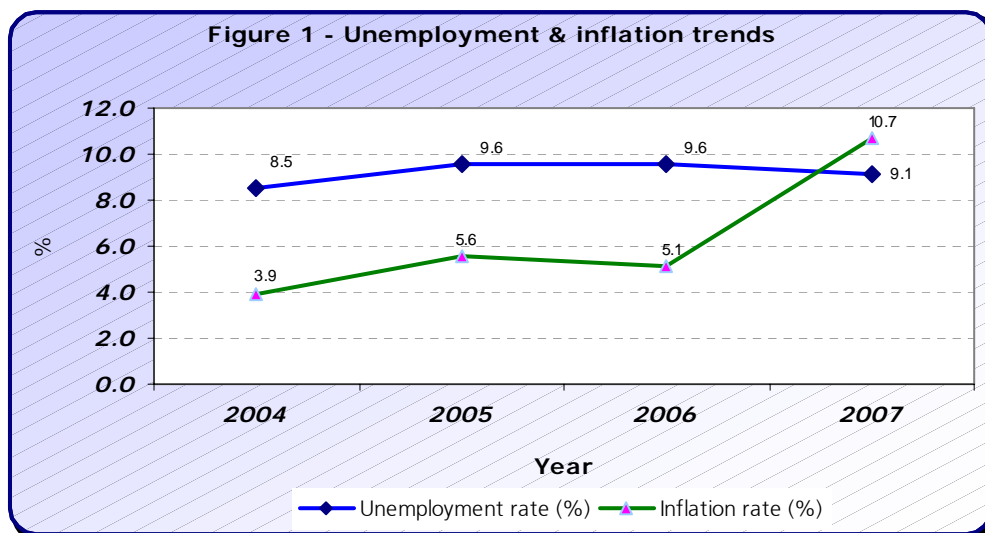
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Table 2 - Other Selected Economic Indicators	2004 ¹	2005 ¹	2006 ¹	2007 ²
Investment rate (%)	21.6	21.3	24.0	23.4
Consumption rate (%)	78.0	83.5	84.9	86.1
Savings rate (% of GDP)	22.6	17.3	16.2	16.0
Budget Deficit (% of GDP)	5.1	4.9	4.3	3.8

1: revised estimates

2: forecasts and budget estimates

Sources: CSO, Bank of Mauritius



For the period 2006/2007, unemployment rate fell slightly while inflation witnessed a sharp rise, leading to a double-digit rate of 10.7%.

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Public Finance

	2003/04	2004/05	2005/06	2006/07 ¹	2007/08 ²
Total Government Revenue and grants	33,676	36,049	39,220	42,607	50,501
Total Government Expenditure	42,567	45,075	49,564	52,218	60,055
Net Budget (Deficit)/Surplus	(8,891)	(9,026)	(10,344)	(9,611)	(9,554)
Total Government Expenditure includes					
Net Interest Payment and Management/					
Service Charges	6,690	7,297	7,543	9,716	12,057
Net Capital Repayment (Internal and External)	882	930	1,320	949	1,038
Contribution to Consolidated Sinking Fund (Internal Debt)	1,227	1,667	2,063	2,557	-
Total Public Debt Servicing	8,799	9,894	10,926	13,222	13,095

Source : Ministry of Finance

¹ revised estimates ² budget estimates

For the year 2007/2008, the budget deficit is estimated to reach 3.8% of GDP.

	Actual			Estimates	
	2003/04	2004/05	2005/06	Revised	Budget
				2006/07	2007/08
REVENUE & GRANTS					
Individual Income Tax	2,265	2,553	2,768	2,720	3,005
National Residential Property Tax	-	-	-	-	60
Tax Deduction at Source	-	-	-	-	305
Corporate Tax	2,405	3,276	4,701	4,860	5,495
Taxes on Property	1,469	1,680	1,939	2,785	3,130
Excise Duties*	2,408	2,838	6,617	7,310	7,668
Value Added Tax	11,189	12,528	13,710	15,600	17,150
Other Domestic Taxes on Goods and Services	1,934	2,097	2,585	3,019	3,469
Customs Duty and Excise Duty on Imports	7,385	7,731	3,046	2,100	2,250
Other Tax Revenue: Stamp Duty	13	14	16	71	78
1 Tax Revenue	29,068	32,717	35,382	38,465	42,610
2 Non-Tax Revenue	3,920	2,474	3,127	3,662	4,956
3 Capital Revenue	70	414	222	60	-
4 Total Derived Revenue	33,058	35,605	38,731	42,187	47,566
5 Grants	618	444	489	420	2,935
6 Total Derived Revenue and Grants	33,676	36,049	39,220	42,607	50,501
EXPENDITURE					
7 Current Expenditure	34,885	38,042	41,915	44,568	50,453
8 Capital Expenditure	7,078	6,345	6,960	7,324	9,379
9 Total Derived Expenditure	41,963	44,387	48,875	51,892	59,832
10 Lending Minus Repayments	604	688	689	326	223
11 Total Derived Expenditure and Lending Minus Repayments	42,567	45,075	49,564	52,218	60,055

*includes excise duty on imports as from Financial year 2005/06

Source : Ministry of Finance

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Public Debt

Table 5. Stock of Public Debt and Public Sector Debt Rs M (as at end of period)	Actual				Estimates
	Jun-03	Jun-04	Jun-05	Jun-06	Jun-07
Internal Public Debt	86,413	85,002	96,584	104,829	109,049
- Long term (at nominal prices)	12,274	16,669	20,631	25,572	30,389
- Medium term (at nominal prices)	55,529	51,070	49,595	45,801	39,431
- Short term (at nominal prices)	18,610	17,263	26,358	33,456	39,229
External Public debt	9,074	8,445	9,232	8,536	12,483
- Medium & Long term (1)	8,550	8,320	8,882	8,529	11,305
- Short term (2)	524	125	350	7	1,178
Total Public debt	95,487	93,447	105,816	113,365	121,532
Surplus cash balance (at end of period)	10,566	644	-	-	-
Total public debt (excluding surplus cash balance)	84,921	92,803	105,816	113,365	121,532
External Debt of Public Corporations	17,629	15,221	14,665	15,703	13,500
Total Public Sector debt (3)	102,550	108,024	120,481	129,068	135,032
As a % of GDP	68.40%	65.10%	66.60%	65.90%	61.00%

Source: Ministry of Finance

(1) Includes foreign investment in Treasury notes
 (2) Foreign investment in treasury bills
 (3) Total Public Sector Debt includes debt of public corporations and parastatal bodies



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

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Kemp Chatteris Deloitte

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>