Tax Expenditure Analysis: The Mauritian Case

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Tax Expenditure: Preamble

- A tax expenditure is the loss to Government on account of:
  - Deductions;
  - Exclusions; or
  - Exemptions

  also known as tax incentives

- Arises on account of investment facilitation & encouragement to Government objectives

Tax Incentives: The Mauritian Experience

In 2006, Mauritius overhauled its tax incentive regime with the elimination of various exemptions, deductions and allowances. The major reforms in PIT and CIT were:

PERSONAL INCOME TAX (PIT) REFORMS

❖Elimination of over 20 types of personal income tax allowances/deductions

❖Introduction of a single enhanced income tax exemption threshold

❖Reduction in the number of tax bands and rates (15%, 20%, 25% & 30%) to single rate of 15%

❖Overhaul of complex systems of exemptions

Tax Incentives: The Mauritian Experience

CORPORATE INCOME TAX (CIT) REFORMS

- **Investment Allowances** on capital expenditure removed
- All **Allowable Deductions**, apart from the normal expenses linked with production of income, removed
- **Tax Holidays and Tax Credits**: Provisions relating to tax credits (investment, export etc) and tax holidays removed.
- **Tax losses:** Time limit of 5 years for carry forward of trade losses instead of unlimited carry forward of trade losses earlier
- **Flat Corporate Tax Rate**: Single tax rate of 15%. Before 2006, tax incentive companies were taxed at 15% and other companies at 25%.

Tax Incentives: The Mauritian Experience

REFORMS - OTHER TAXES

- The Customs Tariff Act amended to eliminate the power of the Minister of Finance to remit, exempt or refund any amount of customs duty on any goods

The reforms complemented the following existing provisions:

- No ministerial powers of remission under VAT Act;
- Exemption of tax under any enactment or agreement cannot be construed as an exemption from payment of VAT under the VAT Act;
- Government or the Minister cannot exempt a person from payment of income tax

OUTCOME

1. TAX REVENUES

Rs million

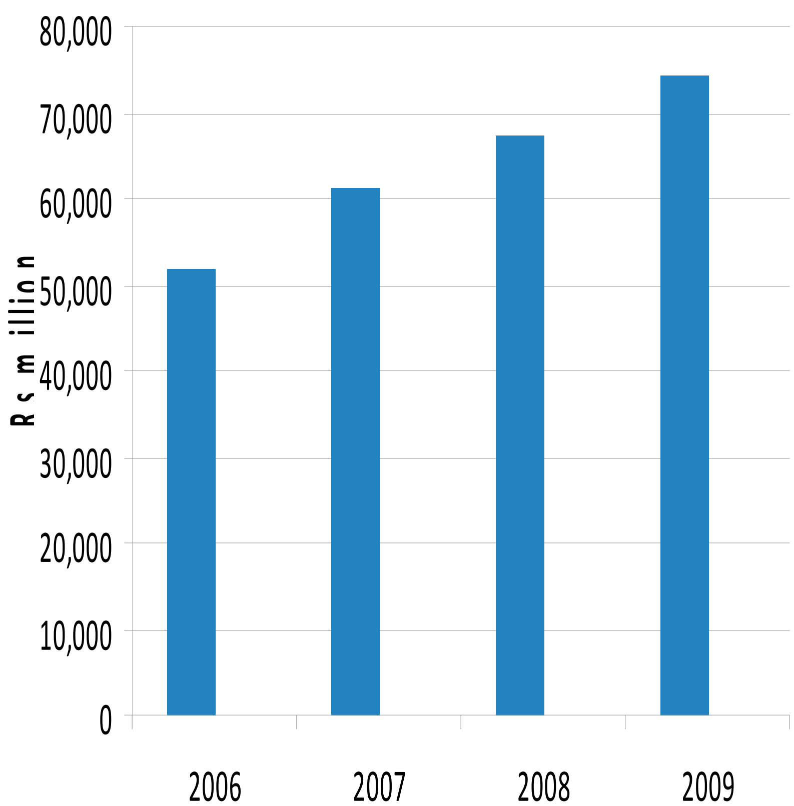
	FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09	FY 2010
Tax Revenue	**31,839**	**34,115**	**42,144**	**47,247**	**49,346**
of which: Corporate Tax	*4,704*	*4,922*	*6,234*	*10,331*	8,498
of which: Personal Income Tax	*2,767*	*2,405*	*3,425*	*4,014*	*4,508*

- **20% average growth in CT collection**
- **15% average growth in IT collection**

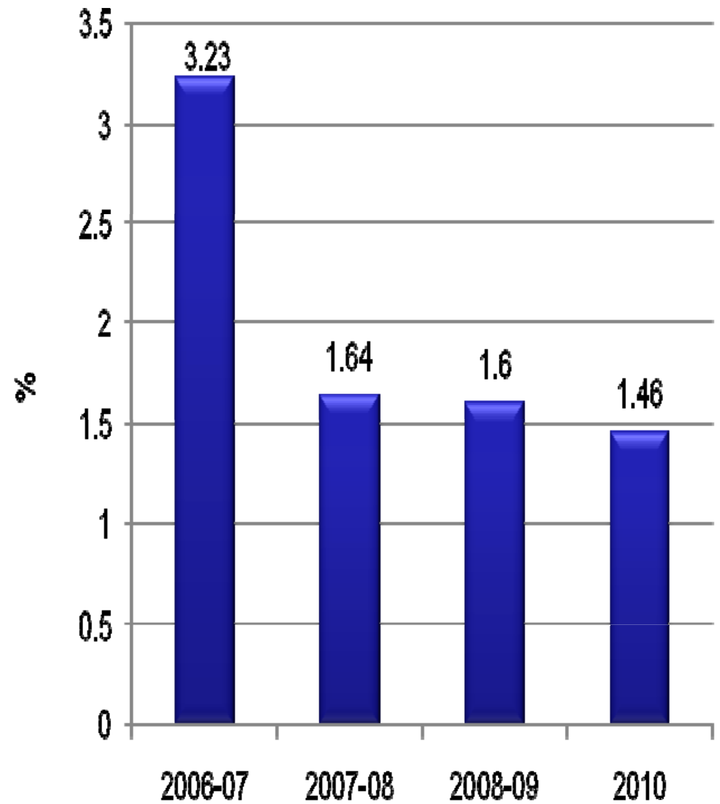
Tax Incentives: The Mauritian Experience

OUTCOME

2. Investments



3. Tax Expenditure % of GDP



Investment rose from Rs 51.7 billion to Rs 74.4 billion in 3 years
Tax expenditure as a % of GDP fell from 3.23% to 1.46%

OTHER PROMINENT OUTCOMES

- Simplified the tax system & thus reduced administrative and compliance costs;
- Simplified tax returns & facilitated compliance;
- Removed low income earners from the tax net, reduced the tax burden on middle income earners. Some 41% of liable taxpayers removed from the tax net;
- Precluded high income earners from making an abuse of such tax expenditures to reduce their tax liability
- Reduced avenues for rent seeking