Mauritius National Budget 18-19

SAFYR UTILIS
BUILDING TOGETHER

" Getting it over the line "

Chartered Tax Advisers

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Insights

Getting it over the line

CONTEXT

Going into the game

As World Cup 2018 takes centre stage, the Prime Minister, and Minister of Finance and Economic Development, Honourable, Pravind Jugnauth stoically delivered his third budget speech during the life of this parliament. More importantly though, his penultimate one before the country goes to the polls.

The economic bet based on substantial governmental spending on infrastructure projects is yet to fully deliver on its promises of economic growth. In addition, the structural and sectoral challenges have been amplified by exogenous factors with oil price rebounding to 2014 levels, the unfolding of the OECD measures in terms of information disclosure and tax harmonisation, and the generally volatile global capital markets amidst state-centred politics and global power shifts.

MACRO FUNDAMENTALS

Team performance so far

GDP growth is expected to rise to 4.1% for 2018/19, a commendable performance as this would outperform the projected world output growth rate of 3.9%, investment rate is also expected to tick up at 18.4% compared to 17.6% for 2017/18. These remain below the benchmark (thus having only a marginal impact on job creation) with private sector investment remaining subdued. Inflation's upward trend is expected to be reversed in 2018/19, down to 3.5% (despite rising commodity prices) from 4.3% in 2017/18. Unemployment rate continues to trend down.

Turning to public finance, the budget deficit has been contained at 3.2%, and expected to be unchanged in the coming fiscal year. Government revenue is expected to benefit from grants from foreign governments to the tune of MUR8.1bn (±US$240m). Capital expenditure of MUR 13.7bn (±US$462m) is below the planned amount of MUR18.8bn (±US$553m), highlighting again successive governments' challenges to efficiently deliver on capital projects. Public debt is estimated to decrease to 63.4 % of GDP in 2017/18 to reach 63.1%% in the next fiscal year, though still below the target of 60%.

THE BUDGET PHILOSOPHY

Strategy for the second half

This budget has the merit of being consistent with the previous two in terms of broad objectives, namely (a) improving the day to day of the population, (b) investing in infrastructure whilst protecting and enhancing the environment and (c) stimulating exports and further developing the agri-business sector. The proposed implementation of a legal framework for innovation, digitisation and fintech is welcome and hopefully a step in Mauritius transition to an innovation and knowledge based economy. The following specific measures are of particular interest:-

- As part of continued adherence to the OECD initiatives, the regime of tax exempt category 2 business companies has been abolished (with grandfathering provisions) and effectively granting both domestic companies and category 1 business company ("GBC1") an 80% partial tax exemption on specified sources of income, In addition, the level of economic activity carried out by the GBC 1 will have to be enhanced.

- The Africa strategy is reinforced via a five year tax holiday for Mauritian companies collaborating with the Mauritius Africa Fund for specific infrastructure developments.

- The policy to open the economy and country is maintained with the grants of citizenship or passport granted against a contribution of $1,000,000 or $500,000 respectively to the Mauritius Sovereign Fund, and subject to defined criteria being met.

CONCLUSION

Lifting the World Cup?

Delivering on the promise of markedly improving people's lives is key to the sustainability of any government.

Lifting the World Cup, therefore to some extent, will depend on execution, even more so when growth is heavily reliant on public spending and then also, at times, the elusive hand of God. Let us hope that they get it over the line.

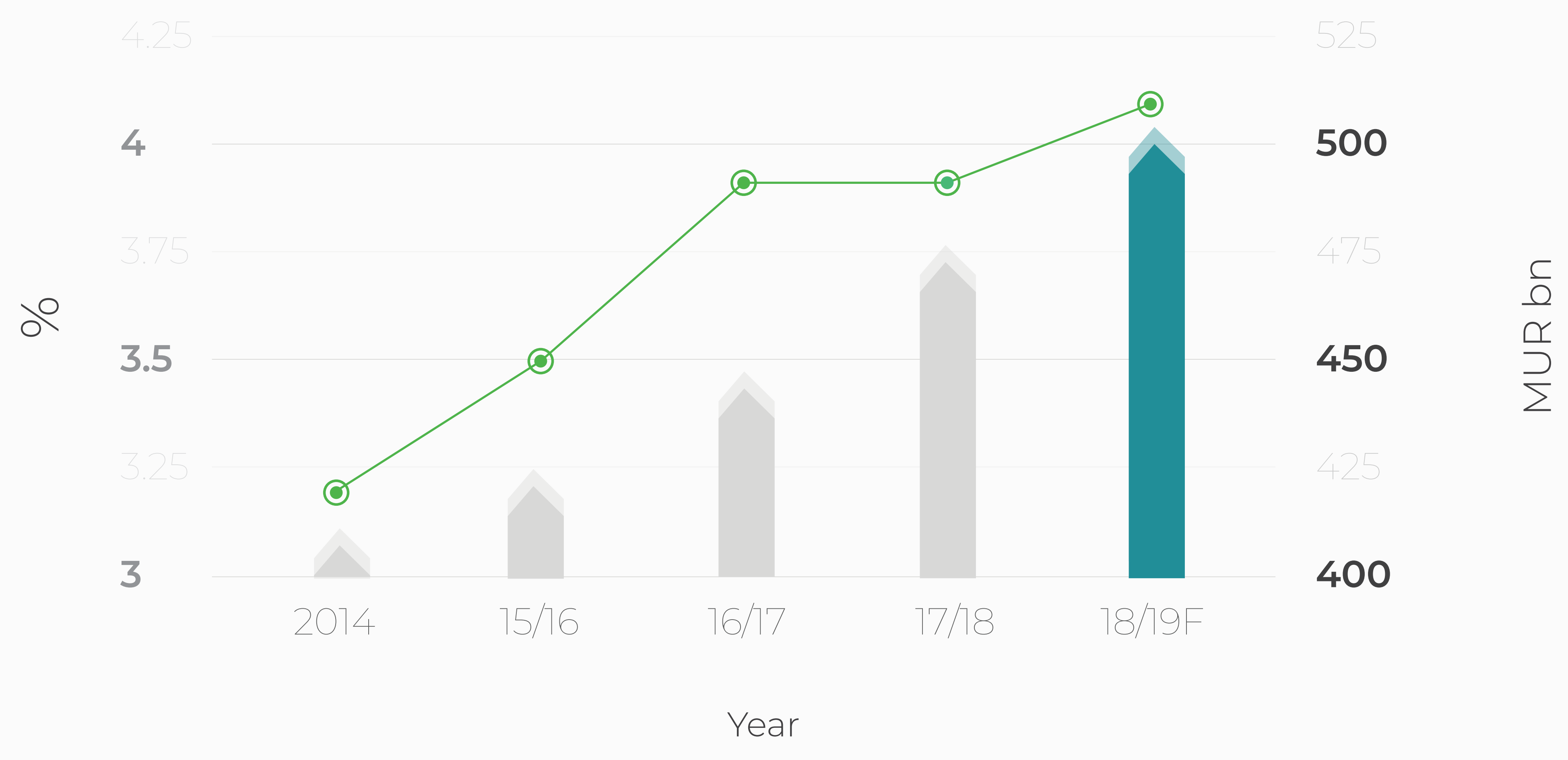
SAFYR UTILIS LTD -BUDGET NIGHT

14th June 2018

Macroeconomics outlook

GDP Growth rate

GDP grew from MUR 447.3 bn in 2016/17 to an estimated MUR 476.3 bn in this fiscal year at a rate of 3.9%. Whilst the growth rate, forecast at 4.1% in 2018/19, is commendable, it is below the targets previously set and at this rate may not enable us to meet the objective of becoming a high income country with an income per capita of USD 13,600 by 2023 .

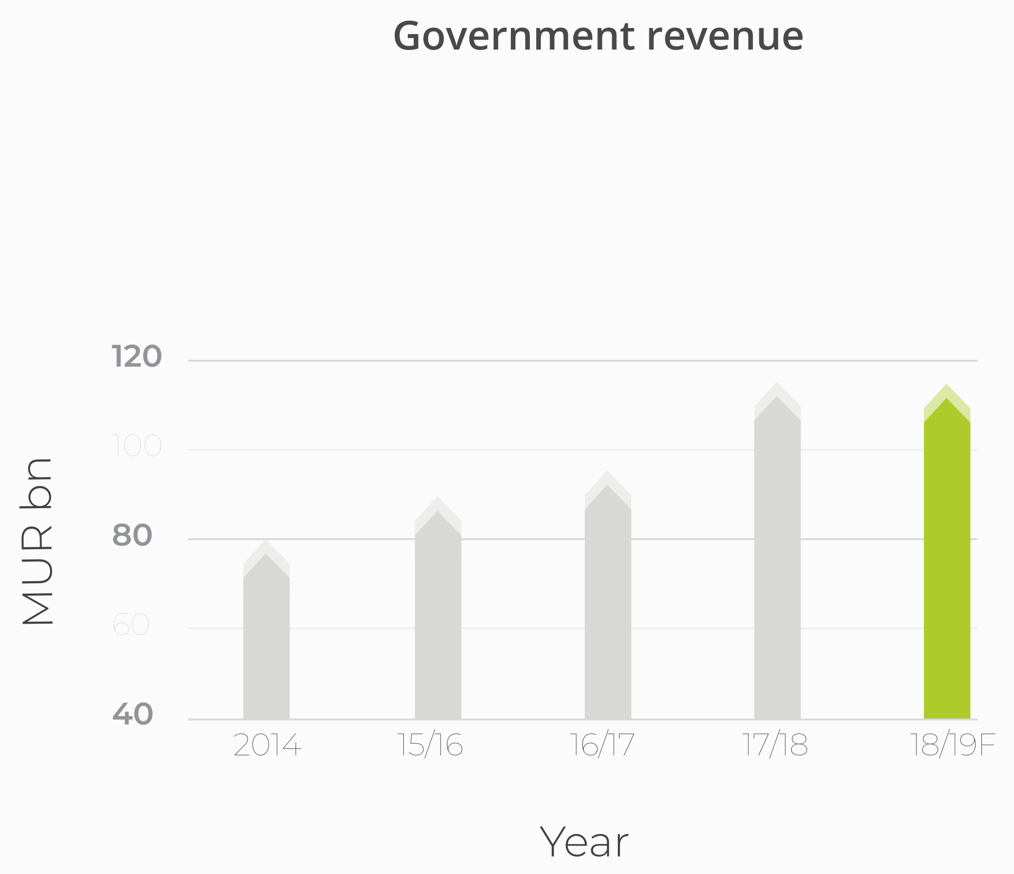


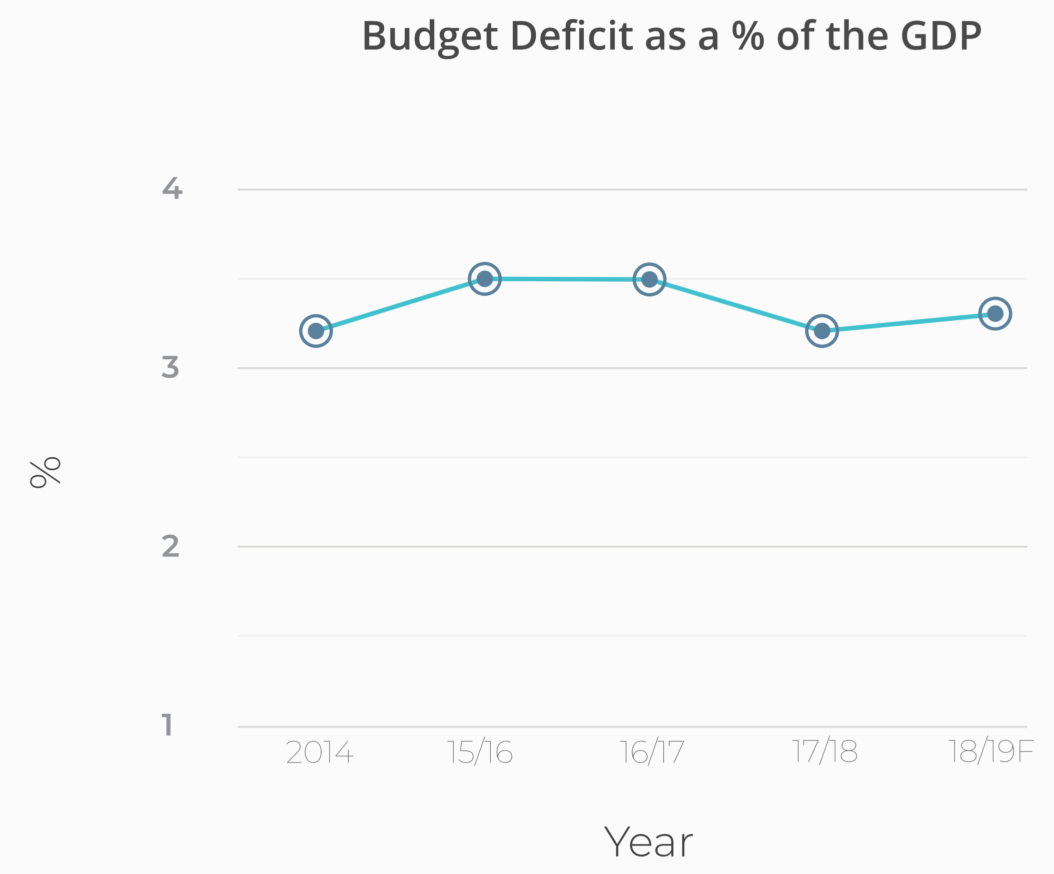
Public Finance

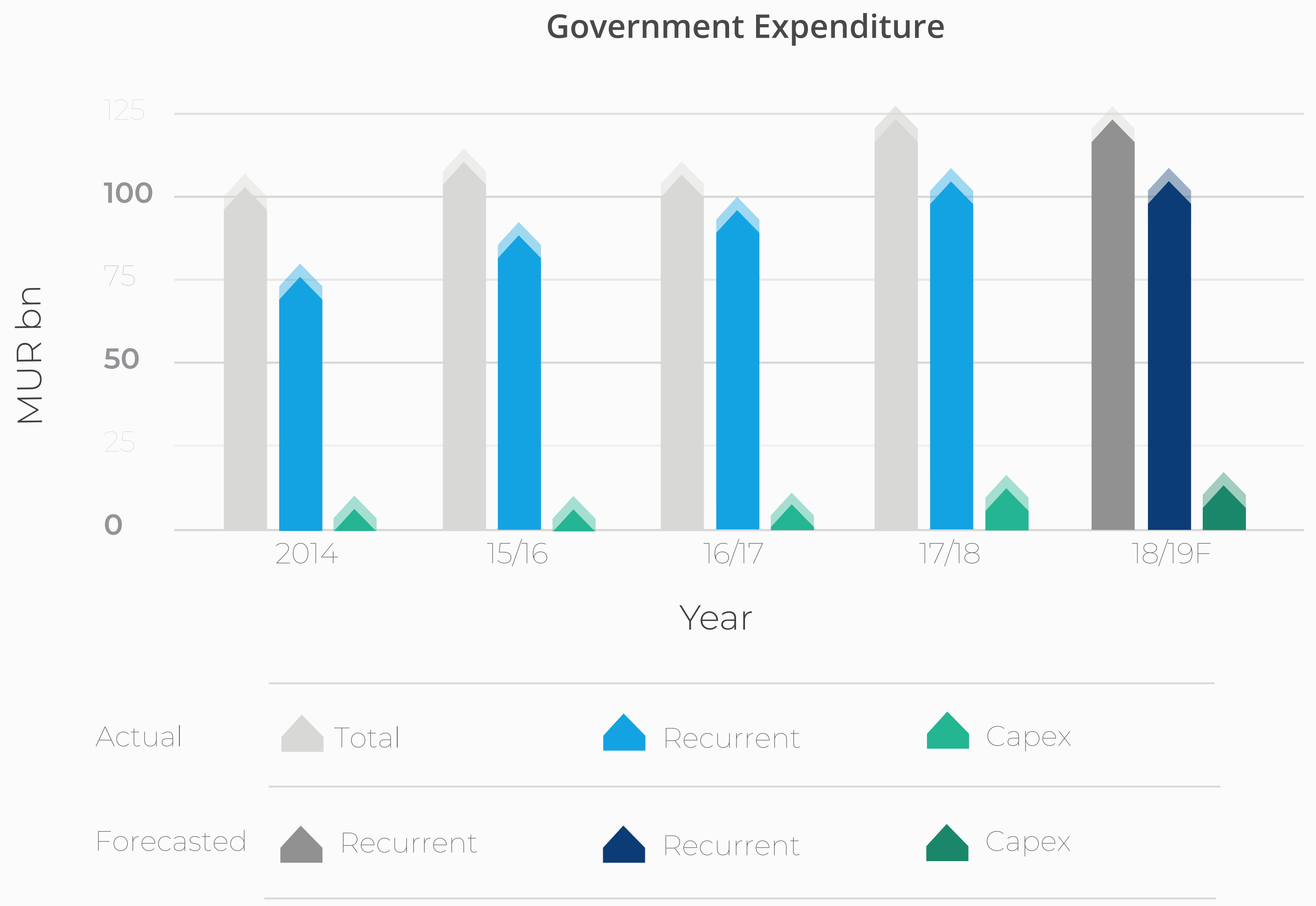
Budget Deficit as a percentage of GDP is estimated at 3.2% in FY 2017/18 and is expected to remain the same in FY 2018/19. Estimate of Capital expenditure is MUR 5.1 bn lower than budgeted, thus having a positive impact on the deficit.

Government revenue which grew by MUR 12.7 bn in 2017/18 primarily as a result of an increase in Grants and Other Revenues is expected to further increase by MUR 10.6 bn in 2018/19 with MUR 8.1 bn of Grants expected.

Government expenditure is expected to grow from MUR 122.3 bn in 2017/18 to MUR 133.8 bn in 2018/19. It is expected that Capital Expenditure will amount to MUR 17.9 bn in 2018/19.



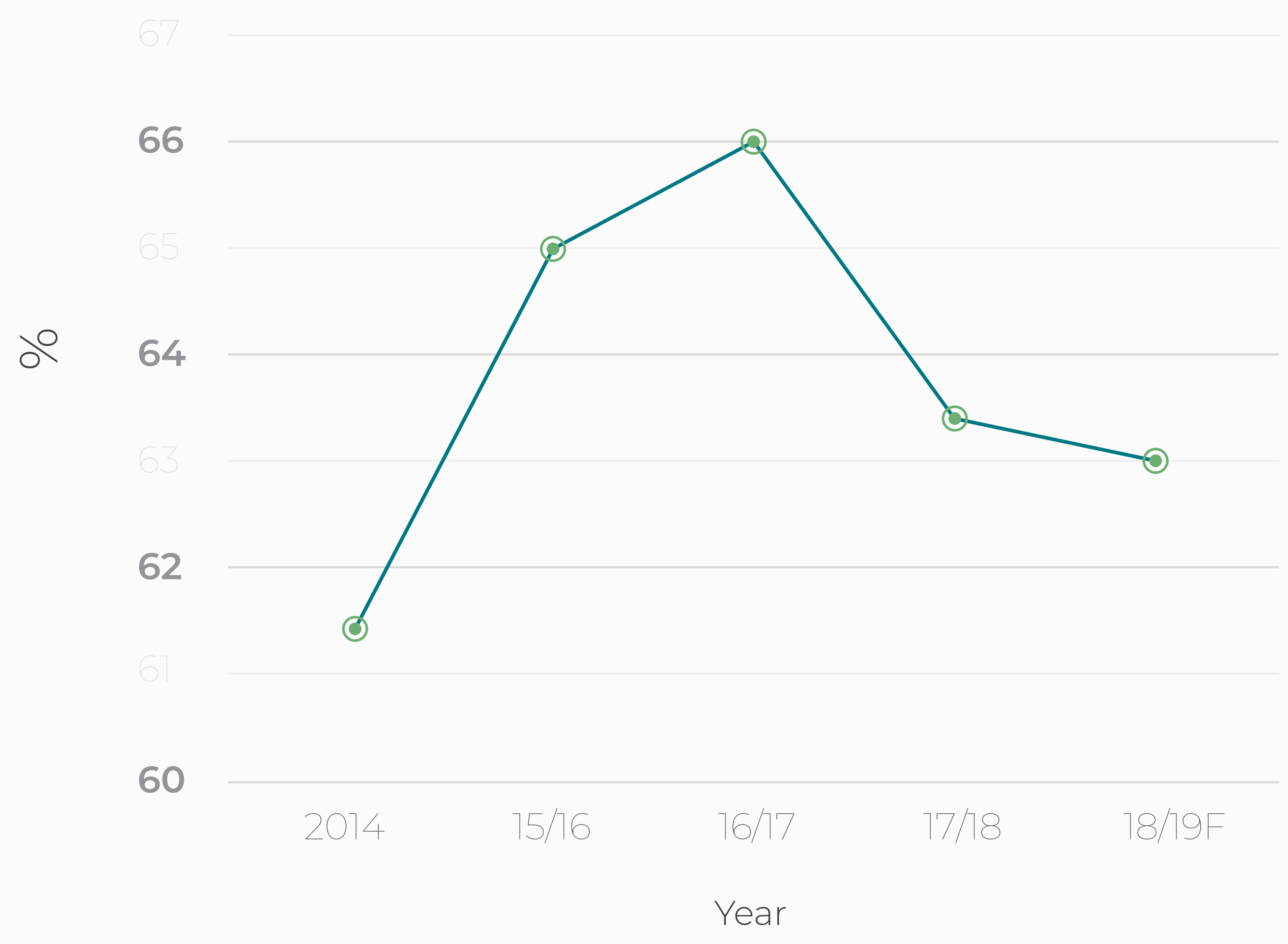




Public Finance

(Continued)

Public Sector Debt has increased by 2.7% to reach MUR 302.2 bn in 2017/18 and is expected to rise further to MUR 323.4 bn in 2018/19. Whilst the Public sector debt to GDP ratio remains above its target of 60%, it has decreased to 63.4% in 2017/18 and expected to decrease further to 63.1% in 2018/19. The funding of the substantial public sector investment programme whether through lines of credit structured in the form of redeemable shares, issued by government controlled entities, is not accounted for as public sector debt.



Inflation

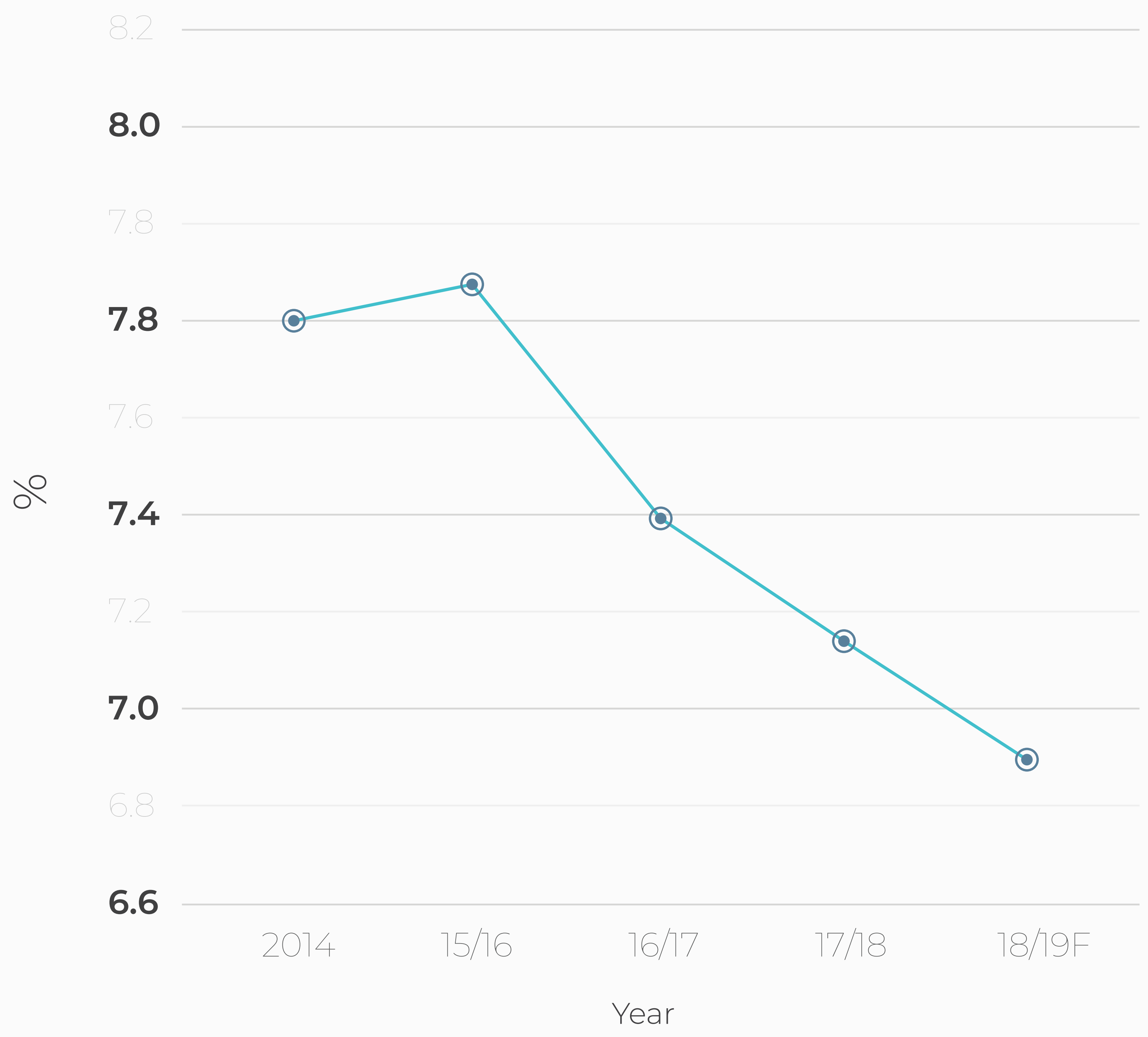
After having been on a downward trend, Inflation has crept up from 0.9% in 2015/16 to 4.3% in 2017/18. However, it is projected to decrease to 3.5% in 2018/19 despite the upward price trend of energy and commodity prices.

Investment

Investment as a percentage of GDP has been trending down over the last four years although expected to go back to 18.4% for 2018/19. Investment by the public sector has mitigated the continued decline from the private sector. This subdued level of investment remains an area of concern as it directly impacts growth and employment.

Unemployment

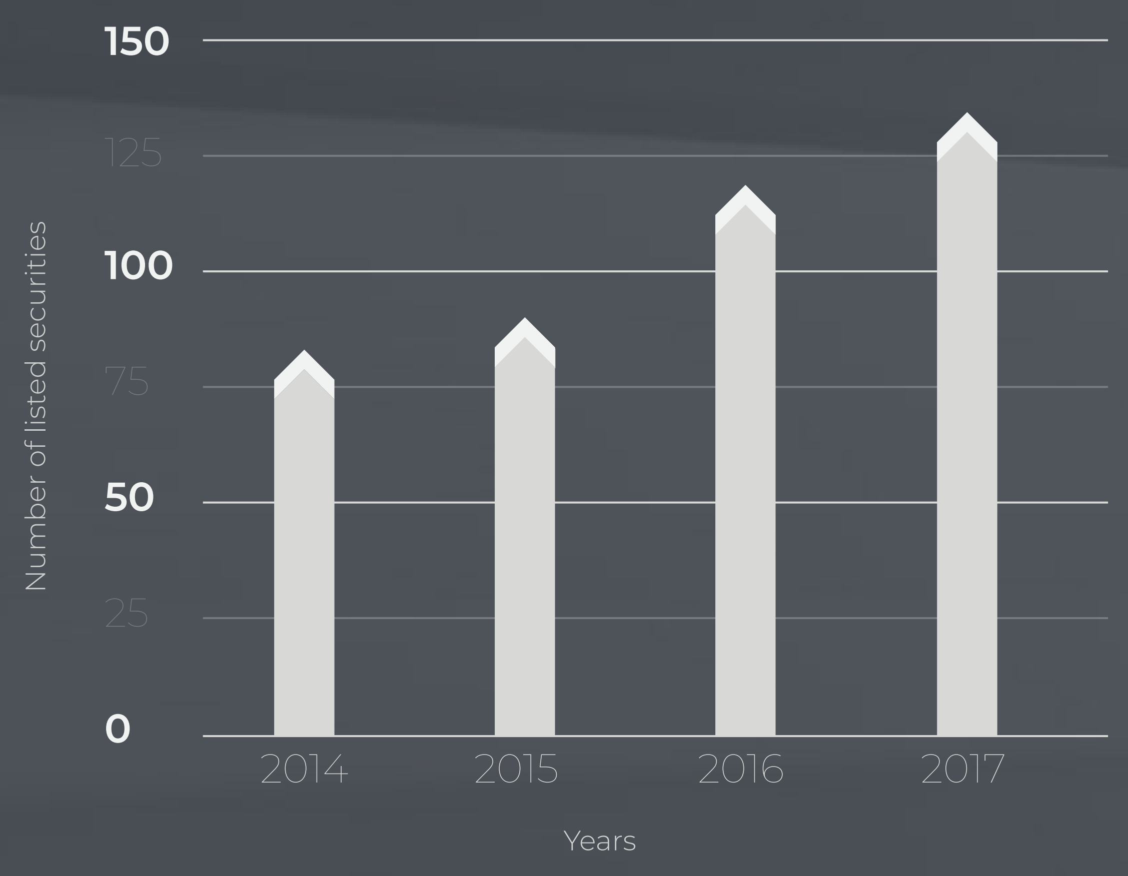
Excluding 2015/16, unemployment rate has steadily declined to reach 7.1% in 2017/18, and projected to decrease further to 6.9% in 2018/19. The infrastructural projects should continue to stimulate the employment market.



Selected sectoral outlook & key measures

Financial services at a glance

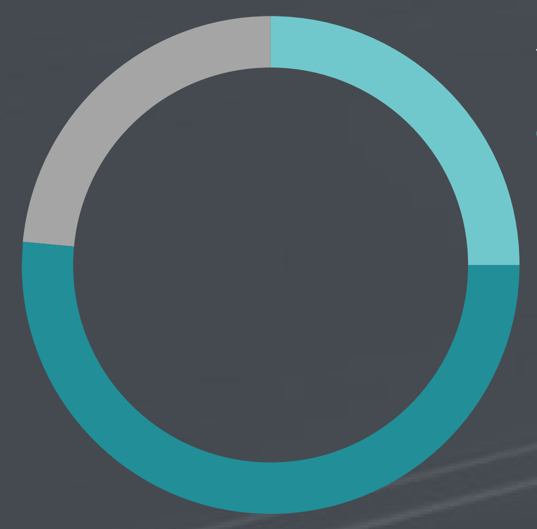
Stock Exchange



57
Listed Companies

Rs 7bn
Local banks cross border lending

Market capitalisation



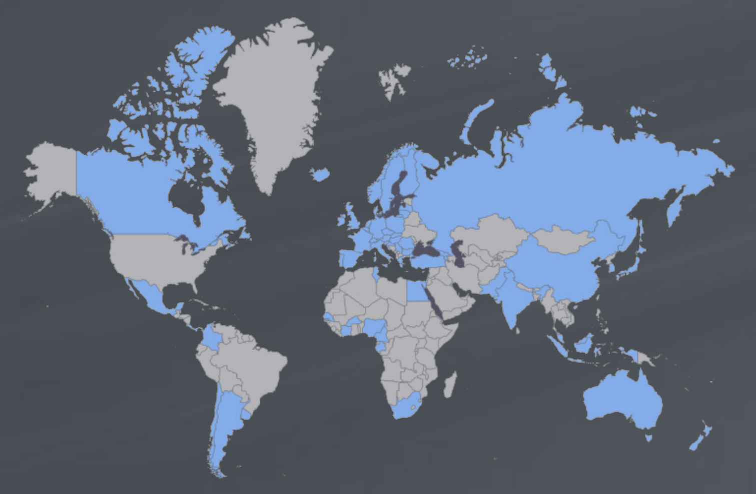
Growth of GBCs

Contribution to GDP

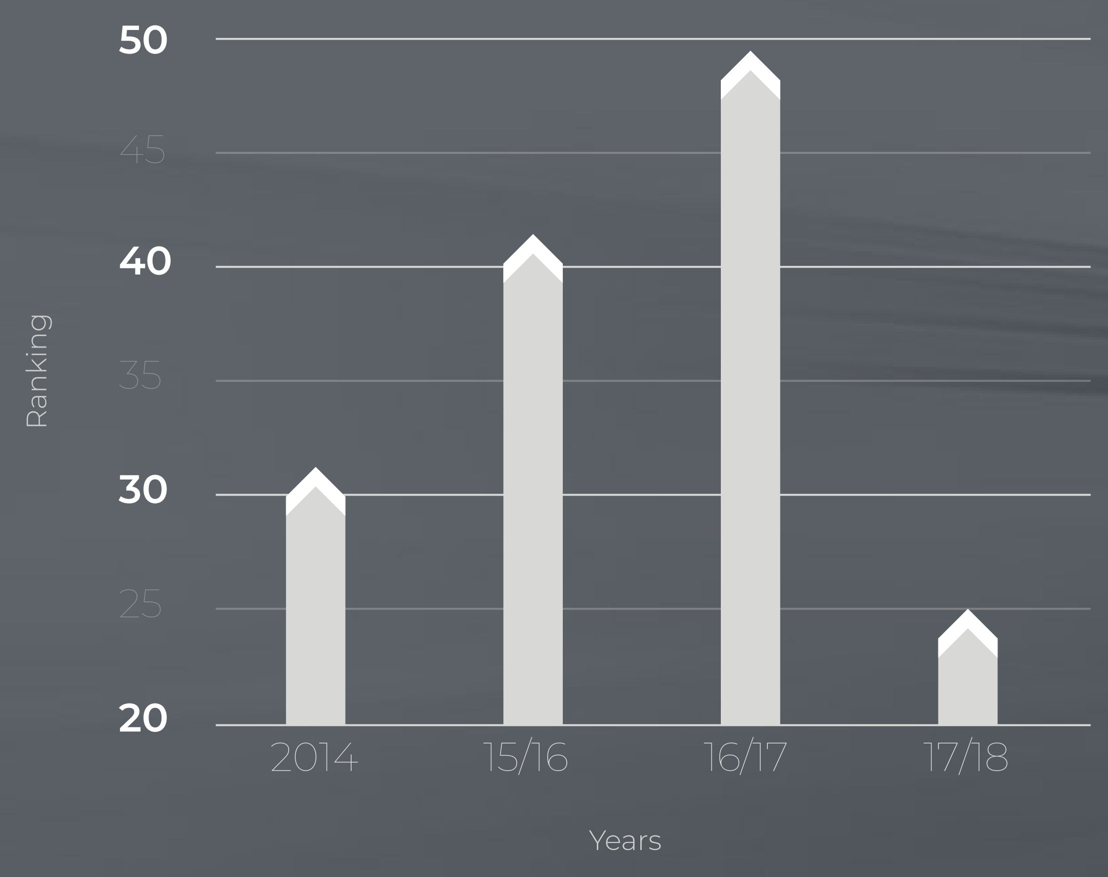
12.2%
Financial Services

5.8%
Global Business sector

Signatories to the BEPS Convention at 5 June 2018



Ease of doing business
Worldwide ranking



1st
In Africa

Mauritius has consolidated its position as the most competitive economy in Sub Saharan Africa

Key measures

Financial services

- Setting up of a National Regulatory Sandbox Licence Committee to consider all issues relating to Sandbox licencing for Fintech activities;
- Creation of new licensable activities and to provide for a regulated environment for the safe custody of digital assets and digital assets exchange.
- Putting in place guidelines on investment in crypto currency as a digital asset.
- New harmonised fiscal regime for domestic and Global Business Companies
- Category 2 Global Business Companies licences will not be issued as from January 2019, with a grandfathering provision for existing companies;
- Global Business Companies will be required to comply with enhanced substance conditions;
- Establish new framework to govern and improve oversight on Management companies.
- Setting up of Mauritius Artificial Intelligence Council (MAIC) to spearhead and drive Artificial Intelligence related activities and advise the Government.

Other sectors

Agriculture

- Foster a new wave of import substitution industry by giving the necessary support to set up 100 farms over the next two years under a Sheltered Farming Scheme.
- Setting up of a Ministerial Committee to assess the situation and drawing up of appropriate action plan to meet the challenges of the cane industry.
Set up a MUR 30 mil Crop insurance Scheme

Ocean Economy

- Development of an Ocean Observatory E-platform to support Marine Spatial
- Planning initiative of Mauritius
- Conducting geotechnical study in the extended continental shelf management area of the Mascarene Region to explore its potential

Manufacturing Sector

- Creation of different business parks to boost the manufacturing industry

Further opening up our Economy and country

- Launch of two schemes to attract High Net Worth Individuals who satisfy defined criteria subject to due diligence. The qualifying applicant will be granted Mauritian citizenship or a Mauritian passport upon contributing to the Mauritius Sovereign Fund.

Tax highlights

Tax highlights

Over the last few months the private sector and the Government have devoted a significant amount of time and resources to debating the future of the financial services sector and the integration of the global business with the domestic economy, in line with the country's commitment to the OECD measures on Base Erosion and Profit Shifting. A key component of that integration is the harmonization of the taxation policy between the two regimes.

In that respect, this budget now provides certainty on the relevant fiscal regime going forward.

Companies holding a category 1 business licence ("GBC 1")

The presumed foreign tax credit of 80% will be phased out and replaced by the 80% partial tax exemption regime on certain specified income.

Foreign source dividends, interest, royalties, income from permanent establishments and other specified financial services would benefit from the partial tax exemption regime.

Other sources of income should be taxable at the rate of 15% with foreign tax suffered still being available as a tax credit..

GBC 1 and domestic companies would continue to be eligible for the following exemptions:

(a) Dividends paid to shareholders;

(b) Interest and royalties paid to a non-resident out of foreign source income;

(c) Interest income derived from a call and deposit account with a local bank; and

(d) Gains on sales of securities (including shares)

Licensees would be required to satisfy further substance requirements (yet to be clearly defined) in Mauritius.

Currently the Corporate Social Responsibility charge (CSR) of 2% does not apply to GBC 1 and domestic companies benefiting from tax holidays. The Budget Supplement states that CSR would also apply to companies benefiting from tax holidays. It should be clarified GBC 1 would still benefit from exemption to CSR.

Companies holding a category 2 business licence ("GBC 2")

The income tax exempt regime applicable will be abolished for all GBC2 where the licence was issued by the FSC after October 2017. Grandfathering provisions will apply until 30th June 2021. It is therefore expected that GBC 2 licences will no longer be granted as it would have no raison d'etre.

Global Headquarters

The 8 year tax holiday available to Global Headquarters and the 5 year tax holiday subject to our comment on applicability on CSR available to the following companies are unchanged:

(a) Global Treasury

(b) Global legal advisory

(c) Investment Banking

(d) Overseas Family Office (Single and Multiple)

Analysis

The jurisdiction remains competitive supported by a pro-business environment, access to a competent labour force and attractive cost of operations. These specific tax measures consolidate Mauritius's positioning as a jurisdiction of substance and reinstates its commitment to international best practices

YEAR	14/15	15/16	16/17	17/18
Capital gains tax	0	0	0	0
Corporate tax rate	15	15	15	15
Corporate Social Responsibility	2	2	2	2
Personal Tax Rate	15	15	15	15
Solitary Levy				5
VAT standard rate	15	15	15	15
Registration duty	5	5	5	5
Land Transfer Tax	5	5	5	5
Tax on transfer of leashold rights in state lands	20	20	20	20

Tax Rates per country in %

Tax Rates	Mauritius	South Africa	Ghana	Rwanda	Senegal
Corporate Tax	15	28	25	30	30
Capital Gain Tax	NIL	22.4	25	30	30
Value Added Tax	15	14	17.5	18	18

Disclaimer

The information presented does not constitute and should not be construed as accounting, legal or tax advice. It is intended to provide an overview. We recommend that your accounting, legal or tax expert be consulted for any specific advice which you may require in light thereof.

The source of information is based primarily on the announcements made by the Minister of Finance and Economic Development in his budget speech. The measures announced may however change upon enactment of the Finance Act in due course.

Glossary

BEPS - Base Erosion and Profit Shifting
bn - Billion
FY - Financial Year
GBC - Global Business Companies
GDP - Gross Domestic Product
mil - Million
MUR - Mauritian Rupee

Useful link: http://budget.mof.govmu.org/

About us

Safyr Utilis Ltd is a financial services group anchored in Mauritius and South Africa with a team of over 40 professionals with international experience and exposure to sophisticated global investors.

The dedicated client service groups are supported by a team of in-house specialists, including lawyers, professional accountants, company secretaries and international tax advisors.

Our unique industry-tailored standard operating procedures including ERP (for accounting and NAV calculation) are modelled on SAS-70 principles thus ensuring quality, consistency and timeliness of our service delivery.

Safyr Utilis is the only firm in Mauritius accredited with the Chartered Institute of Taxation (UK).

Fiduciary Services

Wealth Structuring & Administration, Global Business, Family Office services

Fund Services

Fund Launch & Administration, Back-Office & Middle-Office

Legal and Tax Services

Tax Advisory & Compliance, Training, Transfer Pricing, Litigation

Corporate Finance

Primary Market Capital Raising, Advisory, Mergers & Acquisitions, Transaction Support

Investment Management Support

Investment Management Company back-office administration & support

Fintech Platform

Digital Branding, Marketing & Financial Technology services

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