

Budget Highlights 2009 (July – December)

22 May 2009

The Vice-Prime Minister and Minister of Finance and Economic Empowerment, The Honourable Dr. Rama Krishna Sithanen delivered his Budget Speech to the National Assembly on 22 May 2009.

We are pleased to forward to you our Budget Highlights summarising the main economic, social and fiscal proposals contained in the Budget Speech.

We trust that these Budget Highlights will be of interest to you.



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Foreword

L'exemple vient d'en haut...

That the Government has decided to seize the opportunity presented by this six-month budget to pursue an expansionary fiscal policy is indeed commendable. Rs14.5 Billion is being earmarked to stimulate economic activity at all levels, to uphold the expectations of economic agents, and to protect vulnerable groups.

Whilst there are clearly no signs that the global recession will loosen its grip on the Mauritian economy in the coming months, or that the woes of core economic pillars such as Tourism and Textile have bottomed out, massive public expenditures in infrastructure development are expected to compensate for sluggish private sector and foreign direct investment.

In the same vein, whilst great strides have already been made during the past few years to achieve sound management of public finances, this budget proposes yet another set of bold measures to eliminate non-priority and inefficient public expenditures. Renewed emphasis on output and outcome budgeting provides an indication that Government intends to hit even harder on public-sector inefficiencies and mis-management. As the French would put it, "*l'exemple vient d'en haut.*"

Now that Government is setting the example, the private sector needs to follow through by capitalising on the various incentives and facilities being proposed to keep the momentum going. These are exciting times for micro enterprises and SMEs to leverage the temporary but bold measures being offered to them.

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Economic Review 2008/2009 Outline

- GDP growth rate of 5.3% in 2008
- Inflation rate of 9.7%
- FDI inflows of Rs11.4 Billion
- Upward trend in private investment representing 20% of GDP
- Rise in consumption to GDP ratio to 90%
- Rise in net employment creation to 19,400
- Rise in current account deficit to 10.4% of GDP
- Balance of payments surplus of Rs4.6 Billion
- Decline in exports by 6.9% in first quarter of 2009
- Unemployment rate of 8% in first quarter of 2009
- Drop in tourist arrivals and receipts by 10% and 14% respectively

Forecasts and Prospects

- GDP growth forecast at between 2% and 2.2% for 2009
- Inflation expected to decline to around 4%
- Current account deficit of 12.6% of GDP
- Net international reserves of Rs85 Billion at end December 2009 representing import cover of 33 weeks
- Forecast FDI inflows of Rs5 Billion

Budget Outturn 2008/2009

- Budget deficit of around 3.9% of GDP
- Total revenue of 22.1% of GDP
- Government operating expenditure of Rs64.7 Billion
- Investment in acquisition of non financial assets of Rs6.5 Billion
- Total expenditure of 25.9% of GDP

Budget Outlook July to December 2009

- Total revenue of Rs31.8 Billion (21.3% of GDP)
- Operating expenditure of Rs34.2 Billion
- Investment in acquisition of non financial assets of Rs4.7 Billion
- Forecast budget deficit 6 months to December 2009:

Expenditure	Rs38.9 Billion
Revenue	Rs31.8 Billion
Budget deficit	Rs7.1 Billion (4.8% of GDP)

Income Tax

- No change in tax rate
- Transitional tax year to cover period from July 2009 to December 2009
- Personal income tax to be settled by 5 April 2010 for period July to December 2009
- Limit to be raised on domestic sales of Freeport operators from 20% to 50%. Freeport operators to be subject to income tax on such sales
- Income Tax Act to be amended to allow for exchange of information with foreign authorities on persons who are not tax resident

Registration Duty

- Small and medium enterprises encouraged to register as corporate bodies to benefit from exemption of Registration Duty on transfer of immovable property as equity
- Fees payable for such company registration waived until December 2010

Land Transfer Tax

- To provide cash flow relief to IRS/RES promoters, developer to pay 25% of Land Transfer Tax at time of signature and a bank guarantee for the remaining balance to the Registrar-General, payable in 3 instalments over a period of 18 months
- Suspension of 5% additional tax on transfer of land until end December 2010
- Lowering of the 10% rate for Land Transfer Tax to a single rate of 5% until end December 2010

Value Added Tax

- No change in VAT rate or taxable base
- Refund of VAT to non-government organizations (NGO) on construction under programmes approved by the National Empowerment Foundation (NEF)

Duty

- Extension of excise duty of Rs1 to aluminium cans used for soft and alcoholic drinks as from 23 May 2009
- Reduction of taxes, excise duties, road tax and registration fees by half on electric cars

Corporate Social Responsibility (CSR) / Levy

- A solidarity levy of 5% of profits and 1.5% of turnover on profitable fixed and mobile telephony services providers companies for the next 2 financial years
- Increase of special levy on profitable banks to 1% of turnover plus 3.4% of profits for the 2 financial years
- All profitable firms to either spend 2% of their profits on CSR activities approved by Government or transfer these funds to Government

Financial Services

- Developing sovereign debts that are Shari'ah compliant, namely the 'sukuk'
- FSC to request wider information relating to Category 2 Global Business Companies such as data relating to beneficiary owners, an Outline Business Plan and filing of financial summaries

Integrated Resort Scheme (IRS)/ Real Estate Scheme (RES)

- To amend legislation to prevent non-citizens to acquire residential properties outside the IRS and RES schemes without required authorization
- Non-citizens allowed to contract loan in Mauritian rupees in excess of USD500,000 to finance purchase of Property under IRS/RES scheme
- IRS developer to sell 25% of its residential plots as serviced land

Tourism

- Setting up of a Hotel construction Scheme for hotels wishing to reconstruct until December 2010. Government to refund either 50% of the wage bill or the difference between the new rental and the old rental
- Individual foreigners and Mauritian investors to be allowed to acquire hotel rooms and villas to help in financing of new hotels projects
- Suspension of payments on increase in rental for small hotels on less than one hectare of land and less than 50 bedrooms through to December 2010
- Arrears in rentals for small hotels to be rescheduled to be effected as from January 2011 in 5 equal yearly installments
- For other hotels the rescheduling period for arrears in rental will be 3 years
- Suspension of travel tax to Rodrigues until December 2010

Infrastructure

- Launch largest public sector investment programme
- Six projects owned by Land Transport Authority built and operated by Road Development Company
 - Harbour bridge
 - Ring road with alternative access and multi-entry points in Port Louis from South
 - Terre Rouge-Verdun link road
 - Verdun-Ebène link road
 - Bus Rapid Transit System
 - East- West connector

Other

- Old age and other non-contributory pensions and social benefits increased by 5.1%
- Restructuring the Manufacturing Adjustment and SME Development Fund into the Saving Jobs and Recovery Fund (SJR Fund)
- An additional Rs2 Billion to be injected in the SJR Fund on top of the initial Rs1 Billion
- Rs500 Million to be made available to State Investment Corporation to purchase assets from distressed companies to ease liquidity
- An Emergency Export Credit Insurance scheme to be set up for SMEs and large enterprises until December 2010 to facilitate the grant of export credit from banks
- A line of credit for equipment modernization to be made available to SMEs at a concessionary rate until December 2010 through leasing companies via SJR Fund
- Ministers salary to be reduced by Rs10,000 a month for the period from July 2009 to December 2010
- Suspension of entertainment allowances paid to advisors, chairpersons, directors and staff of statutory bodies and state-owned companies up to 31 December 2010
- Reduction of cess amount payable by small planters with 12 arpents or less by 20% for crop seasons 2009/2010 and 2010/2011
- Directors to apply stringent solvency test before distribution of dividends



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The Budget proposals may be amended significantly before enactment. The content of this summary is intended to provide a general guide to the subject matter and should not be regarded as a basis for ascertaining liability to tax or determining investment strategy in specific circumstances. In such cases specialist advice should be taken.

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