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INTRODUCTION

The Honourable Pravind Kumar Jugnauth, Prime Minister, who also holds the portfolio of finance and economic development presented the 2019/2020 Budget (the “Budget”) on 10 June 2019 under the theme of “Embracing a Brighter Future Together as a Nation”. This was also the last budget for this government with general elections anticipated at the end of this year or early next year.

In the words of the Prime Minister, Mauritius is transcending into a “new era of development” and several measures announced are designed to lay the economy into stronger & innovative foundations in this “transformative journey”. The next fiscal year is expected to see further increases in GDP growth, private investment and currency reserves whilst unemployment and inflation will continue to decrease.

The Prime Minister highlighted that Mauritius was rated fully compliant with the OECD Standards on transparency and exchange of information for tax purposes. Besides, the ESSAMLG Follow up Report on Mauritius confirmed an upgrade of 11 FATF recommendations, thus demonstrating significant progress. The goal is to further build on this momentum to position Mauritius as an International Financial Centre of choice and repute.

The Budget contains some interesting measures relating to the financial services, taxation and business facilitation and we are pleased to provide you with this note that focuses on the key measures relating to same and other related measures that you may find to be of interest.
In view of expanding accessibility of the Mauritian IFC product offering to the world, it is being envisaged to establish a new framework for fund administration and fund management; to revamp the Special Purpose Fund regime to ease access to new markets and to provide for the Financial Services Commission (‘FSC’) to enter into an agreement with the Gujarat International Finance Tec-City to recognize Mauritius funds and management companies to operate in the Gujarat jurisdiction as well.
DIVERSITY PRODUCT BASE

In the same spirit, the product base will be diversified to introduce new rules and an attractive tax regime to promote the development of Real Estate Investment Trusts; an umbrella licence for wealth management activities; a scheme for headquartering of ‘e-commerce’ activities; a framework for Green Finance in line with the ‘Marrakech Pledge’ (a continental coalition of African Capital Markets Regulators and Exchanges committed to foster green financing); and a new trading platform at the Stock Exchange of Mauritius to allow medium sized profitable enterprises that do not qualify for listing on the official and DEM markets to raise capital and trade their shares.

In addition, the Bank of Mauritius and FSC will explore the convergence of Private Banking and Wealth Management Licences. Lastly, a new scheme for the headquartering of E-commerce activities in Mauritius will be introduced.
Mauritius is keen to continue to promote the ease of doing business in the country to give a “spur” to private investment and will introduce a new business facilitation framework (which will amend 26 legislations). This scheme will expedite the process for the setting up of a business and eliminate unnecessary business or trade licenses and permits, review the process of applications for Work and Residence Permits by Foreign Nationals, aligning with international best practices regarding protection of minority investors and sharing of information.

In addition, a ‘single-window system’ will be set up at the FSC to allow for submission of documents for financial services and global business applications.
MAURITIUS AS A FINTECH HUB

To keep pace with evolving technology, Mauritius will be poised as a Fintech hub in the region. The FSC will establish a new regime for Robotics and Artificial Intelligence enabled financial advisory services; introduce a new licence for Fintech Service providers; encourage self-regulation for Fintech activities in consultation with the United Nations Office on Drugs and Crime; introduce e-signatures and e-licences on a pilot basis; and create Crowd Funding as a new licensable activity. It is also contemplated to make amendments to the relevant Act to upgrade the Regulatory Sandbox Licensing Framework for Fintech Activities.

In addition, to promote innovation in a bid to build the leaders of tomorrow and to take the mantle of Mauritius as being a fintech hub in the region, the youths will be better equipped with the required skills and academic qualifications, such as AI and Robotics, which will be offered in specific universities in Mauritius.
The regulatory framework will be significantly strengthened to fight fraud, corruption and financial crimes to increase investors’ confidence in the financial services sector. In this connection, a Financial Crime Commission will be set up to act as an apex body to ensure greater coordination and coherence among the various investigative agencies, including Independent Commission Against Corruption (“ICAC”), the Financial Intelligence Unit (“FIU”) and the enforcement department of the FSC in carrying out their functions, in particular in dealing with drugs investigations and other financial crimes.

The FSC will also develop a financial data handling code of conduct to address cyber risks; and the Bank of Mauritius, FIU and FSC will introduce industry-wide Practice Notes with respect to handling clients’ requests.
TAXATION

The industry was very relieved that the concept of POEM (Place of Effective Management) that was introduced last year will be removed and that the test for residency of companies will be namely of central management and control. The substance requirements that were introduced by way of FSC circular will be given statutory force. Besides, a number of measures have also been introduced to deal with the concerns that were raised by the European Union recently on our tax framework, for example, there will be conditions on outsourcing on core income generating activities and more importantly there will be introduction of Controlled Foreign Companies (CFC) rules in our income tax legislation. It is also very positive to note that the Government has agreed to representations made by the industry to extend the scope of the partial exemption so that income from many more activities will now be allowed to benefit from the partial exemption.

Despite the qualifying measures, it is being proposed to extend the partial exemption regime which will benefit companies engaged in leasing and provision of international fibre capacity, insurance and reinsurance brokering businesses, as well companies involved in the sale, financing arrangement and asset management of aircraft and its spare parts, aviation related advisory services.

The law will also be amended to provide clarity on the application of the arm’s length test for arm’s length transactions.

Other tax measures have been introduced as follows:

Income Tax Act
• A newly set-up company involved in innovation-driven activities will benefit from a tax holiday of 8 years on income derived from its intellectual property assets developed in Mauritius subject to meeting the relevant substance requirement.

• 5-year tax holiday will be introduced for a company setting up an e-commerce platform provided the company is incorporated in Mauritius before 30th June 2025.

• In addition, a 5-year tax holiday will be granted to a Peer-to-Peer lending operator provided the company starts its operation prior to 31st December 2020.

• Also, a Freeport operator engaged in manufacturing activities in the Freeport will be allowed to apply as private Freeport developer to build, develop and manage its own infrastructural activities provided that it carries out the same manufacturing activity subject to meeting the relevant substance requirement.

Voluntary Disclosure of Income Scheme – SMEs
Small and medium enterprises, i.e., enterprises having turnover not exceeding Rs 50 million will be given the opportunity to regularize any undeclared or under-declared income with the MRA free from penalty and interest.

Arrears Payment Scheme – SMEs
A small and medium enterprise will be allowed to pay arrears of tax owed to the MRA as at 10th June 2019 free from penalty and interest provided payment is made on or before 31st March 2020.
Mauritius is keen to welcome foreign skills and expertise. A new “Post-Study Work Visa” will be introduced to allow students to work in the country for 3 years after completion of their undergraduate studies in targeted sectors such as ICT, Fintech, AI and Biotechnology, where there is scarcity of skills.

In addition, Mauritius has taken a great initiative to support businesses in the island as it will be introducing a Significant Employers Scheme which will replace the former Foreign Manpower Scheme (introduced in last year’s Budget) to support businesses operating in fields where local talents are scarce. As such, a foreign worker will be able to obtain an entry permit at arrival, valid for a period not exceeding 3 months if he is employed by a company under this scheme. This innovation will allow the foreign employee to work while the employer completes the Occupational Permit Procedure.

This Budget also caters for an interesting amendment to the “Innovator Occupation Permit” for Start-ups in a bid to attract foreign talents. Previously, such applicants were required to make an initial investment of USD 40,000 or equivalent in freely convertible currency in the bank account of the company. Henceforth, such amount will be waived for those who will be mentored by an accredited incubator.
In order to attract more HNWIs in the country and those who wish to come on their own yacht by sea, Mauritius will incentivise the development of Marinas, and the requisite regulations and Yacht code will be established. In view of encouraging private investment in the development of such marinas, an 8-year income tax holiday and VAT exemption on construction will be granted to newly set up entities to develop the marinas.
In line with the intention of promoting Mauritius as an online betting platform for foreigners, a “sandbox licence” would be issued by the EDB to enable interested parties to develop a licensing programme which would include the elaboration of an appropriate legal framework, the choice of latest software solutions for real-time tax deduction at source for every online betting transaction and exploring risk-assessed Blockchain and Crypto Currency Initiatives.
CONCLUSION

This Budget appears to have stricken a right balance, namely, to ensure that Mauritius remains compliant with international standards whilst continuing to deepen and diversify its product offering.

The introduction of new products coupled with the focus on financial technology and innovations will hopefully pave way for a new era for financial services sector that will henceforth be based on the breadth and depth of its service offering rather than on tax arbitrage.