A tax system for Investment

Case of Mauritius

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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

Average tariffs & Tariffs as share of revenue & GDP

Percent of tariffs at various rates

Weighted Average Nominal Rate (WANR)
Average Effective Rate (AER)
% of tax revenue
% of GDP

Average tariffs & Tariffs as share of revenue & GDP

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**
- Impact of reforms in 2008
- Ranks: 49, 29, 24, 20, 21, 24, 20, 20, 20

**FDI**
- FDI (USD millions)
- FDI/GDP ratio (%)
- Linear (FDI/GDP ratio (%))
- Years: 2004-2013
- Values: 1%, 1%, 2%, 3%, 4%, 5%, 6%, 7%
- USD MILLION: 60, 94, 241, 384, 381, 293, 317, 465

**Exports**
- Export/GDP ratio (%)
- Linear (Export/GDP ratio (%))
- Years: 2007-2014
- Values: 29%, 33%, 35%, 29%, 25%, 22%, 23%, 23%, 23%, 24%
- USD MILLION: 0, 100, 200, 300, 400, 500, 600, 700, 800

**Unemployment**
- Years: 2001-2009
- Values: +0.0, +1.0, +2.0, +3.0, +4.0, +5.0, +6.0, +7.0

**GDP Growth**
- Years: 2005-2008
- Values: +0.0, +1.0, +2.0, +3.0, +4.0, +5.0, +6.0, +7.0
- Linear (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)