

## Budget 2008

*Our Knowledge, Your edge*

### Dr. The Honourable Ramakrishna Sithanen presents the Government's Budget 2008-2009.

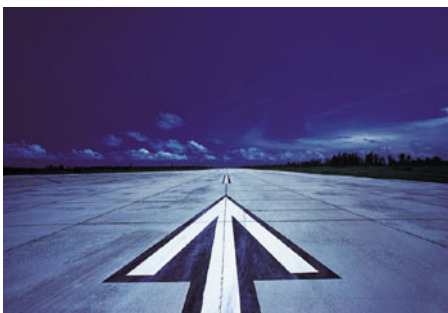
*Dear Clients and Friends,*

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

*We trust that this overview of the Budget 2008/2009 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, 6 June 2008*



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

*Dr. The Honourable Ramakrishna Sithanen presented the third budget of this Government as one to promote self sufficiency in energy and food for a "Maurice Ile Durable" and to foster social inclusion. The budget includes large investments in human resources and public infrastructure to sustain the growth achieved as a result of the reforming budgets of 2006 and 2007.*

#### **Personal Tax**

- Income Exemption Threshold increased by Rs25,000 for each category.
- Pensioners entitled to IET of Rs285,000 (no dependent) or Rs395,000 (with one dependent).

#### **Value Added Tax**

- Potassium nitrate, mono potassium phosphate and magnesium sulphate are exempt from VAT.
- Zero-rating extended to pharmaceutical products.

#### **Registration Duty**

- Registration duty of 5% payable on acquisition of IRS villa, subject to a minimum of USD70,000.
- No registration duty payable on agricultural land sold by sugar companies to métayers.

#### **Land Transfer Tax**

- Payable on transfer of shares in company with immovable property.
- New rates of 15%/10% apply where immovable property sold for more than Rs50M.
- Agricultural land sold by sugar companies to métayers exempt from LTT.

#### **Excise Duty**

- Customs and excise duties on cigarettes combined into a single excise duty rate of Rs2,200 per thousand cigarettes.
- Excise duty on hybrid vehicles reduced by half as from 1 July 2008.

#### **Customs Duty**

- Removal of customs duty on blankets, carpets, ceramic tiles, electric accessories, foodstuffs, motor spare parts, solar water heaters.
- Cane planters, fruit, flower and vegetable growers, cattle and pig breeders, poultry farmers, furniture and footwear SME's entitled to duty-free pick up vehicles.
- Duty reduction from 30% to 15% on batteries, beauty products, stationery, blinds, doors, paints, laminated glass.

#### **Special Levy**

- Introduction of MID (Maurice Ile Durable) Levy of Rs0.15 per litre / kg on fossil fuels.

### Fiscal Measures

#### Income Tax

- Increase of Rs25,000 in existing Income Exemption Thresholds to the following:

Category	Income Exemption Thresholds (Rs)
A	240,000
B	350,000
C	410,000
D	450,000

- A new category E introduced for pensioners:

No. of dependents	Income Exemption Thresholds (Rs)
0	285,000
1	395,000

#### Value Added Tax (VAT)

- VAT removed on soluble chemicals such potassium nitrate, mono potassium phosphate and magnesium sulphate.
- Pharmaceutical products currently subject to VAT at 15% are now zero-rated.

#### Registration Duty

- Registration duty on acquisition of IRS residence now payable at the rate of 5% on the value of the property or USD70,000, whichever is higher.
- Agricultural land sold by sugar companies to métayers is not subject to registration duty.

#### Land Transfer Tax

- New rates introduced on transfer of land with value in excess of Rs50M as follows:
  - 15% for transfer within 5 years from date of original acquisition
  - 10% for other cases
- No land transfer tax on transfer of agricultural land from sugar companies to métayers.
- Land transfer tax now applicable on transfer of shares in companies holding immovable property.

#### Excise Duty

- Excise duty on hybrid vehicles is being halved as from 1 July 2008.
- Consolidation of different customs duty and excise duty categories into a single excise duty rate of Rs2,200 per thousand cigarettes.

#### Customs Duty

- Duties removed on farm vehicles, equipment and their spare parts, motor spare parts and accessories, solar water heaters, most food-stuffs, blankets, ceramics tiles, carpets, laminated flooring of wood, plugs, sockets and electrical fittings, tyres with energy saving emission and reducing certification.
- Customs duty reduced from 30% to 15% on:
  - Detergents and washing products
  - Cosmetics and beauty products
  - Toiletries and personal care
  - Stationery
  - Doors, windows, blinds, paints, laminated glass and glass mirrors
  - Batteries

- Customs duty remission available on double cabin vehicles without rear bed-caisson and on all single cabin pick-ups for the following categories of persons:
  - Small sugar cane planters
  - Vegetable, fruit and flower growers
  - Fishermen's cooperatives
  - Poultry farmers
  - Pig and cattle breeders
  - SMEs registered with SEHDA with minimum turnover of Rs3M engaged in furniture making, light engineering or footwear manufacturing

#### Special Levy

- Introduction of Maurice Ile Durable (MID) levy charged at Rs0.15 per litre of petroleum products or per kilo of LPG and coal.

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### Budget Summary

Dr. The Honourable Minister of Finance, Ramakrishna Sithanen, presented his third budget under the title "Building An Attractive, Modern, Inclusive Green, Open Mauritius" (AMIGO).

On the basis of the statistics presented in the budget speech, the fiscal reforms of the previous two budgets have resulted in balanced growth across all sectors of the economy with improved economic indicators.

The reduction of tax rates and the simplification of the tax system introduced in the budgets of 2006 and 2007 have succeeded in increasing the fiscal space and consequently the budget contained very few fiscal measures.

The measures announced are intended to improve the openness of the economy, enhance infrastructure, promote self-sufficiency in energy and food under the "Maurice Ile Durable" initiative and foster social inclusion.

Fiscal measures have been mainly targeted at improving WTO compliance, removing some anomalies and loopholes in excise, registration and customs duties whilst preserving purchasing power.

The Minister concluded his speech by noting that whilst the first budget has resulted in an early harvest, the current year has produced a bumper crop. This additional fiscal space has been applied to the appropriation of Rs4.5bn for minimum term expenditure and the implementation of 100% of the PRB report costing Rs5.2bn. This has been achieved without any increase in VAT whilst introducing a decrease in other taxes on a number of products, equivalent to a reduction of 1.5 percentage points of VAT.

#### *Building an Open Mauritius*

##### *Business Facilitation*

- Simplification of the system of business licensing by Board of Investment.
- Permanent residence for foreign investors whose business turnover exceeds Rs15M for 3 consecutive years.
- Set up of a commercial division in the Supreme Court.
- Reduction of registration period for a property to 15 working days.
- Amendments to Banking Act to allow the Mauritius Credit Information Bureau to cover non-bank financial institutions and utility companies.
- Simplification of import and export process by reducing number of required permits.

##### *Financial Services*

- New legislations to encourage cross border transactions in securities, swaps, options and other derivatives.

- Amendments to Banking Act to allow banks to transact business on more flexible terms.
- Amendment of various legislations to improve compliance and reputation of our financial system.
- Regulation of financial leasing activities to be carried out by Bank of Mauritius only.
- Set up of regulatory framework to encourage leasing companies to make Shariah Compliant products.
- Encouragement of property leasing through amendment of Registration Duty Act and the Land (Duties & Taxes) Act.
- Amendments to legislation to make normal banking and Islamic banking tax neutral.
- Set up of appropriate regulatory framework for Real Estate Investment Trust activities in Mauritius.
- Introduction of new Construction Industry Development Board Bill to ensure compliance with established standards.

##### *Tourism*

- Increase in the Budget of MTPA to Rs340M for 2008/09.
- Implementation of branding of Mauritius exercise.

##### *Domestic Oriented Industries*

- Introduction of Anti-dumping & Countervailing Measures Bill to ensure fair competition for domestic oriented industries.
- Set up of Manufacturing Adjustment and SME Development Fund to sharpen the competitiveness of Domestic Oriented Industry & SMEs.
- Set up of a scheme together with Commercial Banks to help SMEs with less than Rs50M turnover to have better access to loans.
- Raise of equity participation by the SME Partnership Fund in SMEs from Rs3M to Rs10M.
- Review of loan ceiling for both quasi-equity scheme and booster loan scheme from Rs400,000 to Rs500,000 and from Rs75,000 to Rs100,000 respectively.

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### *Pension*

- Amendment to regulations to allow portability of pensions as from two years of full time employment.
- Introduction of a new pension legislation comprising of a comprehensive regulatory framework for private occupational pension schemes.
- Improvement to the governance and operational structure of National Pension Fund and National Savings Fund.
- Amendments to National Pension Act to gradually increase retirement age to 65 for both public and private sector.

### *Tertiary Education*

- Provision of Rs1bn for a Human Resource Development, Knowledge and Arts Fund to finance physical infrastructure for tertiary education, equipments, student loan schemes, etc.
- Provision of student loan scheme of up to Rs150,000 per year to allow commercial banks to make loans to all students of TEC recognised tertiary education institutions in Mauritius.
- Introduction of flexi-learning at the University of Technology of Mauritius.
- Provision of sandwich courses by Tertiary education institutions.
- Introduction of a pathway at the end of form 4 to allow students to opt either for tertiary vocational education or tertiary academic studies.
- Development of a Second Chance Programme to provide basic numeracy and language skills and training to certain categories of people.
- Opening of a new campus by IVTB to expand its courses and intake.

### *Delivering education at a click of a mouse*

- Formulation of a strategy to implement development of distance education in Mauritius.
- Provision of Government loan guarantee scheme to cover cost of laptops and internet access to distance learning students.
- Provision of scholarships to needy distance learning students to buy a laptop and pay internet access costs.

### *Building Modern Mauritius*

A budget of Rs125bn has been earmarked to enhance the state of infrastructure in Mauritius and will cover the following:

#### *Road network*

- Allocation of Rs12.6bn for traffic decongestion through investment in new roads and bridges, maintenance, upgrading and rehabilitation of existing network.
- Construction of
  - (i) A 12km Port-Louis Ring road from Soréze to Quay D
  - (ii) the Harbour Bridge connecting Port-Louis at Royal College to Roche-Bois roundabout, both on a PPP basis.
- Introduction of a Bus Modernisation Programme of an estimated cost of Rs4bn. The programme will include
  - (i) a 25-km bus-way corridor between Curepipe and Port-Louis
  - (ii) a 12-km bus-only lane along motorway M1
  - (iii) redesigning of overall bus routes.
- Setting up of a Land Transport Authority (LTA) to ensure implementation of proposed road development programmes.

### *Airport*

- An injection of Rs1bn of equity into Airports of Mauritius Ltd to aid airport expansion.

### *Port*

- Investment of Rs400M by the Cargo Handling Corporation to sustain the increase in container traffic.
- Promotion of seafood hub activities and development of major infrastructure projects such as the Cruise Terminal by the Mauritius Port Authority at the cost of Rs750M.

### *New Cities*

- Investment of Rs100bn for the construction of a new city at Highlands. The new city is poised to be a hub for knowledge services based industries, health care, ITES and BPO.
- Continuous support to the Tianli Project at Riche-Terre. This Rs20bn project is expected to involve some 40,000 persons and be a gateway for companies to invest in Africa.

### *Utilities*

- Extension of the "reducing of lost water project" with the objective of bringing lost water from the present level of 48% to 25% by 2015.
- Increase of the treatment capacity of La Nicolière Water Treatment Plant from 66,000 m<sup>3</sup> to 100,000 m<sup>3</sup> daily at a cost of Rs350M.
- Extension of the Plaine Wilhems Sewerage Project network to around 32,000 households at an estimated cost of Rs66bn.
- Implementation of sewerage programmes in the CHA and low cost housing estates.

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### *Local Authorities*

- Creation of a local Infrastructure fund to finance key infrastructure projects of Local Authorities. The fund will be financed by revenue from the National Residential Property Tax.

### *Connectivity*

- Development of an inter-island high speed cable connection that would link up to other cable projects between Africa and Asia. This will be done in collaboration with Mauritius partners in the Indian Ocean Commission and COMESA.
- Purchase of additional capacity on SAFE by MT and development of the local backbone at a cost of around Rs2bn.

### *Government*

- Introduction of Programme Based Budgeting in a Medium Term Expenditure framework with the objective of channelling resources to where they give the best outcomes.
- Setting up of a Capacity Building Programme in collaboration with UNDP.
- Apart from the above, the Government has also expressed its commitment to revise the Public Sector Investment Programme whereby the Public Private Partnership (PPP) Unit will prepare a Ten Year Infrastructure Development plan.

### *Building Green Mauritius*

#### *Energy security*

The Government will inject Rs1.3bn to the Maurice Ile Durable Fund so as to support measures to build energy security as follows:-

- Replacement of imported fossil fuel by local renewable sources will revolve around production of electricity through
  - (i) Launch of PPP projects at Bigara and in Rodrigues to harness wind energy

(ii) Setting up of 2 new hydro units at Midlands Dam and La Nicolière

(iii) Use of cold sea water for air conditioning by the Land Based Oceanic Project

(iv) Burning of solid waste

(v) Development of the Mare Chicose Landfill Gas project

(vi) Use of cane field residues mixed with bagasse as boiler fuel so as to reduce the use of coal.

- Better management of demand for energy by reducing consumption of fossil fuels and achieving efficiency in fuel use through measures:

(i) Setting up of an Observatoire de l'Énergie to collect and provide information on fuel efficiency

(ii) Doubling of solar water heaters through loan schemes offered by DBM and removal of 15% import duty on the solar water heaters and all duties on their spare parts

(iii) Adoption on a pilot basis of Summer Time in Mauritius from November 2008 to March 2009 so as to make energy savings

(iv) Passing of an energy efficiency bill to set standards on the use of energy and the tools and equipment through which energy is consumed for domestic, industrial and commercial purposes

(v) Purchase of solar water heaters for use in the public sector and replacement of street lighting by energy efficient lamps and the use of LED lamps

(vi) Promotion of the sale of compact fluorescent lamps by the CEB

(vii) Introduction of a token levy of 15 cents per litre on all petroleum products, 15 cents per kilo on LPG and 15 cents per kilo of coal.

- Amending the institutional framework to encourage innovation by households and businesses to produce electricity with emerging technologies for renewable energy by

(i) Setting up an Independent Utility Regulatory Authority to regulate the operations of an electricity market

(ii) Implementing a solid waste recycling programme to increase the share of recycled plastic bottles, aluminium cans, plastic containers

(iii) Reduction by half of excise duties, road tax and registration fees for hybrid vehicles

(iv) Elimination of customs duty on all tyres with energy saving and emission reducing certification

(v) Launch of a bus modernisation programme allowing bus operators to renew their fleet

(vi) Graduated increase in road tax such as motor cars and dual purpose vehicles based on the polluter pays and the ability to pay principles.

#### *Food self-sufficiency*

- Attempt to attain full self sufficiency in production of potatoes, 80% at home and 20% in the region and in the production of onions.
- Exploration of capacity for full sufficiency in other vegetables through experimentation.
- Preparation of 1,000 hectares of land for plantation by small planters.
- Waiving of land transfer tax and registration duty on transfer of agricultural land by the sugar corporates to métayers.
- Preparation of an aquaculture master plan to increase fish production.

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- Providing support to a milk production project in Salazie.
- Attainment of self-sufficiency in meat (goat, pork and venison) production.
- Negotiation of a partnership with Madagascar and Mozambique to produce rice, maize, soya beans and potatoes.

### *Building Inclusive Mauritius*

#### *e-Inclusive Mauritius*

- Set-up of a National e-inclusion foundation. This will be a joint Public Private Partnership whereby actions will include:
  - (i) Donation of refurbished PC's to 20,000 poor families
  - (ii) Donation of 10,000 PC's to NGO's
  - (iii) Operation of NGO IT Academy.
- Extension of the DBM Computer loan scheme to cover the purchase of Net PCs being launched by MT.

#### *Women*

- Creation of a new-micro credit scheme for the 100% financing of projects implemented by women
- Provision of loans up to Rs100,000 without any collateral to women entrepreneurs through the Manufacturing Adjustment and SME Development fund.

#### *Empowerment Programme*

- Professionalism and implementation of a more permanent structure to sustain and enhance the performance of the Empowerment Programme, which will operate under the aegis of the National Empowerment foundation.

#### *Eradicating absolute poverty*

- Creation of the eradication of absolute poverty programme to the tune of the Rs395M to be implemented in partnership with the private sector as part of their CSR endeavour.

#### *Pre-Primary Schools*

- Further enhancement of free access to pre-primary education for 3-4 year old children living in absolute poverty through a set of comprehensive measures.

#### *Social Housing*

- Allocation of Rs170M for the construction of 774 Firinga houses on 10 sites across Mauritius for very low income families.
- Construction of 1,100 housing units in 229 pockets of poverty as from July 2008.
- Amendment of State Land Act to empower the Minister of Housing and Lands to sell portions of State Land at a nominal price of Rs2,000.
- Provision of plots of State Land on lease to the lower –middle income families at an annual rate of Rs3,000.
- Allocation of 1,000 arpents by Government /MSPA for social housing programmes.
- About ten mixed income communities will be built under a new social housing fund of Rs500M, to be managed by the Ministry of Housing and Lands.
- Development of two new housing loan schemes by October 2008 to
  - (i) facilitate owners of affordable housing units to gradually expand their homes
  - (ii) to reduce the financial burden of middle income working couples.

#### *Rodrigues*

- Provision of Rs100M to the Rodrigues Regional Assembly for investment in infrastructure.
- Injection of Rs75M in the Share Capital of Airport of Rodrigues Ltd to enable it to meet international safety standards.

# Budget 2008

## Economic Review

Table 1 - Main Economic Indicators

	2005	2006	2007 <sup>1</sup>	2008 <sup>2</sup>
GDP at market prices (Rs bn)	185	206	235	263
GDP growth rate (%)	2.3	5.0	5.7	6.2
Per capita GDP at market prices (Rs M)	149,049	164,636	186,831	207,598
Unemployment Rate (%)	9.6	9.1	8.7	8.5
Inflation rate (%) - FY	5.6	5.1	10.7	8.8
Savings Rate (% of GDP)	17.4	17.1	21.3	20.8
Investment Rate (% of GDP)	21.4	24.3	25.1	26.0
Balance of Visible Trade (Rs bn) - CY	(30.1)	(41.4)	(51.5)	(56.6)
Overall Balance of Payments (Rs bn) - CY	(4.9)	(4.6)	8.6	3.3
Net International Reserves (Rs M)	56,548	74,192	85,834	81,742*
Budget Deficit (% of GDP)	5.0	5.3	4.3	3.8
Tourist Arrivals	761,063	788,276	906,971	975,000
Tourism Receipts (Rs M)	25,704	31,942	40,687	48,000

\*At end of March 2008

1: revised estimates 2: forecasts

Sources: CSO and BoM

## Public Finance

Table 2: The Macroeconomic Fiscal Framework (Rs M)

	2004/05	2005/06	2006/07	2007/08	2008/09 <sup>1</sup>
Total Government Revenue and grants	36,493	39,150	42,116	51,735	61,584
Total Government Expenditure	45,561	49,870	51,608	60,055	70,870
<b>Net Budget (Deficit)/Surplus</b>	<b>(9,068)</b>	<b>(10,720)</b>	<b>(9,492)</b>	<b>(8,320)</b>	<b>(9,286)</b>
<b>Total Government Expenditure includes</b>					
Net Interest Payment and Management/Service Charges	7,297	7,561	9,191	12,057	11,033
Net Capital Repayment (Internal and External)	930	1,324	970	1,038	3,500
Contribution to Consolidated Sinking Fund (Internal Debt)	1,667	2,063	2,382	-	-
<b>Total Public Debt Servicing</b>	<b>9,894</b>	<b>10,948</b>	<b>12,543</b>	<b>13,095</b>	<b>14,533</b>

Source: Ministry of Finance

<sup>1</sup> Budget Estimates

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### Public Finance Cont'd

**Table 3: CONSOLIDATION OF BUDGETARY CENTRAL GOVERNMENT ACCOUNTS**  
(Rs M)

	Actual			Revised	Budget Estimate
	2004/05	2005/06	2006/07	2007/08	2008/09
<b>REVENUE &amp; GRANTS</b>					
Individual Income Tax	2,553	2,768	2,332	3,735	4,635
Corporate Tax	3,276	4,701	5,275	6,150	6,800
Taxes on Property	1,694	1,955	2,869	3,909	4,350
Excise Duties	2,838	6,617	7,140	7,885	8,930
Value Added Tax	12,528	13,710	15,468	18,150	20,200
Other Taxes	2,097	2,585	2,761	3,546	4,306
Customs Duty and Excise Duty on Imports	7,731	3,046	2,158	2,600	1,475
<b>Tax Revenue</b>	<b>32,717</b>	<b>35,382</b>	<b>38,003</b>	<b>45,975</b>	<b>50,696</b>
Non-Tax Revenue	2,474	3,127	1,428	1,481	2,442
Capital Revenue	414	222	2,363	3,606	4,421
<b>Total Derived Revenue</b>	<b>35,605</b>	<b>38,731</b>	<b>41,794</b>	<b>51,062</b>	<b>57,559</b>
Grants	444	489	322	673	4,025
<b>Total Derived Revenue and Grants</b>	<b>36,049</b>	<b>39,220</b>	<b>42,116</b>	<b>51,735</b>	<b>61,584</b>
<b>EXPENDITURE</b>					
Current Expenditure	38,042	41,915	44,122	50,453	60,586
Capital Expenditure	6,345	6,960	7,111	9,379	10,117
<b>Total Derived Expenditure</b>	<b>44,387</b>	<b>48,875</b>	<b>51,233</b>	<b>59,832</b>	<b>70,703</b>
Lending Minus Repayments	688	689	375	223	167
<b>Total Derived Expenditure and Lending Minus Repayments</b>	<b>45,075</b>	<b>49,564</b>	<b>51,608</b>	<b>60,055</b>	<b>70,870</b>

Source: Ministry of Finance

### Public Debt

**Table 4: STOCK OF PUBLIC DEBT AND PUBLIC SECTOR DEBT**  
(Rs M)

	Actual				Budget Estimate
	Jun-05	Jun-06	Jun-07	Jun-08	Jun-09
Internal Public Debt	96,584	104,829	108,668	124,689	130,759
External Public Debt	9,232	8,536	13,452	21,321	25,569
<b>Total public Debt</b>	<b>105,816</b>	<b>113,365</b>	<b>122,120</b>	<b>146,010</b>	<b>156,328</b>
<b>Total public debt (excluding debt of public corporations)</b>	<b>91,151</b>	<b>97,662</b>	<b>110,247</b>	<b>136,787</b>	<b>156,328</b>
<i>As a percentage of GDP</i>	<b>49.2%</b>	<b>47.3%</b>	<b>46.8%</b>	<b>51.9%</b>	<b>55.9%</b>

Source: Ministry of Finance

***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 2008, 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*

*6 June 2008*

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