



Budget Highlights 2011

TAX

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Foreword

Back to our core values

At a time when the population has had enough with frightening news, on an almost daily basis, caused essentially by seemingly rising societal problems, it is refreshing to hear references being made in a budget speech to the importance of social values as a driver of economic performance. The tone was rightly set at the outset when the Honourable Minister stated that *"successful development is not only about creating value. It is also about values."*

Several budgetary measures have been announced to correct what are largely perceived to be at the root causes of social problems and domestic violence, namely excessive alcohol consumption and gambling. Whilst many of these measures are commendable, great care should be taken by the authorities concerned to ensure that these budgetary measures lead to an effective reduction in consumption, as intended. Those who are deeply stuck in these "fléaux" might not want to reduce their consumption because of an increase in price in which case the good intentions could constrain further the family budget. Worse, some heads of families might be tempted to use the 'gains' obtained from other announced measures (such as from the exemption in SC and HSC fees) to maintain their consumption at the same level. It is of critical importance to have accompanying measures (such as sensitisation campaigns) to ensure that the objectives are effectively met.

At the other end of the income bracket, namely those earning above Rs150,000 per month, the compassion shown is less evident, even though they are the individuals who will benefit the most from the abolition of the National Residential Property Tax. More 'solidarity' is also expected of the successful, resilient sectors of the economy (banking and telecommunications). Whilst these sectors have suffered serious setbacks in many advanced economies and had to depend on Government support for their survival, Mauritius can pride itself in having enhanced their resilience over the years. The 'solidarity tax' is therefore maintained for another two years.

Also commendable is the announced 'responsible fiscal stewardship' which seeks to contain the budget deficit at moderately high levels during these times of turbulence (estimated at 4.3% of GDP in 2011 despite the massive capital expenditures in productive sectors and generous social measures).

However, achieving the dream of Rs1Trillion in the 2020s (with current GDP standing at less than Rs300 Billion) would require an average annual growth rate of at least 10% (for more than ten years)! This indeed sounds like a dream but then, Martin Luther King also had a dream...

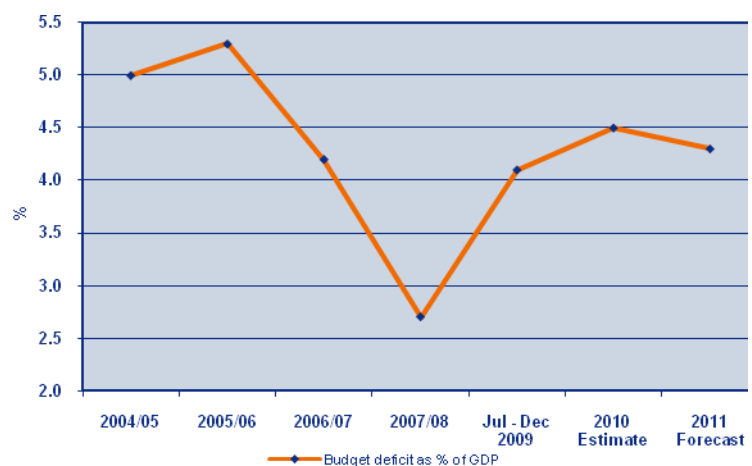
If you are hungry for more on the various budgetary measures announced, read on!

Budget Outturn 2010

- Budget deficit of 4.5% of GDP
- Revenue of Rs63 Billion
- Current expenditure of Rs68 Billion
- Capital expenditure of Rs8 Billion
- Public sector debt of 60.7% of GDP (2009: 60%)

Budget Outlook 2011

Government expenditure	Rs84.0 Billion (26.1% of GDP)
Government revenue	Rs70.3 Billion (21.8% of GDP)
Budget deficit	Rs13.7 Billion (4.3% of GDP)



Income Tax - Corporate

- Existing exemption available to Freeport and logistics platform extended for another 2 years
- Capital allowances on motor cars to be limited to Rs3 Million per motor car
- National Residential Property Tax (NRPT) abolished as from 1 January 2010
- Existing special levy on banks maintained for the next 2 financial years
- Additional charge on Segment A banking activities of 1.25% of profits + 0.5% of turnover. Banks contributing to the new Private Equity Fund may offset the contribution against the additional charge
- Special solidarity levy on providers of fixed and mobile telephony services maintained for the next 2 financial years

Income Tax - Personal

- Filing deadline extended by 15 days where an individual submits annual income tax return and pays the income tax electronically
- Bank interest income exempt from income tax with effect from 1 January 2010
- Tax withheld at source on interest during 2010 to be refunded as tax credit in 2012 and 2013 tax returns. Unused tax credits to be refunded in the form of cash in 2013
- National Residential Property Tax (NRPT) abolished as from 1 January 2010
- New Solidarity Income Tax of 10% on exempt income applicable to taxpayers with total income (including exempt income) of Rs2 Million and above
- First time home owners who are not subject to Solidarity Income Tax or who are not benefiting from the new housing schemes to be eligible for a deduction of up to Rs120,000 on interest paid on mortgage loans taken from 1 January 2011 for the first 5 years of the loan
- The above deduction extended to the original mortgage taken since 1 July 2006 by first time home owners and deduction may be claimed for 5 years starting from 1 January 2011
- Taxpayers not subject to the Solidarity Income Tax eligible to claim exemption as follows:
 - Rs80,000 per child following courses in Mauritius
 - Rs125,000 per child following courses overseas
- The above exemption is restricted to 3 children and tuition fees not exceeding Rs44,500 (excluding administration and student union fees)
- Individuals deriving gains above Rs2 Million from sale of land and immovable property to be taxed at the rate of 10%
- Land and immovable properties received by way of inheritance or transferred by the parents to their heirs not subject to tax
- Income tax exemption for lump sum on retirement and severance increased from Rs1 Million to Rs1.5 Million
- Reintroduction of tax exemption on first 60 tonnes of sugar for small planters with less than 15 hectares of land and who rely solely on sugar income

Indirect Taxes - VAT

- VAT to be applicable on goods and services supplied by Mauritius Turf Club and horse stables and on the management services to tote operators
- VAT benefits currently available to medium and large exporters of sugar extended to small planters

- VAT exemption provided to Private Health Institutions relating to cosmetic surgery removed
- The following items to be moved from the list of zero rated supplies to exempt supplies and the producers of such goods will be able to recover input tax when they export:
 - Wheat flour and bran
 - Edible oils
 - Margarine
 - Sterilised liquid milk
 - Curdled milk and cream and yoghurt
 - Live chickens and chicks
 - Animal feed
 - Fertilizers

Indirect Taxes - Duties

- Excise duty on petroleum products increased by 10%
- Excise duty increased as follows:
 - Rum and liquor – by Rs37 a litre and Rs33 a litre respectively
 - All other alcoholic products - by 20%
 - Cigarettes and tobacco products - by 25%
 - Spirit cooler - by 50%
- Customs duty removed on cosmetic products and pharmaceuticals imported as samples for testing purposes
- Pool betting duty on foreign football matches increased from 10% to 12%
- Rate of tax on fixed odds betting on football matches and horse racing to be increased from 8% to 10%
- No registration duty in respect of an adult first-time buyer of a house or a bare residential land if his total annual income is below Rs2 Million
- Above benefit applicable on the first Rs1.5 Million of the price of the house, or the first Rs 750,000 of the price of the bare land, provided the beneficiary begins construction within 1 year and construction is completed within 3 years
- Excise duty on PET bottles, plastic bags and cans increased from Rs1 to Rs2. Such duty to be extended to other types of plastic containers and non-bio-degradable containers
- MID levy on each litre of petroleum products and each kg of coal and LPG increased to 30 cents
- Full duty-free facility on all types of double cab vehicles (4x4) for

eligible small planters, farmers, fishermen's cooperative societies and qualified SMEs

Licenses

- Increased license fees for:
 - Casinos and Gaming House 'A' from Rs500,000 to Rs3.5 Million
 - Gaming Slot Machines to Rs125,000
 - Gaming House 'B' to Rs50,000
 - Horse-racing bookmakers by 67%
 - All other betting outlets, including totalisators, football betting outlets and bookmakers operating through remote control communications by 100%
- Sweepstake organizers, local pool promoters, agents of foreign pool and operators of dart games by 50%
- MRA directed not to issue any 'on and off' and retailer of beer licenses
- No granting of a new 'off' category license where there is already another retail outlet or a school or a place of worship within 500 meters of the proposed premises
- License fees payable in respect of liquor and alcoholic products under Excise Act increased by 50%

Manufacturing

- Provision of Rs600 Million through the Manufacturing and Services Development and Competitiveness program to support enterprises in particular SMEs
- The Leasing for Equipment Modernisation Scheme (LEMS) extended until December 2012
- Additional funding facilities of Rs700 Million for LEMS
- Enterprise Mauritius (EM) will focus on export promotion and development of new markets, particularly in Africa and emerging economies
- DBM will be transformed into a Development Finance Agency (DFA) to more effectively support SME's

Financial Services

- Corporations holding Category 1 Global Business License to be able to conduct business inside Mauritius; however such domestic operations to be subject to income tax at 15%
- The Trust Act to be amended to allow unlimited duration of non-charitable purpose trusts
- Proposal to merge Bank of Mauritius (BoM) and the Financial

Services Commission (FSC) into one single regulatory institution

- The BoM to be empowered:
 - To issue a larger variety of instruments
 - To extend advances from 3 months to 6 months
 - To broaden the list of collaterals while granting advances
 - To develop the forex and derivatives market
 - To bring the legal framework in line with the insolvency legislation
- Contribution of USD5 Million to the International Islamic Liquidity Management Board by the BoM to facilitate the creation of Shari'ah compliant liquidity instruments

Agro-Industry

- Surplus generated from sugar operations by Cooperative Credit Societies (CCS) exempted from income tax
- Concessionary fixed fee of Rs200 on registration and inscription of loans up to Rs25,000 given by CCS to their members
- Price of molasses for producing potable alcohol increased by Rs10 per litre of absolute alcohol
- National Agricultural Biotechnology Institute for non-sugar agricultural sector to be set up
- Two hydroponics villages for small planters in the non-sugar sector to be set up
- The Fisheries and Marine Resources Act 2007 and the Maritime Zones Act 2005 to be amended to cater for the production of a wider variety of species

Infrastructure

- Rs4.5 Billion to improve the CEB, CWA, Airports of Mauritius and the sea transport infrastructure
- Construction and upgrading of healthcare infrastructure

Improving Investment Climate

- Registrar of Companies to be a one stop shop for all business start-ups in non regulated activities and to accept payment of trade fees at the time of registration
- Threshold for occupation permits for professionals to be reduced from Rs75,000 to Rs45,000
- Building and Land Use Permit applications to the CEB and CWA on line
- Government to implement on-line submission and e-payment of notary deeds

- The e-payment system extended to all businesses as well as to population
- A Mediation Division to be set up in the Supreme Court where all commercial cases will be dealt with first before going to full trial
- An International conference will be held in December 2010 to further promote Mauritius as an International Centre for Arbitration
- Commercial disputes to be settled within a time frame of 100 days

Education

- Upgrade of primary and secondary schools and facilitating the setting up of campuses
- Introduction of a new visa scheme for foreign students
- Introduction of new scholarship scheme comprising of:
 - An undergraduate course in any tertiary education in Mauritius with an annual grant
 - A second scholarship for postgraduate in either Mauritius or abroad and
 - Two years internship in a Ministry/ Department
- Laureates can either choose from current scheme or new scheme
- Increase in laureates from 12 to 50 among which 24 reserved for families with modest income
- Grant on SC and HSC exam fees as follows: 100% grant for families with monthly income from Rs8,500 to Rs14,500 and 50% for families with monthly income between Rs14,500 and Rs20,000
- Decrease in loan interest from EWF from 7.5% to 5% on loans up to Rs500,000 and from 10% to 5% for loans over Rs500,000

Social

- 50% of CSR resources to focus on 3 national programmes namely:
 - Social Housing
 - Welfare of children from vulnerable groups
 - Eradication of absolute poverty
- Ministry of Social Integration to benefit from over Rs1.2 Billion in 2011 to support social agenda such as:
 - Construction of Housing Units for families earning less than Rs5,000 per month
 - Welfare of children from vulnerable groups
- New comprehensive 'Housing With Good Living' programme over 10 years with 5 schemes for families with monthly income below Rs5,000 to families with monthly income

between Rs25,000 and Rs50,000

- Mortgage repayments for all 5 schemes to be worked out over a period of up to 40 years to ensure affordability
- Mortgage to cover price of house and associated fees
- Grant for the casting of slabs increased from Rs60,000 to Rs65,000
- Cash grant of Rs3,000 to families with monthly income below Rs10,000 and with restricted water supply to purchase a water tank
- Grant for the Solar Water Heater scheme reinstated at Rs10,000

Public Sector

- Money owed by Government to the public to be paid on time otherwise interest is applicable on the amount in respect of the period delayed
- Merger of the Central Water Authority, the Irrigation Authority, the Water Resources Unit and the Wastewater Authority into one single Water Authority
- A Parliamentary e-document management and a dedicated interactive internet portal for the National Assembly to be set up
- The Statutory Bodies (Accounts and Audit) Act to be amended in respect of provisions relating to the submission of Annual Report of statutory bodies
- The preparation of financial statements to be in compliance with the International Public Sector Accounting Standards

Law and Order

- Purchase of a Coastal Surveillance Radar System for round the island round the clock surveillance off mainland Mauritius, Rodrigues, Agalega and St Brandon
- Setting up CCTV Street Surveillance systems in more regions across the country
- Digital recording system in the hearing rooms of the Employment Relations Tribunal

Optimising Use of Land Resources

- Land Productivity Enhancement Scheme (LPES) introduced to facilitate development of land that already has conversion rights
- SIE Act and Morcellement Act to be amended to facilitate releasing land for development
- LPES not available for residential morcellement except for mixed commercial developments
- Land Conversion Rights (LCR) may be transferred between unrelated parties, subject to payment of a fixed fee of Rs350,000 per hectare
- LCR transferable between companies of the same group,

ascendants and descendants and co-heirs

- Profits and gains derived from transactions in land and other immovable property, including morcellements, taxable at the rate of 15%
- All costs incurred in relation to the sugar reform such as factory closure and the VRS to be income deductible
- Cutoff date of 1988 to apply for all properties acquired before that date for determining cost of acquisition of property
- Societes in real estate business taxable at the rate of 15% in their own name instead of in the name of individual partners
- The surcharge of 5% on land transfer tax introduced in 2008 to be removed
- For small and medium planters:
 - Exemption threshold of land conversion tax increased from one to two hectares
 - Individual tax exemption available to small and medium planters when they regroup their land assets

Other

- Cost of traditional international bandwidth services (International Private Leased Circuit and Internet Protocol Virtual Private Network) to be decreased by an average of 16% to 24% as from 2011
- Registrar of Companies and Ministries to embrace a paperless environment
- On-line submission of building and land permit applications to the CEB and CWA
- Increase in passenger fee levied on tourists as follows:
 - Passengers aged 12 and above: Rs1,400
 - Children aged 2 to 12: Rs700
- Reduced fee of Rs600 and Rs300 respectively applicable to passengers from the Indian Ocean Commission countries
- Passenger service charge levied by AML on departing passengers adjusted to Rs1,000 for adults and Rs500 for children
- Old age pensions and other basic pensions and social aid increased by 3.2%

SELECTED ECONOMIC INDICATORS

		2005 Actual	2006 Actual	2007 Actual	2008 Actual	2009 Actual	2010 Estimate
GDP per capita	Rs	130,411	145,260	164,172	183,864	190,691	200,619
GDP growth	%	2.3	5.1	5.5	5.1	3.1	4.1
Inflation	%	4.9	8.9	8.8	9.7	2.5	2.7
Unemployment	%	9.6	9.1	8.5	7.2	7.3	7.5
Budget deficit / GDP	%	5.0	5.3	4.2	2.7	4.5	4.5
Total investment / GDP	%	21.4	24.3	25.1	24.6	26.2	24.4
Private investment / GDP	%	15.1	16.6	19.6	20.4	19.5	18.5
Savings / GDP	%	17.4	17.1	21.2	16.6	13.9	14.4
Consumption / GDP	%	83.5	84.7	83.5	87.7	89.2	89.0
FDI inflows	Rs Billion	2.8	7.2	11.5	11.4	8.8	11.0
Balance of payments surplus	Rs Billion	-4.8	-4.5	13.8	4.6	12.1	2.0
Tourist arrivals		761,063	788,276	906,971	930,456	871,356	920,000
Sectoral growth rates:							
Financial services	%	5.4	7.0	7.5	10.8	4.9	5.6
Manufacturing	%	-5.5	4.0	2.2	3.2	1.1	1.9
Construction	%	-4.4	5.2	15.2	11.1	6.5	5.0
Agriculture	%	-5.4	0.6	-5.2	1.5	10.7	4.0

Sources: Central Statistics Office, Bank of Mauritius, Budget Speech

HYPOTHETICAL TAX CALCULATION			
		Scenario 1 (Income less than Rs2 Million)	Scenario 2 (Income more than Rs2 Million)
Income Year	2010	2011	2011
Period Covered	Jan-Dec 2010	Jan-Dec 2011	Jan-Dec 2011
Salary	1,300,000	1,600,000	2,100,000
Bonus	50,000	50,000	50,000
Interest Income (A)	10,000	10,000	10,000
Dividend income (local) (B)	100,000	100,000	100,000
Total Income	1,460,000	1,760,000	2,260,000
Less Exempt income (A+B)	(110,000)	(110,000)	(110,000)
Total Net Income	1,350,000	1,650,000	2,150,000
Less deductions:			
IET (Category D)	(465,000)	(465,000)	(465,000)
Mortgage interest (see Note 4)	0	(120,000)	0
Tuition fees (see Note 5)	0	(205,000)	0
Chargeable Income	885,000	860,000	1,685,000
Tax at 15%	132,750	129,000	252,750
Solidarity Income Tax (10% of exempt income)	N/A	N/A	11,000
Add NRPT	N/A	N/A	N/A
Total Tax	132,750	129,000	263,750

Calculations based on the following assumptions:

- 1 Married with three dependents
- 2 Received bank interest income of Rs10,000 in 2010 and 2011
- 3 Received local dividend income of Rs100,000 in 2010 and 2011
- 4 First time home owner loan taken out in January 2011. Mortgage interest payment of Rs150,000 in 2011 (restricted to Rs120,000)
- 5 Tuition fees of Rs100,000 for child studying in Mauritius (exemption of Rs80,000) and Rs175,000 for child studying overseas (exemption of Rs125,000)



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The above information has been extracted from the budget speech delivered by the Vice-Prime Minister and Minister of Finance and Economic Development, The Honourable Pravind Kumar Jugnauth to the National Assembly on 19 November 2010.

The Budget proposals may be amended significantly before enactment. The content of this summary is intended to provide a general guide to the subject matter and should not be regarded as a basis for ascertaining liability to tax or determining investment strategy in specific circumstances. In such cases specialist advice should be taken.

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