Mauritius is a small island nation strategically located in the Indian Ocean as a gateway between the continent of Africa and Asia. It has a population of 1.3 million inhabitants and a literacy rate of 90 per cent. Over the years, Mauritius has emerged as one of the most resilient and competitive economies in the Sub-Saharan African region with a per capita income of US$8,240 in 2012. The latest World Economic Forum Report on Global Competitiveness ranked Mauritius as 1st in Africa and 45th worldwide.

This remarkable achievement is the result of structural reforms undertaken on various fronts to improve the business climate in Mauritius, including tax reforms. This article highlights some of the salient features of the tax incentive regime, the tax reforms undertaken by Mauritius in 2006 and some post-reform outcomes.

**Salient features of tax incentives in Mauritius**

Prior to 2006, Mauritius had an extensive set of tax incentives which were tailored to specific investment certificates and sectors. These included tax holidays, partial tax exemption, duty exemption and accelerated depreciation. Indeed, some enterprises – subject to submitting applications and receiving approvals from relevant institutions – were classified *interalia* as pioneer, export enterprises, exports services, ICT or small and medium enterprises and benefited from reduced corporate tax rate of 15 per cent, instead of the standard rate of 25 per cent, and duty exemption on raw materials and production equipment. Entities engaged in export activities were provided with the opportunity to claim the double deduction for export marketing and promotional costs, which could include participation in international trade fairs, overseas advertising and preparation of tenders for the export of goods or services.

Mauritius also provided tax incentives in the form of tax credit. A corporate body, having subscribed to the share capital of a company listed on the Stock Exchange of Mauritius, was allowed to claim a certain percentage of the amount actually invested in cash as tax credit. Similarly, companies engaged in operating a spinning, weaving, dyeing or knitting fabric factory were exempted from corporate tax for several income years. With the emphasis laid on developing Mauritius into an information and communications technology (ICT) hub, tax holidays or reduced corporate tax rates of five per cent were granted to companies carrying out specified ICT activities.

**Tax expenditure analysis triggering tax reforms**

The Mauritian experience with reforming tax incentives started with the country's tax expenditure estimation that was carried out in 2005 as part of the strategy to enhance the government’s fiscal management. The Tax Expenditure Report, by bringing to the limelight the cost of granting tax incentives, was one of the main triggers of the 2006 tax reform package. One of the key findings of the analysis was that personal and corporate income taxes jointly represented 67 per cent of the total tax expenditure for Mauritius and there was scope for reforming these.

**The tax and duty reforms**

The major tax reform strategy was directed not only to remedy fiscal weaknesses but also to attain a number of other objectives such as:

- Promoting equity and fairness
- Widening and deepening the tax base
- Removing disincentives to work, save and invest
- Increasing international competitiveness
- Making the tax system simple, easy to administer and more transparent

The major reforms in personal and corporate income tax reforms were:

- Elimination of over 20 types of personal income tax allowances/deductions
- Overhaul of complex systems of exemptions
- Introduction of a single income exemption threshold based on the number of dependents of the taxpayer
- Reduction in the number of tax bands and rates
- Removal of investment and additional investment allowances on capital expenditure
- Removal of all allowable deductions that are not linked with production of income, e.g. donations, contributions and the setting up of social infrastructure
- Removal of virtually all tax holidays and tax credits
- Introduction of a time limit of five years for the carry forward of trade losses instead of unlimited carry forward in existence earlier
- Single tax rate of 15 per cent
The 2006 tariff reform and some minor amendments thereafter has led to the following changes:

- Maximum ad valorem tariff brought down from 65 per cent to 30 per cent
- The rates of 65 per cent, 55 per cent and 40 per cent reduced to 30 per cent
- The tariff structure simplified with currently only four non-zero bands (five per cent, ten per cent, 15 per cent and 30 per cent) as opposed to seven
- 6,289 tariff lines, i.e. 89 per cent, attracting zero duty

As part of the reform package, the discretionary powers of the Minister of Finance to remit, exempt or refund tax or duty in respect of customs duties, excise duties, registration duties and land duties and taxes were also removed. These taxes and duties were thus brought at par with VAT where the legislation did not already provide for any ministerial powers of remission. In line with SADC recommendations, steps were also taken to ensure fiscal discipline by requiring that all matters relating to taxation (including exemptions) be incorporated in tax laws.

### Outcome of tax incentives reforms

Since 2007, the annual budget of Mauritius has included a report on tax expenditure for approval by the National Assembly although there is no legal obligation to do this. Tax expenditure is usually referred to as that part of revenue foregone by government due to provisions in revenue legislations that allow for exemptions, deductions or special exclusions or which provide for a special credit, preferential rate or deferred liability. The latter incentives impact on public finance as they are similar to a subsidy but are less transparent and may not be subject to the same level of public scrutiny as public spending. Hence, the need for computing and submitting tax expenditures for approval in the National Assembly.

The Tax Expenditure Report in the Mauritius National Budget 2013 highlights:

- The main elements of tax expenditure under income tax, corporate tax, VAT, customs and excise duties
- The estimated cost, as a percentage of GDP, of tax expenditures under these main revenue heads
- The computational difficulties due to limitation of data

It was noted that in financial year 2006–07, that is the pre-reform period, total tax expenditure in Mauritius was estimated at 3.23 per cent of GDP. Following the tax reforms, tax expenditure has fallen consistently to reach an estimated 1.30 per cent of GDP in 2012.

By reforming its tax incentive regime, Mauritius has been able to remove a significant number of low-income earners from the tax net and reduce the tax burden on middle-income earners. It has also precluded high-income earners from abusing various tax expenditures (deductions, reliefs, donations) to reduce their tax liability.

Regarding revenues from personal and corporate income taxes, they have during the period 2006–11 grown at an average annual rate of 14 per cent despite the reduction in tax rates. The simplified tax system has also reduced administrative and compliance costs significantly. The country was ranked 12th out of some 185 countries in the 2013 Ease of Paying Taxes Survey conducted by the World Bank.

There are often concerns about the impact of removing tax incentives on the level of investment, especially FDI. In Mauritius, the tax reform was complemented by a new business facilitation strategy aimed at encouraging both local and foreign investment in the country. As a result, investment which stood at MUR51.7 billion in 2006 (pre-reform) increased to MUR79.2 billion in 2012, representing an increase of 53 per cent over a six-year period. The country was ranked 19th out of 185 economies in the 2013 Doing Business Survey, World Bank, and topped as the easiest place to do business in Sub-Saharan Africa.

Recent experiences in reforming tax incentives in Mauritius reveal that taxation is not necessarily the primary consideration for investors. Non-tax factors may be far more important than tax incentives in determining the level and quality of investment flows. However, countries that consider the granting of tax incentives an essential element of their development strategy should, as part of an open, transparent and accountable budgetary process, measure the cost of granting them (through tax expenditure computations) so as to be in a position at any point in time to discuss and assess their relevance and impact on revenues.

Sudhamo Lal is director-general of the Mauritius Revenue Authority and has extensive knowledge of tax administration and tax reforms. He is a regular speaker at international seminars and conferences. Sudhamo has had a long and fruitful career in direct tax administration in Pakistan, where he has served as commissioner of income tax and wealth tax and director-general (withholding taxes) before becoming a member (tax policy and administration) of the Central Board of Revenue in Islamabad. In this capacity, he was entrusted the responsibility for leading a US$150 million World Bank-funded tax administration reform programme and interacted with the European Union, Asian Development Bank, International Monetary Fund and other international finance institutions. Sudhamo served as the president of the Commonwealth Association of Tax Administrators (CATA) from 2009 to 2011 and in that capacity presided over the annual CATA conferences in Malawi, Nigeria and Sri Lanka. He also acted as vice-chairman for the World Customs Organisation’s Eastern and Southern African Region.