

Mauritius Budget 2009

Confronting the Challenges



An action plan, built on the
Additional Stimulus Package,
with focus on saving jobs,
protecting people and preparing
for recovery

Budget at a Glance

Dr. The Honourable Ramakrishna Sithanen presented the fourth budget of this Government as an 18-month action plan that builds on the additional stimulus package of December 2008. The budget includes massive investments in public infrastructure and a comprehensive set of policies and measures to enhance competitiveness in order to deliver on three set priorities: saving jobs, protecting people and preparing for recovery.

Individuals

- Tax year to be aligned with calendar year as from 2010.
- Personal income tax for transitional period July to December 2009 payable by 5 April 2010.

Companies

- Solidarity levy of 1.5% of turnover and 5% of profits imposed on profitable fixed and mobile telephony service providers for next two financial years.
- Levy on banks doubled to 1% of turnover plus 3.4% of profits for next two financial years.
- Profitable companies required to allocate 2% of their profits for Corporate Social Responsibility activities.

Registration Duty

- Investors acquiring a non-IRS Villa for leaseback to pay fixed registration fee of USD 70,000.
- Micro enterprises moving to corporate status exempted from registration duty of 5% on immovable properties transferred as equity into a new company.
- 50% reduction on registration duty for electric cars.

Land Transfer Tax

- Single rate of 5% up to 31 December 2010 instead of current 10% and 15% rates.

Excise Duty

- Excise duty of Rs1.00 per PET bottle extended to aluminium cans.
- Excise duty on electric cars halved.

Tax Administration

- Income Tax Act amended to permit exchange of information on non-tax resident persons.
- Faster response to request for information from foreign tax authorities on Global Business Companies.



Fiscal Measures

Mobilising resources from profitable organisations to deliver on set priorities

Individuals

- As announced in last year's budget, our fiscal year will be changed to a calendar year basis as from 2010. As a transitional measure, individual taxpayers will be required to submit a tax return covering the six months ending 31 December 2009. The tax filing and payment deadline will be 5 April 2010.

Companies

- Fixed line and mobile telephone operators will be liable for the next two financial years to a special levy equivalent to 1.5% of turnover and 5% of book profit.
- The special levy on banks will be increased twofold to 1% of turnover and 3.4% of book profit for the next two financial years.
- Companies will be required to allocate 2% of their profits to government-backed activities under the Corporate Social Responsibility schemes or as contributions to the government in its fight against poverty.

Registration Duty

- A fixed registration fee of USD 70,000 will now be applied when an investor acquires a non-IRS Villa provided that it is leased back to a hotel operator.
- Micro enterprises converting into companies will be entitled to an exemption of registration duty when bringing in immovable properties as equity.
- Purchasers of electric cars will benefit from a 50% reduction in registration duty.

Land Transfer Tax

- Land transfer tax will be levied at a single rate of 5% instead of the current dual rates of 10% and 15% until 31 December 2010.

Excise Duty

- Excise duty of Rs1.00 per aluminium can used for soft and alcoholic drinks will be levied as from 23 May 2009.
- Rate of excise duty for electric cars will be reduced by 50%.

Tax Administration

- The Mauritius Revenue Authority will be bound under a Memorandum of Understanding to be signed with the Financial Services Commission to respond swiftly to demands from foreign tax authorities for information on Global Business Companies.
- Amendments will be made to the tax legislation to enable exchange of information even on companies that are not considered as tax resident for tax treaty purposes.



Budget Summary

Dr. The Honourable Minister of Finance, Ramakrishna Sithanen, presented his fourth budget in the context of a global downturn and high economic uncertainty.

Indeed this budget has to deal with the worst global economic outlook since the 1930's. Whilst the sub-prime crisis leading to a global financial system debacle in the year 2008 has driven the real world economy into a deep recession, the Mauritian economy has shown strong resilience. When some major economies were facing severe recession, our economy expanded by 5.3% with all sectors expanding, thanks to the implementation of economic reforms, creation of necessary fiscal space and prompt response to the global crisis.

However the current decline of our GDP growth and other economic indicators suggest that the commendable performance of our economy in 2008 would not be replicated in 2009 and 2010.

This budget is built on a continuing path of reforms, openness, global competitiveness and full employment, with an 18-month action plan that will deliver on three set priorities: saving jobs, protecting people, and preparing for recovery.

The Additional Stimulus Package (ASP) presented in December 2008 and which acted on areas ranging from tax policies to training and transitional support to enterprises, has managed to save jobs. The budget is thus built on the ASP to ride out the global crisis.

Measures announced are intended to save jobs by shoring up the performance of our industries, investing in viable enterprises currently in financial distress, and protecting people and gearing up for recovery by building public infrastructure and enhancing competitiveness through an asset modernisation and upgrading of skills programme.

The budget contains few fiscal measures mainly focused on mobilising resources from profitable organisations to support social objectives and initiatives.

The Minister noted that thanks to the applied reforms, the budget deficit will be limited to 3.9% of GDP in 2008/2009, 4.8% in 2009 and 5% in 2010. This upward trend in deficit is due to the imperatives of an expansionary fiscal policy to stimulate the economy and cushion it against the global crisis.

Mobilising total resources of Rs4Bn for saving jobs; bringing all SME's in Micro Enterprises under the safety net

Saving Jobs

- Restructuring of the Manufacturing Adjustment and SME Development Fund (MASMED) into a Rs3Bn Saving Jobs and Recovery Fund (SJR) to save jobs in sectors such as SME, Textile, Clothing and Manufacturing.
- Availability of Rs500M to the State Investment Corporation (SIC) to purchase assets from distressed companies.
- Drawing of an additional Rs2.4Bn from unused funds to support the SJR Fund.

- Reducing processing time for the payments and guarantees to less than 3 working days from the time of agreement on a Financial Restructuring Plan.

Bringing all SMEs and Micro Enterprises under the Safety Net

- Recruitment of consultants to assist SMEs in the preparation of Financial Restructuring Plans to enable them to benefit from the Mechanism for Transitional Support.
- Incitement of Micro Enterprises to become Corporate bodies with schemes such as:
 - (i) Exemption of Registration duty on transfer of immovable property as equity in a company.

(ii) Removal of Company registration fees up to 31 December 2010.

- Setting up of the Mauritius Business Growth Scheme (MBGS) in view of promoting business growth in SMEs.

Smoothing the Financial Difficulties of Enterprises

- Setting up of an Emergency Export Credit Insurance Scheme for both SMEs and large enterprises in all sectors until December 2010.
- Creation of a line of credit for equipment modernization for SMEs until December 2010.

Helping Women in Business

- Introduction of a mentoring service by the National Empowerment Foundation to assist in setting up and management of small enterprises.
- Provision of a new micro-enterprise finance scheme by the SJR Fund.

Work and Training Scheme

- Introduction of a work cum training scheme to enable companies in manufacturing and tourism sectors facing turnover reduction to send their employees on training instead of laying them off.

Agro-Industry: Investing in our Long Term Vision To Create Jobs

- Introduction of a Food Crop Insurance Scheme for small food crop plants.
- Provision of Rs45M for the setting up of 3 dairy farms at Petit Merlot, Nouvelle Decouverte and Mon Tresor.
- Earmarking of Rs45M to finance various medium sized projects such as fish processing, purchase of fishing boats, aquaculture, etc.
- Provision of Rs72M to assist small planters for derocking and irrigation.

Tourism

- Setting up of a Hotel Reconstruction Scheme for hotels that want to reconstruct until 2010 with Government refunding the lower of either 50% of the wage bill or the difference between the new rental and the old rental for such construction on the condition that no workers are laid off during the reconstruction period.
- Allowing individual foreign and Mauritian investors to acquire rooms in new hotels and villas which they must obligatorily lease back to the hotel operator as an alternative financing approach.
- Hotel rooms subject to the standard acquisition and transfer taxes, and villas the same tax treatment that apply to IRS.
- Suspension of payments of the increase in rental of small hotels, on less than one hectare of land and with less than 50 bedrooms, facing financial difficulties.
- Rescheduling of payment of arrears in rental for small hotels to be effected as from January 2011 in 5 equal yearly instalments.
- Rescheduling of the period for the arrears in rental of other hotels to 3 years with no moratorium.
- Review the rental amount for islets and other state land.
- Assistance to small hotels and restaurants to improve, refurbish and renovate so as to enhance productivity and competitiveness and upgrade the level of service.
- Financing of projects to encourage small and medium hotels and restaurants engage in energy management.
- Increase in marketing and promotional campaigns of MTPA to Rs200M.
- Regulation of whale and dolphin watching.

- Setting up of a Tourism Channel as a joint initiative of Ministry of Tourism and the MBC to the tune of Rs6M.
- Amendment to legislation to allow non-citizens to acquire residential properties outside the IRS and RES schemes.
- Enhancement of FSC processes for securing proper and adequate information on those who do business in our jurisdiction.
- Creation of better capacity for information exchange with foreign authorities when required.

IRS

- Authorisation for non-citizen to contract loan in MUR to finance purchase of residential property under IRS/RES schemes for amount above the first USD500,000 provided the repayments is effected in foreign currency.
- Provision of cash flow relief to IRS/RES promoters by allowing Land Transfer Tax to be paid in instalments.
- Authorisation of an IRS developer to sell 25% of his residential plots as serviced land subject to various conditions.
- Creation of an office of the ombudsperson to merge the functions of the ombudsperson for banking, for non-banking financial services and the commissioner for the Protection of Borrowers.
- Request by the FSC of wider information relating to Category 2 Global Business Companies such as data relating to beneficiary owners, an outline business plan and filing of financial summaries.

Construction

- Suspension of the 5% additional tax on transfer of land until end December 2010.
- Lowering of land transfer tax rate to 5%.

ICT

- Financing and facilitating of training and placement of school leavers.
- Organisation of an ICT symposium to showcase Mauritius to potential foreign clients interested in disaster recovery service and/or business process outsourcing.

Financial Services

- Setting up of a Financial Stability Committee to review and ensure the soundness and stability of the financial system.
- Strengthening of the Monetary Policy Committee by expanding its membership.
- Analysis of the possibility for developing sovereign debts that are shari'ah compliant.



Shoring up the performance of our industries and investing in viable enterprises currently in distress

Boosting of Project Realisation Capacity

- Increase of the provision for the Capacity Building Programme to Rs190M.
- Development of a special window to employ newly qualified engineers to undertake industrial and pre-registration training.
- Provision of Rs560M to the National Empowerment Foundation (NEF) for the following:
 - Setting of an 'Espace Des Metiers', a permanent job fair platform to promote interaction between employers and job seekers.
 - Introduction of a functional literacy and numeracy program to facilitate integration of citizens with low level of qualifications into the world of work.
 - Technical and financial assistance to craftsmen to motivate knowledge sharing with apprentices.
- Decentralisation of the procurement process, through increase in approval threshold value:
 - from Rs15M to Rs50M for Ministries/ Departments.
 - from Rs15M to Rs50M and Rs50M to Rs100M for all other public bodies.
- Introduction of good governance practices in procurement process.



Launching the largest investment programme in the history of Mauritius - encompassing road, shovel ready and PPP projects

Launching Massive Investment Programme

Road Projects

- Harbour Bridge, a bypass for North-South through traffic, to the tune of Rs8Bn over 3 years.
- Ring Road, a project offering multi-entry points into Port-Louis from the South at the cost of Rs6Bn over 3 years.
- Terre Rouge – Verdun link road at the cost of Rs2Bn.
- Verdun – Ebene link road at the cost of Rs800M.
- The Bus Rapid Transit system at an investment of Rs5Bn.
- The East – West connector for Rs4Bn.

Shovel Ready Project

- Completion of Triolet bypass project and Goodlands bypass project by June 2010 at a cost of Rs230M and Rs300M respectively.
- Start of carriage way project from Pamplemousses to Grand Bay and bus lane on Motorway M1 from Pailles to Caudan in July 2009 at the cost of Rs700M and Rs210 M respectively.
- Investment of Rs11Bn in a new modern airport to accommodate some 4 million passengers.
- Expansion of the Port Container Terminal to the tune of Rs5Bn.
- Addition of a third lane to the Motorway between Phoenix and Trianon at an estimated cost of Rs150M.

Public Private Partnership (PPP) Projects

- Start of the Tianli Project in September 2009, bringing in some Rs20Bn of Foreign Direct Investment (FDI).
- Development of the Highlands project, a modern town spanning over 920 hectares at a cost of Rs100Bn.
- Earmarking of Rs330M for the Integrated Mix Use Development Project at Rose-Hill that will include modern municipal and Arab Town markets, commercial, recreational and business space.
- Investment of Rs1Bn in a Wind Park at Bigara.
- Construction of 100MW power plant to the tune of Rs5Bn.
- Rs450M earmarked in the Local Infrastructure Fund (LIF) for improving infrastructure facilities and amenities in towns and villages.



Strengthening and widening protection of our citizens from the fall-outs of the global recession

Protecting People

Consolidating Capacity to Deliver Support

- Providing a coordinating framework under the National Empowerment Foundation (NEF) for the Trust Fund, the eradication of Absolute Poverty Programme and the Decentralised Cooperation Programme (DCP) with a budget of Rs1.5 Bn.
- Strengthening of the NGO community through support by the DCP by:
 - capacity building of NGOs
 - provision of resources to NGO for programme implementation
 - setting up of a professional corp volunteers for NGO
 - setting monitoring and evaluation system for programmes
- Continuous support of Rs300M to various projects by non-state actors and local governments.
- Refund of VAT for construction undertaken under programmes approved by the NEF.

Decent Dwellings for Families in Need

- Promotion of competitive domestic production of solar heaters.
- Promoting recycling of aluminium cans by introducing excise duty of Re1.00 per aluminium can, with proceeds credited to Maurice Ile Durable (MID) Fund.



- Implementation by the MID Fund of an energy use audit in Ministries with a view to reducing wastage and promoting solar energy.
- Development of a programme for consultants to undertake energy audits of enterprises in the manufacturing and tourism sectors with MID Fund sharing cost of the consultants.
- Reduction of half of taxes on electric cars.
- Encouraging electricity saving by customers at peak times with collaboration of CEB and MBC.
- Development of a MID module for both primary and secondary schools by the Ministry of Education and the MID Fund.

Eradicating Absolute Poverty

- Provision of medical screening to around 600 children of pre-primary schools in selected areas.

Corporate Social Responsibility (CSR)

- Creation of a special vehicle to implement CSR projects developed by IRS projects supplemented with a matching grant from Government.

More Support for Micro and Small Businesses in Distress

- Facilitation of settlement of arrears by various micro business owners by extending settlement period or full waiver of penalty and accumulated interest.
- Rescheduling by DBM of loans for SMEs facing cash flow crisis.
- Support to taxi drivers working at hotels that will be under reconstruction.
- Postponing of renewal of cars by taxi drivers and contract car operators until January 2011.

Supporting Artists to Grow Creative Cost Industry

- Provision of Rs2M from the Human Resource Development , Knowledge and Art Fund (HRDKA) Fund to support musical bands performing in hotels.
- At least 1% of construction works of more than Rs50M to be devoted to artistic work.
- Provision of a Rs2M grant to the Musée de la Photographie to support its presentation.

Upgrading our Football Stadiums

- Provision of Rs15M for upgrading and modernising the George Vth and Anjalay Coopen Stadiums to international standard so that teams participating in the South Africa Football World Cup may train in Mauritius.

Fulfilling our Social Obligation

- Provision of Rs24M to support NGOs working to combat HIV/AIDS.
- Provision of Rs450M for social benefits and Rs500,000 to NGO's assisting cancer and Alzheimer patients.
- Dedicating Rs100M for Tamiflu in case H1N1 virus reaches Mauritius.

Support to Vulnerable Women, Children and Families

- Increase in funds to old age and other non-contributory pensions and social aid benefits by 5.1%.
- Support to single mothers with dependent children by:
 - increasing allowance
 - extending upper age limit of children
 - increasing allowances payable under Social Aid to abandoned women and their children
- Provision of Rs7.65M to NGOs assisting women and children in need.
- Development by Ministry of Women, Ministry of Social Security and NGOs to

offer shelter and support to women and children in need.

- Increasing age limit of child allowance to 23 years for beneficiaries of Social Aid in full time education in a recognised tertiary institution.
- Increasing household income threshold for students attending courses at tertiary institutions in Mauritius and facing severe hardship following death or serious incapacity of a wage earner in the family.

Law and Order

- Provision of Rs1.25Bn to finance law and order initiatives.
- Recruitment of 550 policemen and policewomen.
- Upgrading of CCTV project to integrate the radio communication system and extending its coverage to new locations.
- Upgrading the equipment and vehicles to improve response capacity and effectiveness of the police force.
- Improving search and rescue capacity by acquiring a new helicopter.

Rodrigues

- Provision of a stimulus package of Rs100M to the NEF for Rodrigues from to the Saving Jobs and Recovery Fund and the Food Security Fund.
- Setting up and operation of a SJR Fund and Food Security Fund antenna by NEF to publicise available programmes and facilitate access.
- Suspension of the travel tax to Rodrigues until December 2010.
- Provision of support to onion growers and goat breeders as in Mauritius.
- Expansion of road network, with budget of Rs22M.
- Financing of a wind farm project for electricity generation by the MID Fund.

- Provision of loans of up to Rs150,000 to fishers who wish to move to agricultural and handicraft sectors.
- Financing of community based projects such as provision of water tanks for rain harvesting, distribution of school materials to children and construction of housing units.

Monitoring expansionary macroeconomic policies whilst calling for a greater sense of sharing and solidarity among those who can afford it

Maintaining Expansionary Macroeconomic Policies

Government is encouraging redistribution of riches by way of five proactive solidarity measures in order to save jobs and protect and support people affected by the financial crisis:

- Application of a solidarity levy of 5% on profits and 1.5% on turnover of profitable fixed and mobile telephony operators for the next two financial years.
- Increase of special levy on profitable banks to 1% of turnover and 3.4% of profits for the next two financial years.
- Promotion of CSR activities by requiring all profitable organisations to dedicate 2 percent of their profits on Government approved CSR projects or to entrust this sum to the Government to support eradication of poverty.
- Company Directors are requested to safeguard employment, build up adequate reserves to prepare for future challenges and perform solvency test prior to distribution of dividends.
- Adoption of measures by the Government to curb public expenses:
 - Reduction of Ministers' salaries by Rs10,000 per month from July 2009 to December 2009.
 - Realignment of fees paid to Board and Committee members of statutory bodies and state-owned companies including the chairpersons at their pre-PRB level up to December 2010.
 - Freezing of entertainment allowances to advisers, chairpersons, directors and employees of the public and para-public sectors up to December 2010.
 - Control of overseas travelling expenses for the public servants, including retired high officials.
 - Reduction of expenses incurred during official missions overseas.
 - Monitoring and containment of costs relating to overtime and utilities.
 - Review of the operations of parastatal organisations in view of their rationalisation.
 - Review and rationalisation of embassy operations.
 - Reform of cess financed institutions to offer relief to small cane planters.
 - Allocation of Rs100M from the MID Fund to co-finance the cleaning-up of NHDC housing estates and the rehabilitation of the water, electricity and waste water infrastructure.
 - Set up of an International Development Grants Scheme to support performing artists.
 - Increase of income support to needy people by 15%.
 - Construction of a new university campus which will accommodate some 8,000 students at the cost of Rs600M.



Economic Review

Table 1 - Main Economic Indicators

	2006	2007	2008 ¹	2009 ²
GDP at market prices (Rs bn)	206	235	265	279
GDP growth rate (%)	5.1	5.4	5.3	2.5
Per capita GDP at market prices (Rs M)	164,669	186,769	208,570	218,280
Unemployment Rate (%)*	9.1	8.5	7.2	7.9
Inflation Rate (%)*	5.1	10.7	8.8	6.9
Savings Rate (% of GDP)	17.1	21.2	16.7	14.7
Investment Rate (% of GDP)	24.3	25.1	24.5	24.5
Balance of Visible Trade (Rs bn) – CY*	(41.5)	(51.3)	(64.2)	(65.7)
Overall Balance of Payments (Rs bn) – CY*	(4.6)	13.9	4.6	(4.3)
Budget Deficit (% of GDP)	5.3	4.3	3.3	3.9

Sources: CSO and MCB Estimates 1: revised estimates 2: forecasts *MCB estimates

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Kemp Chatteris Deloitte

3rd Floor, Cerné House

La Chaussée, Port Louis, Mauritius, P.O. Box 322

Tel.: +230 203 8000 | Fax: +230 208 8002

kcd@deloitte-mu.com | www.deloitte-mu.com