

FINANCE ACT 2018 - TAX ALERT



Personal
Tax



Corporate
Tax



Value Added
Tax



Tax
Administration

Introduction

The Finance (Miscellaneous Provisions) Act 2018 (the "Finance Act 2018") which contains provisions for the implementation of measures announced in the Budget Speech 2018-2019 was gazetted on 9 August 2018. The Finance Act 2018 reflects the various amendments brought to the existing legislations.

This tax Alert summarises the key amendments to the Income Tax Act, the VAT Act and the MRA Act. It is expected that regulations will be issued shortly in respect of foreign tax credit mechanism given that the presumed tax credit has been removed.

The contents of this Alert are meant for general information and should not be a substitute for professional advice.

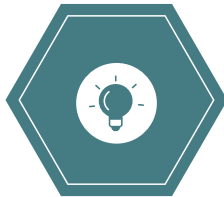


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PERSONAL TAX



Tax Rate (effective 1 July 2018)

- The tax rate for an individual who derives annual net income of up to Rs. 650,000 is reduced to 10%.
- An individual deriving net income exceeding Rs 650,000 will be taxed at the rate of 15%.

Income Exemption Threshold ("IET") (effective 1 July 2018)

- IET for all categories has been increased by Rs 5,000.
- IET is available to a retired person whose emoluments do not exceed Rs 50,000 monthly.

Additional deduction for tertiary education (effective 1 July 2018)

- The deduction for a child studying in Mauritius is Rs 135,000 or the amount of tuition fees up to Rs 175,000.
- The deduction for a child studying abroad is increased from Rs 135,000 to Rs 200,000.

Investment in rainwater harvesting system (effective 1 July 2018)

- Investment by an individual in rainwater harvesting system can be claimed as a deduction from the individual's net income.
- The deduction can be claimed by either of the spouses or shared equally between them.
- Any unclaimed amount can be carried forward and deducted against net income of succeeding income years.

Exempt Lump Sum

- The exemption on lump sum received in respect of severance allowance, pension, retiring allowance has been increased from Rs 2M to Rs. 2.5M.

Non-Resident individual deriving income from property

- Income derived by a non-resident individual from rent, royalty, premium or other income from property will be taxed at the rate of 15%.

Taxation of Artists (effective 1 July 2018)

- A member of the Mauritius Society of Authors can opt to claim a deduction of up to 50% of his gross income, from his artistic work (other than a literary work) provided that such gross income is not derived from employment and does not exceed Rs 500,000.

Income Tax on Winnings

- The Mauritius National Lottery Operator, a casino operator, a hotel casino operator or a gaming house operator, licensed under the GRA Act will be required to deduct tax at 10% of the amount, exceeding Rs 100,000, of winnings paid to a winner.
- The operator who deducts tax shall remit electronically to the Director General the amount deducted not later than 20 days from the end of the month in which the deduction is made and at the same time submit a return as will be required by the Director General.

Islamic Finance Exemption

- Interest receivable by an individual from sukuks quoted on the stock exchange will be tax exempt.
- An individual deriving interest from sukuks issued by a company to finance renewable energy projects approved by the MRA will be tax exempt.

Statement of Assets and Liabilities

- As from 1 July 2018, an individual who derives income exceeding Rs 15M in a year or owns assets costing more than 50M is required to submit a statement of assets and liabilities along with his return of income for the year ended 30 June 2018.
- Submission of the statement of assets and liabilities is not applicable to an individual who has submitted his income tax return for the last five years.



CORPORATE TAX



New Tax Regime for Global Business

- Under the new tax regime, an income tax exemption of 80% shall apply on the following streams of income:
 - Foreign source dividend, provided the dividend has not been allowed as a deduction in the source country.
 - Foreign source interest.
 - Profit attributable to a permanent establishment which a resident company has in a foreign country.
 - Foreign 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 FSC.
 - Foreign income derived by a company engaged in ship and aircraft leasing.
 - No Foreign Tax Credit will be allowed on foreign source income where the 80% exemption has been claimed.
 - The 80% exemption will be available to a company provided the company satisfies the conditions relating to the substance of its activities as will be prescribed.
 - The definition of foreign source income will be changed to "income which is not derived from Mauritius".
- Corporations which have been issued with Category 1 Global Business Licence ("GBL 1") on or before 16 October 2017 will continue to benefit from the current status of a GBL 1 company until 30 June 2021.
- Corporations which have been issued with Category 1 Global Business Licence ("GBL 1") after 16 October 2017 will continue to benefit from the current status of a GBL 1 company until 31 December 2018.

- As from January 2019, the FSC will not issue GBL 2 licences.
- Companies which have been issued with a Category 2 Global Business Licence ("GBL2") on or before 16 October 2017 shall continue to be exempted from income tax until 30 June 2021.

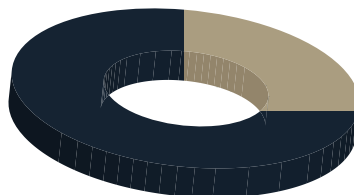
Authorised Company

- A company having its place of effective management outside of Mauritius and conducting business outside Mauritius may apply to the FSC for an authorisation to be an Authorised Company.
- An authorised Company is treated as non-resident for tax purposes in Mauritius.
- An Authorised Company will be required to file an annual tax return with the MRA.

Banking activities

- As from year of assessment 2020/2021, Segment A and Segment B regime of taxation of banking activities will no longer exist.
- Banks will be taxed as follows:

Chargeable Income	Rate
Up to Rs 1.5 billion	5%
Balance	15%



CORPORATE TAX

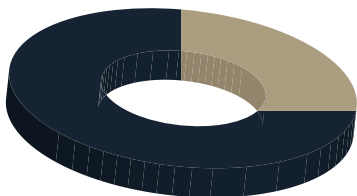


- In case:
 - the chargeable income exceeds Rs 1.5 billion in an income year, and
 - the chargeable income of the **base year** (year of assessment 2017/2018 for a bank in operation as at 30 June 2018 or the first year of assessment for a bank whose activities started after 1 July 2018) exceeds Rs 1.5 billion, and
 - the chargeable income of the current year exceeds that of the base year, and
 - the prescribed conditions are satisfied, the bank will be taxed as follows:
- In case the bank has a chargeable income of more than Rs 1.5 billion in an income year, and
 - The chargeable income of the base year does not exceed Rs 1.5 billion, and
 - The chargeable income exceeds that of the base year, and
 - The prescribed conditions are satisfied, the bank will be taxed at 5%.
- In case the bank is taxed at 5%, no tax credit will be allowed on its foreign source income.
- Special Levy on banks will continue to apply up to year of assessment 2018/2019.

Chargeable Income

Rate

Up to Rs 1.5 billion	5%
Above Rs 1.5 billion up to the amount of chargeable income of the base year	15%
Balance	5%



Solidarity Levy on Telephony service providers

- The levy will be extended up to the year of assessment 2019/2020.
- The levy shall be payable by profitable companies and the requirement for book profit of the company to exceed 5% of its turnover to be liable to the levy shall be removed.

Emoluments payable to homeworkers

- A deduction of 200% of the emoluments payable to a homemaker will be allowed for the first two years, if during the period 1 July 2018 to 30 June 2020 a person employs a homemaker.
- An annual tax credit of 5% will be allowed to employers on investments made on information technology systems for the purpose of employing homeworkers.



CORPORATE TAX



Investment Tax Credit on New Plant and Machinery

- A tax credit of 5% over 3 years (in the year of acquisition and the subsequent two years) will be allowed in respect of investment made during the period 1 July 2018 to 30 June 2020 in new plant and machinery (excluding motor cars) by a company importing goods in semi knocked-down form.
- The tax credit will be available subject to a local value addition of 20%.

Tax Holidays

- The first 5 years of 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.
- The first 8 years of Income derived by a person from any activity under the sheltered farming scheme.
- The first 8 years of Income derived by a company registered with the Economic Development Board and engaged in the manufacturing of automotive parts.

Reduced Tax Rate

- The 3% corporate tax rate presently available to companies engaged in export of goods will be extended to companies engaged in international buying and selling of goods where the goods are being shipped directly from the exporting country to the importer country.

Freeport

- The exemption applicable to Freeport operators and private Freeport developers will be removed. However, Freeport licences issued on or before 14 June 2018 will continue to benefit from the current tax exemption until 30 June 2021.

Corporate Social Responsibility ("CSR")

- Companies may continue to contribute 50% of CSR (instead of 75%) to the MRA provided they receive approval from the National CSR Foundation.
- Companies benefiting from tax holidays shall be required to contribute to CSR.
- Companies will not be allowed to offset any unused tax credit against any amount of CSR payable.
- Freeport operators and private Freeport developers will not be subject to CSR.

Tax Deduction at Source ("TDS")

- TDS of 3 % will apply on payment of commissions made by any person, other than an individual.
- The current TDS rate of 5% on rental payments is increased to 10% where the recipient is a non-resident.
- TDS which is presently applicable on payment of Director's fees to corporate bodies is abolished.



VALUE ADDED TAX



Deferred payment of VAT at importation

- Where capital goods, being plant and machinery, are imported by a VAT registered person, the payment of VAT at importation may be deferred.
- The deferred VAT is payable on submission of the VAT return for the taxable period in which the VAT is deferred.
- Where deferred VAT is not paid on submission of the VAT return, the deferred VAT, together with applicable penalties, shall become due and payable under the Customs Act.

Electronic Fiscal Device

- The Director General may require any person to use an electronic fiscal device to record transactions which may affect liability to tax.
- Heavy penalties, including terms of imprisonment are provided for non-use of the electronic fiscal device, tampering with the device or causing the device to work improperly.
- Where a person is dissatisfied with any claim of penalties, he may object by stating the full grounds of objection.

Credit for Input VAT

- Input VAT will be allowed on quad bikes, golf cars and similar vehicles, motor vehicles/ motor cars of less than 9 persons used for business.
- Where the supplies of the business are accommodation or lodging, catering services, receptions and entertainment and input tax is incurred on accommodation or lodging, catering services, receptions and entertainment, the input VAT will be allowed.

Cancellation of registration

- A person who is deregistered from VAT is required to pay any tax due including any tax on capital goods exceeding Rs. 100,000 , except on motor cars/ motor vehicles of less than 9 persons) used for own consumption.



TAX ADMINISTRATION



5 % payment on lodging representations to Assessment Review Committee ("ARC")

- Any person who makes representations to the ARC against a determination of objection in respect of an income tax assessment, a VAT assessment or a GRA assessment will be required, as from 1 September 2018, to pay 5% of the amount of tax determined on lodging the representations.
- Where the chairperson of the ARC is satisfied that any non-payment of the 5% is due to a reasonable cause, he may direct that the representations shall be accepted.

Alternative Tax Dispute Resolution ("ATDR")

- Under the current legislation, where an objection, under the Income Tax Act and the VAT Act was pending before he made an application for review to the ATDR panel, the objection shall be determined within 4 months from the date the applicant informs the panel that he does not agree with its decision.
- The law is amended to include assessments raised under the revenue laws. It is clear that prior to this amendment, assessments raised under the GRA Act were not covered under the above provisions.

Expeditious Dispute Resolution of Tax Scheme ("EDRTS")

- Currently the EDRTS is applicable to assessments raised for period prior to 1 July 2015.
- The law is amended to extend the EDRTS to assessments raised prior to 1 July 2016.

Recovery of tax arrears

- The Director General may:
 - enforce payment of tax in arrears, by issuing a notice to the employer to make deductions from the emoluments of the employee.
 - recover tax by attachment.
 - issue a warrant to recover tax due by distress and sale of goods, chattels and effects of a person charged.
 - apply to a Judge in Chambers to issue a contrainte for tax due.
 - implement proceedings for temporary closing down of business for non compliance with tax.
 - have a privilege on all immovable properties belonging to the person who owes tax.



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- Advice on VAT and Income Tax
- International Tax Planning
- Application for Tax Ruling
- Advice on Structuring of Commercial Arrangement
- Investigations, forensic services and dispute analysis
- Accounting, Business Recovery & Insolvency,
- Payroll, Business Advisory, Business Review,
- Financial Forecast, Accounts Outsourcing

YOUR KEY CONTACTS

Joe Chan, Director | Tel: (230) 403 0838 | Email: jchan@atax.mu
Ben Lim, Director | Tel: (230) 403 0868 | Email: blim@atax.mu
Tommy Lo, Director | Tel: (230) 403 0888 | Email: tlo@atax.mu
Reshad Guness, Manager | Tel: (230) 403 0839 | Email: rguness@atax.mu
Ravi Sookur, Manager | Tel: (230) 403 0836 | Email: rsookur@atax.mu

ATAX ADVISORS LIMITED

Level 4, Alexander House, 35 Cybercity Ebene
Tel: (230) 403 0850 | Fax: (230) 403 0851 | E-mail: info@atax.mu
Website: www.atax.mu

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