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The Finance Act 2018

Grant Thornton Mauritius keeping you informed

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The Finance (Miscellaneous Provisions) Act 2018 ("**The Finance Act 2018**"), was passed by Parliament on 31 July 2018.

The Finance Act 2018 incorporates the measures announced by the Honourable Minister of Finance, Pravin Kumar Jugnauth, in his budget speech.

This tax alert covers key amendments made to:

- Income Tax;
- Personal Tax; and
- Value Added Tax.

We hope you will find this alert informative.

Corporate Tax

Corporate Tax

New taxation regime of corporate businesses

- As from 1 January 2019, the deemed foreign tax credit (i.e. the presumed foreign tax of 80%) available to companies holder of a Category 1 Global Business Licence shall be abolished.
- The rate of tax for both Domestic Companies and Global Business Companies ("**GBCs**") has been harmonised to 15%.
- A new tax regime will be introduced whereby an 80% exemption (the "**partial exemption**") shall apply on the following:
  - Foreign source dividend derived by a company (subject to conditions);
  - Interest derived from overseas by a company other than a bank (subject to substance conditions);
  - Profit attributable to a permanent establishment which a resident company has in a foreign country;
  - Foreign source income derived by a collective investment scheme ("**CIS**"), closed end fund, CIS manager, CIS administrator, investment adviser or asset manager, licensed or approved by the Financial Services Commission; and
  - Income derived from overseas by companies engaged in ship and aircraft leasing.
- The above partial exemption is available to both Domestic Companies and GBCs (subject to substance requirements issued by the Financial Services Commission "**FSC**"). The FSC has not yet issued any information on the substance requirements that need to be fulfilled by GBCs.
- However, Section 71 of the Financial Services Act ("**FSA**") has been replaced with new provisions which include the following conditions (effective as from 1 January 2019) which should be satisfied at all times by GBCs:
  - Carrying out core income generating activities in, or from, Mauritius by:
    a) employing, either directly or indirectly, a reasonable number of suitably qualified persons to carry out the core activities; and
    b) having a minimum level of expenditure, which is proportionate to its level of activities;
  - Be managed and controlled from Mauritius; and
  - Be administered by a management company.

New taxation regime of corporate businesses (Cont'd)

- Where a company has claimed the partial exemption, no credit for foreign taxes in the form of actual tax credit, underlying tax credit and tax sparing credit shall be available.
- The definition of foreign source income has changed to "*income which is not derived from Mauritius*".
- Companies which have been issued with a Category 2 Global Business Licence on or before 16 October 2017, shall continue to be exempted from income tax until 30 June 2021.

Taxation of Banks

- Effective from the year of assessment commencing 1 July 2020, a new taxation regime specific to banks will be introduced which will no longer distinguish between Segment A and Segment B income.
- Instead, banks will be subject to income tax on the level of chargeable income as follows:

Chargeable income -	Rate of tax
First Rs 1.5 Billion	5%
Remainder	15%

- Where in an income year, a bank has a chargeable income exceeding Rs 1.5 Billion and
  - its chargeable income of the base year exceeds Rs 1.5 Billion;
  - its chargeable income exceeds that of its base year; and
  - it satisfies the prescribed conditions (not yet issued),

  it shall be liable to income tax on its chargeable income as follows:

Chargeable income -	Rate of tax
First Rs 1.5 Billion	5%
Exceeding Rs 1.5 Billion rupees up to the amount equivalent to the chargeable income of the base year	15%
Remainder	5%

Corporate Tax (Cont'd)

Taxation of Banks (Cont'd)

- Where in an income year, a bank has a chargeable income exceeding Rs 1.5 Billion and
  - its chargeable income of the base year does not exceed Rs 1.5 Billion;
  - its chargeable income exceeds that of its base year; and
  - it satisfies the prescribed conditions (not yet issued),

  it shall be liable to income tax on its chargeable income at the rate of 5%.
- "**Base year**" means:
  - for a bank in operation as at 30 June 2018, the year of assessment 2017-2018;
  - for a bank starting operation after 1 July 2018, the first year of assessment corresponding to a period of 12 months.
- Foreign source income of a bank shall, up to the year of assessment commencing on 1 July 2019, include income derived from its banking transactions with:
  - Non-residents; or
  - Corporations holding a GBL under the FSA.
- Special levy on banks shall continue to be applicable up to year of assessment 2018-19.

Investment Banking Licence

- The income of any corporation issued with an Investment Banking Licence on or after 1 September 2016 shall continue to be treated as exempt for a period of 5 income years as from the income year in which the corporation was granted its licence.

Taxation of Artworks

- Companies will be allowed to deduct the cost of artworks up to a maximum of Rs 500,000 provided that:
  - The artwork is clearly visible on the business premises; and
  - The artwork is kept for at least 3 years.
- In case the artwork is not displayed or is sold within a period of 3 years from the date of acquisition, the expenditure will be treated as gross income in the year it is sold or ceases to be displayed.

Tax incentives in relation to homeworkers

Emoluments

- A double deduction is available to employers on the emoluments payable to homeworkers during the period 1 July 2018 to 30 June 2020 subject to certain conditions.

Tax credit

- Capital expenditure on information technology systems for the purpose of employing homeworkers shall qualify for a tax credit of 5% on cost for the first 3 years.

Investment in crèches

- A double deduction shall be allowed on capital expenditure incurred by a company on a crèche for the benefit of its employees.
- However, no annual allowance will be available where the double deduction has been claimed.

Sukuks

- Interest income derived by non-resident companies from sukuks quoted on the stock exchange shall be exempt from income tax.

Non-resident companies in Mauritius

- As from 1 October 2018, companies incorporated in Mauritius shall be treated as non-residents if its place of effective management is situated outside Mauritius. However, these companies will be required to file income tax returns in Mauritius.

Tax deducted at source ("TDS")

- Commission paid or payable to an agent in relation to a commercial transaction shall attract TDS at the rate of 3%.
- Rent payable to non-residents will be subject to TDS at the rate of 10% instead of 5%.

Corporate Social Responsibility ("CSR")

- For a CSR Fund set up on or after 1 January 2019, companies will be allowed to retain and spend an additional 25% of the fund upon approval from the National CSR Foundation (i.e. contribute 50% instead of 75% to the Mauritius Revenue Authority).
- The reduction in the amount to be remitted to the Mauritius Revenue Authority shall only apply where the company receives the prior written approval of the National CSR Foundation.
- Unused tax credit will not be allowed to be offset against CSR payable.

Corporate Tax (Cont'd)

Solidarity levy on telephony services

- Solidarity levy on telephony service providers has been extended to the years of assessment commencing on 1 July 2018 and 1 July 2019 (i.e. up to YOA 2019-2020).
- Solidarity levy will also be applicable to companies having a book profit of less than 5% of their turnover.

Export of goods

- Effective from 1 January 2019, the term "**export of goods**" includes international buying and selling of goods by an entity in its own name, whereby the shipment of such goods is made directly by the shipper, in the original exporting country, to the final importer, in the importing country, without the goods being physically landed in Mauritius.

Freeport tax regime

- Section 49 of the Income Tax Act in relation to "*Companies in the Freeport zone*" has been repealed. Accordingly, companies in the Freeport sector will no longer be exempted from income tax.
- Nevertheless, there will be a transition period whereby companies issued with a Freeport certificate on or before 14 June 2018, will continue to benefit from the existing tax exemption until 30 June 2021.

Tax Exemptions

- The following tax exemptions have been introduced:
  - Exemption for a period of 5 succeeding income years will be available on income derived by a company from activities carried out as a project developer or project financing institution in collaboration with the Mauritius Africa Fund for the purpose of developing infrastructure in the Special Economic Zones;
  - Tax exemption for 8 years on income derived by a person from any activity under the sheltered farming scheme set up by the Food and Agricultural Research and Extension Institute; and
  - An 8 years tax exemption on income derived by a company registered with the Economic Development Board and engaged in the manufacturing of automotive parts.

Personal Tax

Personal Tax

Income Exemption Threshold

- As from the income year commencing on 1 July 2018, the Income Exemption Threshold ("**IET**") will be as follows:

Individual	IET
Category A –individual with no dependent	Rs 305,000
Category B –individual with one dependent	Rs 415,000
Category C –individual with two dependents	Rs 480,000
Category D –individual with three dependents	Rs 525,000
Category E –individual with four or more dependents	Rs 555,000
Category F* –Retired or disabled person with no dependent	Rs 355,000
Category G* –Retired or disabled person with one dependent	Rs 465,000

* Categories F & G's IET will now be available to a retired person deriving emoluments not exceeding Rs 50,000.

Tax band rate – 10% and 15%

- As from 1 July 2018, an individual deriving an annual net income not exceeding Rs 650,000 will be taxed at 10%. Annual net income in excess of the Rs 650,000 threshold shall be taxed at 15%.

Additional deduction for tertiary education

- Effective from 1 July 2018, deduction in respect of a dependent child pursuing a non-sponsored full time undergraduate course in Mauritius has increased from Rs 135,000 to a maximum of Rs 175,000.
- Where a dependent child is pursuing tertiary education outside Mauritius, the relief has increased from Rs 135,000 to Rs 200,000.
- The additional deduction can be claimed up to a maximum of 3 dependents.

Income derived by non-resident individual

- As from 1 July 2018, non-resident individuals deriving income from rent, royalty, premium or other income derived from property shall pay income tax at the rate of 15%.

Statement of assets and liabilities by High Net Worth Individuals

- Currently, individuals deriving income exceeding Rs 15 Million or owning assets costing more than Rs 50 Million have to submit a statement of assets and liabilities together with their income tax return.
- However, effective from 1 July 2018, a person shall not be required to submit a statement of assets and liabilities where he has submitted an income tax return for each of the 5 income years immediately preceding that income year.

Rainwater harvesting system investment allowance

- As from 1 July 2018, an individual who has invested in a rainwater harvesting system is entitled to claim full deduction from his net income for the amount invested.
- The deduction can be taken by either spouse or divided equally for each spouse.
- Any unrelieved amount may be carried forward and deducted against the net income of succeeding years.

Taxation of Artists

- A Mauritian artist who is a member of the Mauritius Society of Authors may opt to claim a deduction of 50% of his earnings from his artistic work, other than literary work, provided that such earnings are not included in his emoluments and such earnings do not exceed Rs 500,000. This shall come into operation in the income year commencing on 1 July 2018.

Lump sum exemption

- The first Rs 2.5 Million (previously Rs 2 Million) of the aggregate amount received as lump sum, severance allowance, pension, retiring allowance or compensation shall be exempted from income tax. This measure shall be deemed to have come into operation on 14 June 2018.

Sukuks

- Interest income derived by individuals from sukuks quoted on the stock exchange shall be exempt from income tax.
- Likewise, interest derived by individuals from sukuks, issued by a company to finance renewable energy projects, approved by the Mauritius Revenue Authority shall be exempt.

Personal Tax (Cont’d)

Interest relief

- Interests payable under an Islamic Financing Arrangement for the purchase or construction of a house will qualify for interest relief if the arrangement is secured on immovable property.

Negative income tax allowance

- No negative income tax allowance shall be payable unless:
  - The individual is a citizen of Mauritius;
  - The individual works for a minimum of 24 hours during at least 3 days in a week;
  - The total monthly earnings of the individual does not exceed Rs 20,000;
  - The net income of the individual or his spouse, excluding any dividend and interest, in the current year, does not exceed Rs 390,000;
  - The individual and employer are both compliant with their contributions to the National Pensions Fund and the National Savings Fund from the month in which the allowance is being claimed; and
  - Both the employee and the employer are compliant with National Pensions Fund Act and National Savings Fund Act.

Value Added Tax

Value Added Tax

Special levy on banks

- Every banks (except the Development Bank of Mauritius) shall be liable to pay a special levy on its leviable income derived at the rate of:
  - 5.5% in the case of a bank having a leviable income of not more than Rs 1.2 Billion;
  - 4% in the case of a bank having a leviable income of more than Rs 1.2 Billion.
- Leviable income means the sum of net interest income and other income from banking transactions with residents, before deduction of expenses.
- The special levy shall be payable within 5 months after the end of the accounting period. No special levy shall be paid where the bank incurred a loss in the accounting period.
- Failure to pay the special levy within the due date will entail a penalty of 5% and interest of 0.5% per month or part of the month.

Deferred payment of VAT at importation

- As from 1 October 2018, where a VAT registered person imports capital goods being plant and machinery, the payment of VAT may be deferred.
- The deferred VAT shall be paid on submission of the VAT return for the taxable period in which the VAT is deferred, by including the deferred VAT as output tax in his return.
- VAT deferred not declared as output tax in the taxable period in which the VAT is deferred shall become due and payable under the Customs Act.

Credit for input tax is now allowable on:

- Quad bikes, golf cars and similar vehicles;
- Motor vehicles/motor cars of less than 9 persons used for resale or rental; and
- Accommodation or lodging, catering services, receptions and entertainment if incurred by a person who is in the business of supplying accommodation or lodging, catering services, receptions, entertainment.

Electronic fiscal device

- Failure to use an electronic fiscal device shall entail a penalty of Rs 5,000 up to a maximum Rs 50,000. A penalty not exceeding Rs 50,000 will also apply for any misuse or tampering with the electronic fiscal device.

Electronic fiscal device (Cont'd)

- In addition to the above, failure to use an electronic fiscal device or misuse of or tampering with an electronic fiscal device is an offence and on conviction the person shall be liable to a fine not exceeding Rs 200,000 and to imprisonment for a term not exceeding 12 months.

Exempt supplies list now includes:

- Manual labour, supplied by an individual to a VAT registered person, to work in the agricultural sector or the construction sector;
- Anti-smoking patches, antismoking tablets and the like;
- Payment of subscription fees to:
  - a trade union registered under the employment rights Act;
  - such statutory body as may be prescribed; and
  - such association registered under the Registration of Associations Act as may be prescribed.

Zero rated supplies now include:

- Photovoltaic systems including photovoltaic generators, photovoltaic panels, photovoltaic batteries and photovoltaic inverters; and
- Services related to upgrading, repairs and maintenance, patrol and monitoring or rental of burglar alarm systems.

VAT refund scheme

- VAT refund to planters is being extended on the following:
  - Branch chopper;
  - Earth auger;
  - Fogging machine;
  - Handy blower;
  - Irritation hose;
  - Mini tiller, including blade;
  - Land preparation works; and
  - Rental of land leased for agricultural purposes.
- In addition, VAT refund is now available to artists registered with the Mauritius Society of Authors on musical instruments (including the parts and accessories).

Summary of value of supply

- As from 1 October 2018, a registered person required to submit monthly electronic VAT returns, shall submit a list of taxable supplies showing the invoice number and value of supply.

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Other tax measures

Other tax measures

Tax on winnings

- As from 1 September 2018, the Mauritius National Lottery operator, casino operators, hotel casino operators or gaming house operators licensed under the Gambling Regulatory Authority Act ("**Operators**") need to deduct a tax of 10% on the amount of winnings exceeding Rs 100,000.
- Operators will have to submit returns electronically and remit any taxes not later than 20 days from the end of the month in which the tax was deducted. A nil return has to be submitted in a month where no tax has been deducted.
- Failure to submit the return within the due date will entail a penalty of Rs 2,000 per month up to a maximum of Rs 20,000.
- Further, a penalty of 5% and interest of 0.5% shall apply on the late remittance of taxes.

Additional assessment

- Where in respect of any period, the Director-General of the Mauritius Revenue Authority has made an assessment and subsequently finds that tax has been under claimed or the excess to be carried forward has been overstated, an additional assessment may be raised.
- The additional assessment cannot be raised 3 years after the year of assessment to which the additional assessment relates.

Assessment Review Committee ("ARC")

- Effective from 1 September 2018, taxpayers appealing before the ARC in relation to income tax and VAT shall pay an additional 5% of the amount determined as per the notice of determination.

Collection and recovery of tax

- The following new sections have been introduced under the Mauritius Revenue Authority Act:

Recovery of tax arrears from emoluments

- The Director-General may enforce payment against a person who is an employee by issuing a notice to the employer requiring the employer to make deductions from the emoluments of the employee on account of arrears of tax payable by him. The deduction cannot, except at the employee's request, exceed one third of the emoluments for any pay period.

Collection and recovery of tax (Cont'd)

Recovery of tax by distress and sale

- The Director-General of the Mauritius Revenue Authority may issue a warrant to recover tax due by a person by distress and sale of the goods, chattels and effects of the person charged or of the person answerable for its payment.

Contrainte

- The Director-General may apply to a Judge in Chambers for an order (Contrainte) to issue against a debtor in respect of tax owed by him.

Proceedings for temporary closure of business premises

- Where a person fails to pay any tax due by him, the Director-General of the Mauritius Revenue Authority may initiate proceedings to close down part or the whole of the business premises of the person for a temporary period not exceeding 14 days, unless the person, within a period of 7 days of the date of the notice:
  - pays the tax due;
  - gives security under a Revenue Law to the satisfaction of the Director-General for payment of the unpaid tax.

Inscribed privilege

- The Government shall have, in respect of any tax due by a person and for so long as the tax is not paid in full, a privilege on all immovable properties belonging to the person.

Security

- The Mauritius Revenue Authority may, for the purpose of securing payment of any tax due, order a person to furnish security.

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