

A tax system for Investment

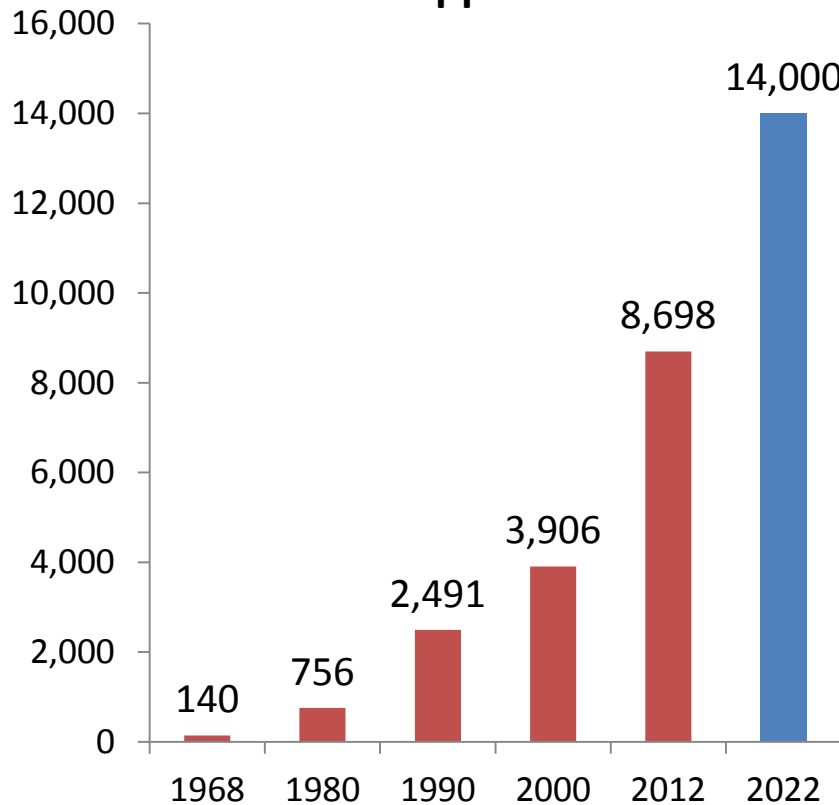
Case of Mauritius

Ali Mansoor, IMF African Department
(former Financial Secretary, Mauritius)

Context for reforms:

From Monocrop to Diversification and Economic Resilience

Per Capita GDP (US\$) – From low income to upper middle income



1970s: Sugar - 70% of export revenue
Income per Capita @ \$ 200



1980s: Industrialization & Tourism Development
Income per Capita @ \$1500



1990s: Export of Services
Income per Capita @ \$3000



2006 + : Open economy with Diversified Services
Income per capita @ \$8700 (2012)

Development Strategies

PHASE 1: At Independence

- Economic diversification:
 - >Agriculture
 - >(Tea, Tobacco)
 - >Tourism
- Labour intensive import-substituting industrialisation

PHASE 2: 1970s Onwards

- Mixed strategy of import substituting and export-led industrialisation
- Export Processing Zones
- Tourism
- Use of preferences (EC and US sugar quotas; Multi-Fibre Agreement quotas)
- Population Control
- Rural Development Programmes
- Investment in road networks, basic infrastructure and free education

PHASE 3: 2006 Onwards

- Paradigm shift to openness and global competitiveness
- Transition to services economy and shift from 4 to 8 pillars
- Widening the circle of opportunities
- Empowerment and solidarity
- Maurice Ile Durable
- Corporate Social Responsibility

Tax reform embedded in wider reform

Doing Business Environment

- Investment facilitation
- Greater openness/attracting foreign capital, skills, talents, expertise, ideas

Fiscal Policy Reforms

- Low flat income tax rates of 15%
- Tax expenditure reforms
- Public Finance Reforms
- Programme Based Budgeting

Labor Market Reforms

- From job protection to worker protection
- Flexibility
- Workfare Programme

Solidarity

- Targeted social safety nets
- Empowerment programme
- Social housing
- Education & Healthcare
- CSR

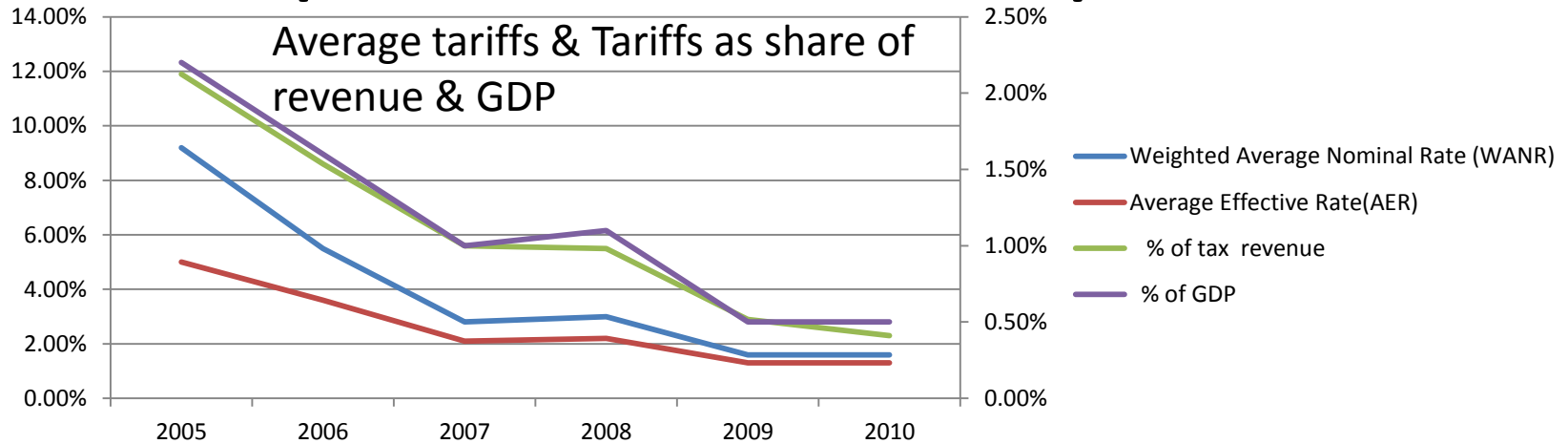
Principles of tax reform

- Revenue neutral
- Easy to comply with
- Easy to administer
- Easy to verify
- Heightened enforcement
- Fairness: all pay their fair share at a low rate
- Move to rules based approach with no discretion

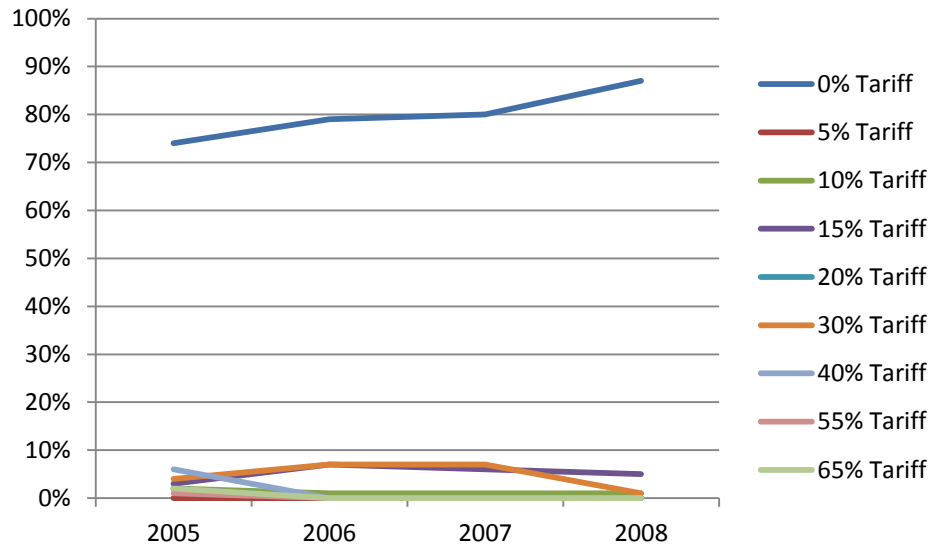
Key elements of Income Tax reform

- All exemptions and deductions actually claimed added up and averaged over all taxpayers into a new higher threshold
- After that “INCOME IS INCOME”: no further deductions or exemptions
- Single rate of tax (set to make the system revenue neutral) to facilitate compliance and enforcement
- Same rate for Personal and Corporate tax
- Withholding introduced on bank interest to facilitate enforcement
- Tax amnesty (penalties waived but not interest) to encourage regularisation
- Generous investment allowances and depreciation schedules apply uniformly to ALL sectors

Sharp reduction in import taxes



Percent of tariffs at various rates



Other tax reforms

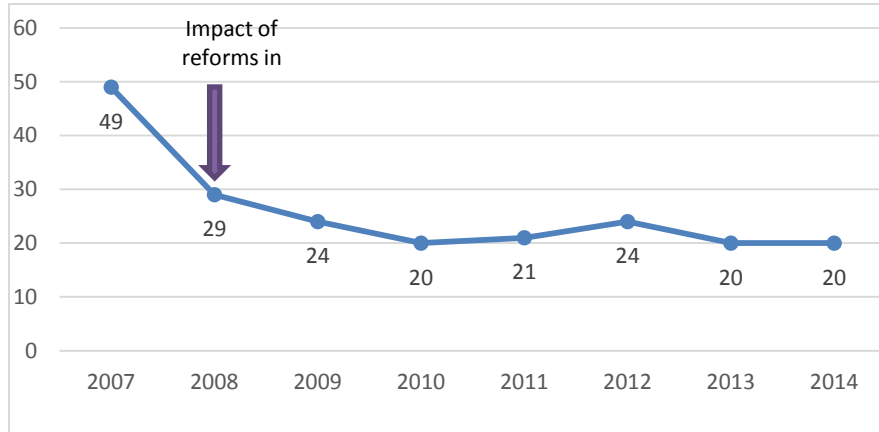
- Reduction of registration duty (from 13.2% to 5%), and abolition of the Capital Gains Tax
- Minister gave up power of discretion (inspired by VAT where there was no discretion)
- All discretions granted in previous years analyzed and integrated into the law (legislation or regulations)
- New valid cases not in the law integrated into the legal framework and not case by case
- Reduction of registration duty (from 13.2% to 5%), and abolition of the Capital Gains Tax among others
- 20 investment incentives removed and Investment allowances rationalized and simplified for ease of compliance and administration

Results (Taxes)

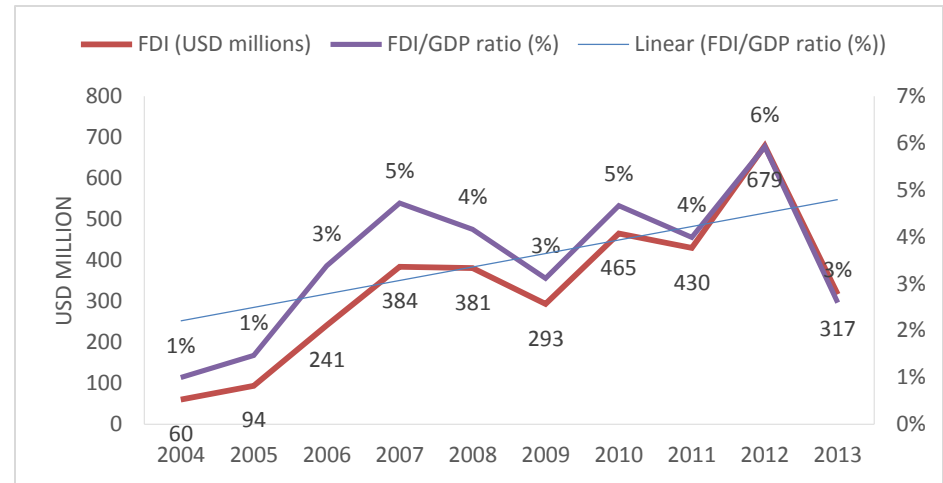
- Tax revenue actually rose by about 1 percentage point of GDP (better compliance and economic growth)
- From regressive to progressive in practice
- A key selling point to investors (won out over tax holidays in 3 competing African countries to secure Chinese Economic Zone)
- Lower middle class employees moved out of the tax net (about 40 percent of tax payers)
- Those in previous top bracket saw taxes rise from about 3 percent to 13 percent of income
- Those in bottom bracket moved from paying close to 10 percent of their income to paying nothing or very little

Results: improved Doing Business Rank, Exports, FDI, Employment and Growth

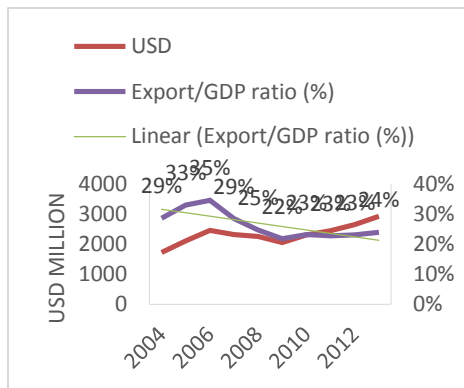
Doing Business Ranking



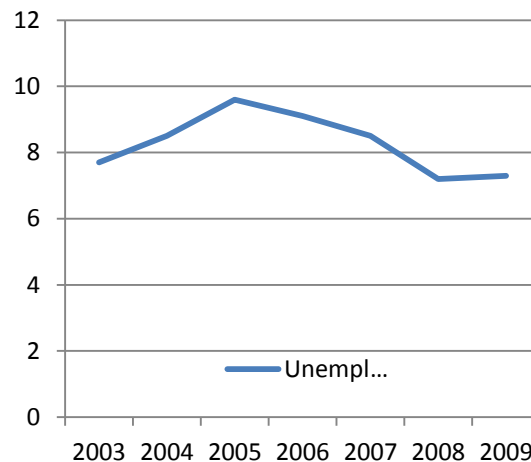
FDI



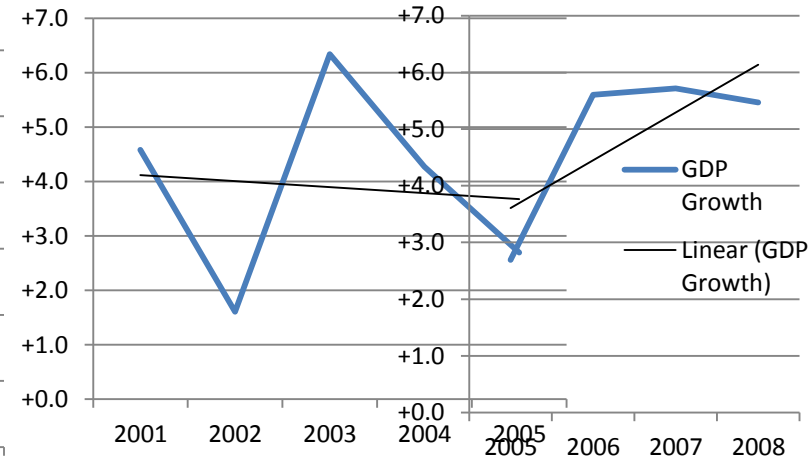
Exports



Unemployment



GDP Growth



Wider Results: Diversification of the Economy

- Mauritius as a model of economic transformation
- Emerging sectors
 - ICT
 - Real Estate – IRS/ERS
 - Seafood hub
 - Knowledge hub
 - Health hub
- Diversification of markets
 - Reducing our dependence on Euro markets
 - Regional expansion

**% Distribution of GDP by industry group
(2012)**

