THE MAURITIUS CHAMBER OF COMMERCE AND INDUSTRY

MEMORANDUM ON THE 2017-2018 BUDGET

'HORIZON 50th INDEPENDENCE DAY'

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1. THE ECONOMIC CONTEXT

The world economy is today faced with policy transitions and uncertainties, which are shaping the global economic outlook towards modest growth. In 2016, with new shocks, subdued demand and on-going realignments in a number of economies, the IMF expects a slowdown in growth to 3.1 percent, the second lowest growth in the recent years. Advanced economies were hit by new shocks bringing another slowdown in their growth rate and emerging and developing economies were unable to pull world economic activity.

Despite this uncertain external environment, the Mauritian economy showed signs of renewed resilience, with an expected growth rate of 3.5 percent in 2016, higher than the 3.0 figure in 2015. Economic activity in the country continues to be driven by internal demand - consumption and investment - while the exports of goods and services experienced a contraction for a second year consecutive. In 2017, according to latest forecasts from Statistics Mauritius, growth in the economy is expected to reach 3.8 percent, showing a continued improvement in the growth rate over the last few years.

Nonetheless, Growth in the Mauritian economy remains modest, well below the 5 percent mark. This is confirmed by the level of the MCCI's Business Confidence Indicator, which despite a distinct rise over the year 2016, remains in static territory, below its long-term average. Despite a competitive exchange rate policy and a strengthening of commodity prices on the world market, the economy experienced one of its lowest inflation rate in post-independence history - at 1 percent. This clearly shows that the economy is evolving below its potential - estimated at approximately 4 percent in the latest MCCI Economic Outlook.

The Mauritian economy has been, for some years now, in a phase where supply is greater than demand, resulting in modest growth and disinflation. The IMF argues that in the current economic context, with lower outlook and weakened potential, it is urgent to adopt measures which improve short-term growth while also enhancing potential output.

The institution advocates for a three-sided policy: continued expansionary monetary policy, demand-side budgetary measures and structural reforms. This approach aims, firstly, to boost demand in order to raise short-term growth, and secondly, to improve supply to strengthen the production potential.

On the demand-side, it remains essential to give a boost to short-term growth through stronger short-term budgetary support when there is fiscal space available. On the supply-side, the IMF proposes the implementation of a credible program of structural reforms tailored to the needs of the country while taking into account both short-term and medium term impacts. These reforms are for instance those that lead to fiscal stimulus and reduce barriers to business.

In Mauritius, we find ourselves in a situation where economic growth and its potential are both weak. We are thus bound to adopt this three-sided policy.

Moreover, the country needs to prepare itself to a changing world economic order; the triggering of Article 50 to leave the European Union on the 29th of March being one of our most testing challenges on the external front in the next few years. Domestically, demand-side policies and a resolute fiscal stimulus are the sine-qua-non to triggering economic dynamism in the economy.

In the long-run, as pointed out by the latest PwC report, "*The World in 2050",* Mauritius needs to adapt itself to a shifting global economic landscape - an expected decrease in the average world growth rate at 2.5 percent, a shift of economic activity from the G7 to the E7 countries and economic dynamism in the world economy being principally sustained by the most populated countries in the world - China, India, the United States, Indonesia and Brazil.

The MCCI believes that the Budget 2017-2018 is a unique opportunity to transform our economic model to face the challenges of tomorrow**.** The MCCI has thus earmarked a number of key levers to boost growth, enhance productivity and competitiveness and adapt ourselves to this new economic order.

The MCCI Memorandum on the Budget 2017/2018 includes key proposals to address these issues as well as a sector-wise proposals thereof.

2. FISCAL POLICY

The main macro-economic enabler of economies throughout the world is its fiscal policy. At times of low economic growth and potential activity, countries should fully use their budgetary levers to boost economic activity and conduct structural reforms with interest rates at a historic low. Indeed, Economists worldwide, from the IMF, the OECD to economists from various schools of thought–whether liberals, Keynesian, Marxists - are today all in consensus to recommend fiscal measures to boost economic growth. In Mauritius, it is today essential to engage in a broad-based fiscal impulse and rationalisation process. The MCCI proposes the following reforms on fiscal policy:-

2.1. Corporate Income Tax

2.1.1. Corporate Income Tax at 12 percent

The shaping of the new world economic order demands strong and bold measures. The flat rate of 15 percent of corporate tax is today no longer applied as a number of schemes are provided for specific sectors, while there are special levies on other sectors. Moreover, the competitive world we are living in demands a constant review of our policy and a dynamic fiscal model.

A number of the most advanced economies throughout the world are today aiming at lower corporate taxation rates in order to incentivise companies to invest in the economy. The MCCI is thus proposing a review of the corporate income tax in Mauritius, in line with countries such as Ireland - at **12 percent**.

Moreover, in order to effectively promote entrepreneurship at the SME level, a harmonisation of different incentives and schemes need to be carried out. This should go through a **zero** percent tax on the first Rs. 500,000 of profit derived by all companies.

Proposal: -To amend the First Schedule of the Income Tax Act as follows:

Column 1 **Profit before Tax**	**Column 2** **Rate of Income tax**
First Rs 500,000	0
More than Rs. 500,000	12

2.1.2. Extension of Investment Tax Credit to all productive investment

In recent years, the country has been faced with a decreasing potential growth from more than 5 percent in 2006 to around 4 percent in 2016. In order to increase the growth potential in the Mauritian economy, it is essential to have an extensive policy to boost productive investment. Indeed, the competitive world economy faced by local entrepreneurs demands a constant investment in high quality technology-intensive plant and machinery.

The review of the investment tax credit in the last Budget 2016/2017 to a number of sub-sectors has been a positive step and we have seen a renewal in Plant & Machinery investment with a growth rate of 6.2 percent i.e. Rs 2.7 Billion in nominal terms, after two years of contraction. Nonetheless, plant and machinery investment in the economy remains limited.

The current legislation providing for an investment tax credit is today limited to only a select number of sub-sectors of the manufacturing industry, and is at a different rates for different sub-sectors. This inconsistency in the investment tax credit acts as a deterrent to a rebound in investment; a sine-qua-non to boosting long-term growth in the economy.

The MCCI thus proposes that the tax credit be harmonised and be applicable for all productive investment in plant and machinery (excluding motor cars). It is proposed that the tax credit be limited to a maximum of 50 percent of the company's total profit for the year.

Proposal: - To amend the Ninth Schedule of the **Income Tax Act** as follows:
(1) A company shall be allowed to deduct its capital expenditure on plant and machinery (except for motor cars) from its corporate tax for the year, up to a maximum of 50 percent of its corporate tax.

(2) The company shall provide written evidence in the form of Bill of Entry, Purchase Receipts or any document thereof, to the Director-General to substantiate its deduction on capital expenditure.

2.1.3. Knowledge Tax Regime

The Mauritian economy is in dire need of reinventing itself. With the new economic order and the advent of technology, it is essential to boost the economy through R & D and Innovation, with a spill-over effect on all sectors of economic activity. However, as shown by the latest Global Innovation Index, expenditure on R&D in Mauritius represents a meagre 0.18% of GDP today. Meanwhile EU countries in particular have R&D expenditure to GDP of 2 percent and further aim to spend at least 3 percent of their GDP on R &D as per the Europe 2020 Strategy.

It is hence essential to introduce an attractive fiscal package to incentivise innovation. The Budget 2016/2017 makes provision for the introduction of an attractive fiscal package for innovative enterprises. With the planned enactment of the Industrial Property Bill before June 2017, the MCCI proposes that the fiscal package announced by the Government takes the form of an Knowledge Tax Regime. The latter is a preferential tax regime to incentivise firms to increase investment in innovation activities, attract and retain mobile investments that may be associated with high-skilled jobs and knowledge creation.

The MCCI proposes that in order to encourage IP and its flow on benefits to be developed, marketed and commercialised in Mauritius, our model should offer for a **zero percent tax** on worldwide income derived from the totality of Intellectual Property Assets, including:

- Patents and associated patent rights

- Supplementary Protection Certificate (SPC)
- Software
- Trademarks
- Designs and models
- Copyrights
- Utility models
- Domain names
- Trade secrets/know-how including Secret formulas and processes

The Knowledge Tax incentive would address the gap that leaves Intellectual Property vulnerable by supporting Mauritian innovators and manufacturers to invest in innovation-driven activities.

The tax regime would not only help to retain home-grown IP but also attract IP created overseas to be commercialised and managed from Mauritius. The implementation of the Knowledge Tax Regime should make the commercialisation of IP in Mauritius more genuinely viable for businesses.

The Knowledge Tax Regime combined with adherence to the Madrid and Lisbon Treaties, as per the Industrial Property Bill, would make Mauritius become an undisputable platform for IP assets.

Proposal: **-**Insert, after Section 49B of the Income Tax Act, a Section 49(C) as follows:-
49C Knowledge Tax Regime

CHAPTER 1 Reduced corporation tax rate for income from IP Assets

(1) A company may elect that any profits derived from a relevant IP income of the company for an accounting period for which it is a qualifying company are chargeable at a lower rate of corporation tax.

(2)An election under subsection (1) is to be given effect by allowing a deduction to be made in calculating for corporation tax purposes the derived from the relevant IP income for the period.

(3)The amount of the deduction is— $RP \times \frac{(MR-IPR)}{MR}$

where— RP is the relevant IP profits of the trade of the company,
MR is the main rate of corporation tax, and
IPR is the special IP rate of corporation tax.

(4)The special IP rate of corporation tax is 0 %.

CHAPTER 2 Definitions

(1) A company is a qualifying company for an accounting period if the company holds any qualifying IP rights, and has derived income, in the financial year, in respect of an event which occurred in relation to the IP Right.

(2)A qualifying IP right includes the following rights—

(a)Patents and associated patent rights

(b) a Supplementary Protection Certificate (SPC)
(c) Software
(d) Trademarks
(e) Designs and models
(f) Copyrights
(g) Utility models
(h) Domain names
(i) Trade secrets/know-how including Secret formulas and processes

(3) A relevant IP income includes all income derived as a result of a qualifying IP Right, including the following:-

(a) Sales Revenue
(b) License Fees
(c) Proceeds of sales/disposal of IP Asset
(d) Damages for Infringement
(e) Proceeds from intangible fixed assets
(f) Profits from Patent Rights
(g) Other Compensation

A full report of the Knowledge Tax Regime can be found in **Annex I**

2.1.4. Tax Credit on export of all goods and services

The Export Processing Zones (EPZ) established in the 1970s are widely recognised to have vastly contributed to the industrial development in the country through a preferential tax regime for manufacturing companies involved in exportation. In recent years, the country moved towards the provision of services and its growth was driven by the financial services through the Global Business Licence, the ICT/BPO and Tourism sector - which are mainly exporting activities. Indeed, exports of goods and services contributed to approximately Rs. 193 BN in our GDP in 2016.

Nonetheless, there is a need to rationalise the different schemes and expand the country's market base in an effort to boost exports. The MCCI thus proposes that all existing and new companies be provided with a tax credit on their exporting activities up to a maximum of 50 percent of its corporate tax. This will have the double effect of encouraging existing companies to continue using Mauritius as a hub to export to the world and to attract new companies to set-up business units in the country in order to export to the world.

Proposal: - To Insert, after Section 49C of the Income Tax Act, a Section 49(D) as follows:-
49D Export Tax Credit

(1) A company shall be allowed to deduct revenue derived from its exporting activities from its corporate tax for the year, up to a maximum of 50 percent of its corporate tax.

(2) The company shall provide written evidence in the form of Sales Invoice or any document thereof, to the Director-General to substantiate its deduction on exporting activities.

2.1.5. *Business Expansion Scheme*

SMEs are the backbone of the economy in Mauritius, contributing to a more than 40 percent of the economy's GDP. According to latest data from the Statistics Mauritius, there are more than 124, 000 small establishments in Mauritius. Nonetheless, the majority of those enterprises are faced with an inability to grow due to a lack of finance.

With the Bank of Mauritius raising alarm on the excess liquidity on the market since 2014, the MCCI proposes that a novel approach be adopted to incentivise larger companies to invest in the growth of small and medium-sized companies. Indeed, the best people to underwrite business risks are entrepreneurs. Through this concept of "Intra-preneurship", larger companies will be incentivised to invest in the growth of smaller companies through the buying of preferential shares.

The MCCI proposes that a tax credit be provided for companies investing in smaller non-related firms.

Proposal: - To Insert, after Section 49D of the Income Tax Act, a Section 49(E) as follows:-
49D Business Expansion Scheme

(1) A company shall be allowed to deduct its investment, in the form of preference shares, in a non-related party company with a turnover of less than Rs. 50M from its corporate tax for the year, up to a maximum of 50 percent of its corporate tax.

2.2. Personal Income Taxation

2.2.1. *Redefinition of income tax exemption thresholds*

In recent years, the budget makes provision to increase the income exemption threshold of an employer by a flat amount across all categories. This however creates inconsistencies on how our income exemption thresholds are defined, as it does not take into consideration the equivalence scale of consumption and the difference of taxation between categories keeps on increasing.

Today, the first dependent weights 0.33 in consumption, the second dependent 0.20, the third dependent 0.13, and any additional dependent have a weight of 0. This is tantamount to a taxation on couples with more than one child, and contributes to a Malthusian policy of favouring one child per couple.

This definition has had an adverse impact on our continuously declining fertility rate, which has fallen from 2.8 in the 1980s to less than 1.36 in 2016, according to latest figures. However, the replacement rate for a country is at 2.1.

In fact, latest data from the United Nations estimates show that, as from 2030, the population level in Mauritius will start to decrease, due to a continuously decreasing fertility rate. In fact, it is expected that our population levels will be of less than 800,000 by 2100. The MCCI firmly believes that immediate policies need to be adopted to prevent this ticking bomb scenario for our economy.

Economic experts advocate, on a scientific basis. for the use of an equivalence scale where a dependent is assigned a weight of 0.5 units of consumption, irrespective of whether he/she is the spouse or child.

Proposal: *The MCCI proposes a review of the income exemption threshold to allow for an additional exemption of 0.5 units for each dependent, irrespective of whether he/she is the spouse or child*

	From	**To**
Individual with no dependent	Rs 295,000	Rs 300,000
Individual with one dependent	Rs 405,000	Rs 450,000
Individual with two dependents	Rs 465,000	Rs. 600,000
Individual with three dependents	Rs 505,000	Rs. 750,000
****Individual with x dependents**	Rs 505,000	Rs 300,000 + (0.5x *300,000)

*** New Category - Individual with x dependents*

Economic Effect:-The measure will increase the income of households and offer a much-needed respite to those with more dependents and at the same time address the low fertility rate. It is expected to have a significant impact on consumption and could increase by up to **0.5 percentage points** in our GDP, ceteris paribus.

2.2.2. Introduction of Negative Income Tax Regime

A recent study by the OECD[1] shows that income inequality has a negative and statistically significant impact on medium-term growth. A rise in income inequality by 3 Gini points would drag down economic growth by 0.35 percentage point per year for 25 years: a cumulated loss in GDP at the end of the period of 8.5 per cent

To boost the economy through an increase in demand, there is a need to raise the purchasing power of those with the highest marginal propensity to consume i.e. those at the lower end. The MCCI estimates that the marginal propensity to consumer for those with an income of less than Rs. 25,000 is at 0.95 i.e. for each additional Rs.1 they have, 95 cents are directly ploughed back into the economy.

To boost demand and incentivise people to work, it is proposed to introduce a negative income tax regime in Mauritius as proposed by the Nobel laureate in Economics, Milton Friedman, in 1968. For this liberal economist, who is a strong proponent of the free market, it is necessary that below a certain threshold, the Government gives the lower end an income support. This support is at its maximum for an individual with no income, and is reduced till it is nil when the threshold is reached. This is what is commonly referred to as a negative income tax regime.

[1] Trends in income inequality and its impact on economic growth, OECD, 2014

Faced with an increase in the Gini coefficient, as a small island economy, Mauritius is the ideal laboratory for the implementation of such an innovative model. The MCCI proposes that a monthly income support of a maximum of Rs 2,000 be provided to households with an income of less than Rs 25,000. This measure will benefit around 100,000 households at the lower end of the ladder. The MCCI believes that it is essential to bring households closer to an income level of Rs 25,000.

Proposal:- *To broaden the monthly subsistence allowance applicable to those on the social register to all households with a monthly income of less than Rs 25,000 and with a minimum of one dependent. The monthly income support will concern around 100,000 households at the lower end of the ladder. To effectively implement this measure, the Income Tax Act should be amended to provide for the issue of a Tax Account Number (TAN) to every adult citizen.*

Economic Effect:-*It is estimated that the above measure will bring an additional Rs 3 BN of additional consumption in the economy and through multiplier effect contribute to an increase of around* ***1 percentage points*** *in GDP Growth, ceteris paribus.*

2.2.3. Pension Scheme

The Mauritian economy is faced with an increasingly ageing population, with the number of individuals aged more than 65 years old more than doubling to reach 300,000 by 2050, according to UN estimates. This will inevitably become a huge strain on state pension in the long-run, and there is a need to incentivise employees to engage in private pension plans. According to latest data available, there are less than 20 percent[2] of employees holding a private pension in Mauritius. Indeed, there is a lack of financial incentives for consumers to enter these schemes.

It is proposed that pension schemes are treated as exemptions and are made deductible from chargeable income. Contributions to pension schemes up to a maximum of Rs 15, 000 per annum should be deductible from the individual's chargeable income.

Proposal: -To insert a Section 27D in the Income Tax Act as follows:
27B. Relief for Private Pension Premium
(1) Subject to this section, every person shall, in an income year, be entitled to deduct from his net income the actual amount paid in that income year as premium in respect of a private pension scheme contracted for himself and his dependent for whom he has claimed a deduction under section 27; or

(2) The relief under subsection (1) shall not exceed the amount specified in Column 2 in Part III of the Third Schedule corresponding to the category specified in Column 1 of that Schedule.

(3) No relief under subsection (1) shall be allowed where the premium or contribution has been paid by the employer of the person;

PART III - RELIEF FOR PRIVATE PENSION PREMIUM

[2] International Organisation of Pension Supervisors, 2016

Column 1	Column 2
Category claimed as Income Exemption Threshold	**Premium Allowable (Rs.)**
All categories	15,000 for self only

2.3. Rationalisation of non-direct taxes and levies

Indirect taxes and other levies are the highest contributors to Government revenue. Ten years after the tax reform of 2006, with a clear aim to rationalise the fiscal policy of Mauritius with a uniform tax rate, we are still faced with more than 40 taxes and levies affecting the business community. There is hence a clear need to conduct a rationalisation process of all indirect taxes and levies to ease business in Mauritius. The MCCI proposes the following measures:-

2.3.1. Harmonisation of VAT products from exempt to Zero-Rated

According to latest Statistics from the Mauritius Revenue Authority, there are today 482 HS Codes out of a total of more than 6,300 HS Codes on which VAT is exempt. However, exemption of VAT on products prevents local manufacturers and entrepreneurs from deducting the VAT being input on the production process. This is detrimental to the local industry and is an anomaly in our VAT legislations. The MCCI is of the view that there is a need to harmonise our legislations to reclassify the 482 HS Codes as Zero-Rated products.

Proposal: -To amend the VAT Act Schedule to reclassify VAT- exempt products as Zero-Rated VAT.

Economic Effect:- *The harmonisation of the VAT System will promote and encourage local production through investment in production equipment, and thus help in improving the quality of their products.*

2.3.2. VAT on Credit Card

Input VAT cannot be recovered on certain items such as banking services provided by banks, services in respect of credit cards or motor cars (including repairs, maintenance, petroleum gas, etc) under S21(2) of the VAT Act.

Whilst these costs may be borne in the furtherance of the business of the taxable person, input VAT on such items is not recoverable in all cases and this increases the cost of doing business. Furthermore, this goes against the general principal under the VAT Act, which purports that input VAT may be recovered to the extent that such costs are incurred to make taxable supplies. This makes S21(2) of the VAT Act inconsistent in this respect.

The MCCI proposes that the VAT Act be amended and that VAT is made recoverable for these items.

The benefits will be cross-sectoral, with operators in retail, tourism and financial services bearing the direct advantages from this measure. The gains will moreover strew across other sectors of the economy.

Proposal: - To amend the VAT Act S21 (2) to repeal 2(b), (c), (d), (e), (g), (ga), and (h) such that the Section shall read as follows: -
No input tax shall be allowed as a credit under this section in respect of
(a) Goods or services used to make an exempt supply;
(b) Petroleum gas of heading No. 27.11 of Part I of the First Schedule to the Customs Tariff Act and used for the running of motor cars and other motor vehicles including the driver, motorcycles and mopeds

2.3.3. Excise Duty on Sugar Sweetened Non-Alcoholic Beverages

Since 2013, the Government of Mauritius introduced an excise duty on sugar content of soft drinks. In the 2016/2017 budget, the excise duty was extended to all sugar-sweetened non-alcoholic beverages. The main purpose of the tax is to discourage consumption of sugary products, especially given the high levels of diabetes in Mauritius.

Nonetheless, there are a number of inconsistencies in the excise duty, as it is applied today. As under the Excise Act, the definition of sugar includes sucrose, fructose, glucose, maltose, and lactose, the excise duty is today imposed on 100% fruit juices with no added sugar, and 100% milk-based products with no added sugar. This is a major inconsistency as the purpose of the tax is meant to apply on **sweetened** non-alcoholic beverages.

During the MCCI's consultations with operators on the matter, it has been pointed out that a number of local manufacturers are under no other choice but to consider moving away from 100% fruit juice towards a percentage of added sugar (under the Food Regulations, this can be a maximum of 50%) in order to reduce their costs and stay competitive. The application of the excise duty on such products is today unfair and goes against the very purpose of the tax.

The MCCI thus proposes to distinguish between **sweetened** beverages and **natural sugars.**

Proposal: -To amend the definitions of the Excise Act as follows:-

sugar" includes sucrose, lactose, maltose, fructose and glucose, not occurring naturally from the processing of a natural product;
sugar sweetened non-alcoholic beverages" –
(a) means any non-alcoholic beverages containing sugar; and
(b) includes juices, milk-based beverages and soft drinks;

2.3.4. Trade Fees

The Budget 2016/2017 provides for the exemption from payment of Trade Fees which are under Rs 5,000 for a period 3 years. It is proposed to extend the measures to all companies, as the trade fees are higher than Rs 5,000 for a number of trade activities. This will at the same time resolve the issue of District Councils charging a higher rate than municipalities. The MCCI is of the view that the operator should pay taxes on profits, and not be penalised by levies just for carrying out its trade activities.

Proposal: -To amend Section 122 (6) of the Local Government Act as follows:-

(6A) (a) This section shall, subject to paragraph (b), in respect of a period of 3 years as from 1 January 2017, not apply to an economic operator carrying out trade activities.

(b) Any economic operator who is exempted pursuant to paragraph (a) shall be issued with an exemption certificate by the Municipal City Council, Municipal Town Council or District Council, as the case may be.

Economic Effect:- *The MCCI econometric analysis shows that the removal of trade fees for companies will allow the country to gain approximately 0.3 percentage points of GDP Growth, ceteris paribus.*

2.3.5. License Fees - Registration fee for new company

According to Statistics compiled by the Ease of Doing Business survey of the World Bank, the registration fees for a new company and the certificate of incorporation total Rs 3,100, which represents 0.9 percent of GDP per capital. This registration fee acts as a detriment to small entrepreneurs wishing to start a business. The MCCI is of the view that taxes and levies should be paid on profits and that an entrepreneur should have no cost just for starting a business.

Proposal: -The Schedule to the principle regulations is amended in Part I by **deleting** item 1 (a) as follows
"In the Case of a private company
–(a) At the time of incorporation Rs 3,000"

Economic Effect:-*The MCCI econometric analysis shows that a 1 percentage point decrease in the cost of doing business would allow an increase of 0.4 percentage points in GDP Growth. Hence, the removal of the registration fee for new companies will allow the country to gain approximately 0.36 percentage points of GDP Growth, ceteris paribus.*

3. INSTITUTIONAL REFORMS

3.1. Public Sector Rationalisation

3.1.1. Economic Development Board

Throughout the country's economic history, a number of organisations and para-statal bodies, such as **Enterprise Mauritius (EM), Board of Investment (BOI) , Mauritius Tourism Promotion Authority (MTPA) and Financial Services Promotions Agency (FSPA)** which have successfully helped to promote Mauritian products and services abroad and attracting investment to strategic sectors of the economy.

Nonetheless, with the new economic order that is being shaped, there is a pressing need for a unified and holistic approach and cost effective manner to address our promotional efforts and ensure efficiency and productivity at all levels.

The Singapore Economic Development Board (EDB), one of the most successful agencies in the world, has an annual expenditure of approximately $150M Singapore dollars, i.e. around Rs 4 Billion and the country's FDI Inflow is of around $100 BN Singapore dollars, i.e. around Rs 2500 Billion in 2016. In Mauritius, the recurrent grant of the MOFED to the main promotion institutions is of more than Rs 1 Billion while FDI inflow has been of less than Rs 15 Billion in 2016.

Through a rationalisation process, and by avoiding duplications, Mauritius has the potential to do more and achieve the same productivity and efficiency figures as Singapore. The MCCI thus proposes the setting-up of an Economic Development Board (EDB) to regroup the **four main promotions agencies** in Mauritius. Such a Board, with its different directorates, would act as a central entity for implementing strategies to enhance and promote the country as a destination for investors and the promotion of exports.

Proposal: - Setting-up of Mauritius Economic Development Board to ensure efficiency in promotions of Mauritius as investment and export destination.

3.1.2. Single Licensing Authority

Mauritian businesses are faced with a number of licences, permits and regulations which act as impediment to doing business. According to latest Government data, there are around 600 licences and permits in operation, which are issued by 63 public sector agencies. A rationalisation process has already started and the Business Facilitation Act makes provision for the elimination of a number of licences and permits.

However, due to administrative rigidity, policy decisions and health and safety issues, there are a high number of licences and permits which cannot be streamlined.

The MCCI thus proposes that, in line with the Government's One-Stop Shop concept implemented at SMEDA, and the BOI, a Single Licensing Authority be set-up to act as a central authority for the delivery of, inter-alia

- Business licences,
- Import & Export Permits & Clearances
- Regulatory Permits,
- Intellectual Property Rights,
- Utilities Permits
- Labour Permits

The MCCI has identified a number of institutions concerned for the delivery of permits and licences. They include:-

- Small and Medium Enterprise Authority (SMEDA)
- Agricultural Marketing Board (AMB)
- Registrar of Companies
- Film Classification Board (FCB)
- National Parks and Conservation Society(NPCS)
- Financial Services Commission (FSC)
- Board of Investment (BOI)
- Information and Communications Technology Authority (ICTA)
- Mauritius Freeport Authority (MFA)
- Mauritius Renewable Energy Authority (MARENA)
- Dangerous Chemicals Control Board (DCCB)
- Food Import Unit (FIU)
- Pharmacy Board
- National Agricultural Products Regulatory Office (NAPRO)
- National Plant Protection Office (NPPO)
- Radiation Protection Authority (RPA)
- Mauritius Standards Bureau (MSB)
- Industrial Property Office
- Central Water Authority (CWA)
- Central Electricity Board (CEB)
- Waste Water Management (WWM)
- Ministry of Fisheries,
- Ministry of Commerce and Industry,
- Ministry of Agro-Industry and Food Security
- Ministry of Health and Quality of Life
- Ministry of Labour, Industrial Relations and Employment

Proposal: - To set-up a **Single Licensing Unit** regrouping the above agencies for the delivery of all licences and permits.

3.2. Ease of Doing Business

The 2017 Ease of Doing Business report released by the World Bank has ranked Mauritius at 49th worldwide, and there is a need for radical improvements to make us one of the top economies in the world. In recent years, our rankings on the Ease of Doing Business has been constantly decreasing. Moreover, the cost of doing business is relatively high and is preventing entrepreneurs from benefitting the full prospects of the Mauritian economy.

Mauritius has the potential to be in the top 5 economies worldwide by 2030 in terms of the ease of doing business. In 2015, the MCCI conducted an econometric analysis of the impact of Ease of Doing Business Indicators on the GDP Growth in Mauritius. It is found that there is a huge potential for reforms which would allow us to gain a minimum of 2 percentage points of growth.

The forthcoming Business Facilitation Act is expected to provide a number of measures to enhance doing business procedures in Mauritius. There is however a fundamental need to provide for bold measures to reduce the cost of doing business.

3.2.1. Omnibus Permits

In today's constantly evolving economic and business environment, companies are involved in various activities in one sector. There are however a number of permits and licences that are required. In 2015, the Government introduced an omnibus permit is issued for hotels and other accommodation to cover various activities falling under the same management. The MCCI believes that the same model should be adopted for the following sectors, in line with the One-Stop-Shop concept promoted by the Government:-

- Supermarkets
- Contract Research Outsourcing (CRO) Activities
- Contract Development Operation (CDO) Activities
- Freeport 'Master Permit'

The procedures are time-consuming for different companies and have an incidence on their day-to-day running of their business.

Proposal:-*To introduce an omnibus permit for supermarkets, CRO and CDO Activities*

3.2.2. Red Tape

With more than 600 business licences and permits required, there is a need for a rationalisation of the regulations. The Business Facilitation Act makes provision for a number of regulations being streamlined. However, this will not be enough to improve the competitiveness of companies locally. The MCCI proposes that a legislation be enacted to apply the **'1 minus 5'** rule whereby each additional regulation introduced would require another 5 to be scrapped from our statute book, further simplifying business procedures within the country.

Proposal: -*To introduce a* ***' 1 minus 5'*** *rule for any new regulations*

3.2.3. Mandatory Regulatory Impact Assessment

In the recent past, there has been a number of regulations and policy changes which were unpredictable and sudden in their application. This lack of predictability and visibility often implies significant costs for entrepreneurs, who are reluctant to lock their capital in projects.

The excellent synergy between the public and private sector, which has been heralded as one of the enablers of our economic success, should find its way in a new mode of Participatory Policy Making (PPM) as well.

The MCCI is of the view that there should be a **Mandatory Regulatory Impact Assessments (RIA)** prior to major legislations which affect business activity.

The role of the RIAs would be to provide a detailed and systematic appraisal of the potential impact of a new regulation in order to assess whether the regulation is likely to achieve the desired objectives.

The need for RIA arises from the fact that regulations commonly have numerous impacts and that these are often difficult to foresee without a detailed study and consultation with affected parties. Economic approaches to the issue of regulation also emphasize the high risk that regulatory costs may exceed benefits.

3.2.4. Establishment of MAURITAS as a body corporate

MAURITAS, the only accreditation body in the country, was established as a department under the Ministry of Industry, Commerce and Consumer Protection. The body is not recognised at the international level as it is not a member of the International Laboratory Accreditation Corporation (ILAC). While exporting to European markets, MAURITAS accreditation is not recognised internationally and companies are hence faced with high auditing costs by international accreditation bodies.

It is hence necessary that MAURITAS be established as an independent body, and obtain full membership of ILAC.

Proposal: -*To amend Paragraph (3) of the MAURITAS Act as follows:-*
(1) There is established for the purposes of this Act the Mauritius Accreditation Service (MAURITAS).

(1A) MAURITAS shall be a body corporate.

4. ENHANCING PRODUCTIVITY AND COMPETITIVENESS

4.1. Expanding our Market Share

The economic development of Mauritius has for years been linked to the export industry. In the decades following independence, and the advent of Export Processing Zones (EPZs), the country has had increasingly high levels of exports. This has been further supported by an increasing move to services, with a large proportion of our exports being in services. Nonetheless, in the last few years, the exports of goods and services, has been receding. In 2016, exports of goods and services has contracted by 2.4 percent. The MCCI proposes a number of measures for the exports sector:-

4.1.1. National Export Strategy

Since 2014, the MCCI has been narrowly associated in the consultations and the elaboration of the National Export Strategy (NES) for the country alongside ITC experts and other stakeholders. The launch of the NES in March 2017 has provided a comprehensive review of our export strategy for the next decade. The MCCI looks forward to the rapid implementation of the recommendations proposed in the strategy. The latter should be complemented by the necessary incentives and logistics system to sustain a growth in our exports.

4.1.2. Freight Related administrative Costs

Mauritius is currently ranked at 74th on the Trading across Borders indicator of the Ease of Doing Business. Entrepreneurs are faced with high freight related costs, preventing them from remaining competitive in both the local and export market.

In February 2017, the Cargo Handling Corporation (CHCL) announced an 8 percent increase in its tariffs. Further to advocacy from the Association Professionelle des Agents Maritimes Mauriciens (APAMM), the measure has been postponed for the 1st of July 2017. The MCCI is of the view that such an increase will be detrimental to the competitiveness of operators in Mauritius and should thus be abolished. Moreover, the MCCI proposes that an across the board freight subsidy of $100 be given by the Government.

Proposal: -*Given the insularity status of Mauritius, the costs of transport are likely to remain quite significant. The Costs to Trade comprise of Border Compliance and Documentary Compliance Costs. Given that the Documentary Compliance is being streamlined on the different licences and permits through the Business Facilitation Act, it is further proposed that the $303 cost to export and $372 cost to import be* ***reduced by a minimum of $ 100.***

Economic Effect:-*The MCCI econometric analysis shows that a one percent change in the cost of trading has an effect of 0.03 percentage point on GDP Growth. Hence, by decreasing the cost of trading across borders by $100, we can achieve an increase of 0.6 percentage point in GDP Growth, ceteris paribus.*

4.1.3. Tax Credit on freight cost for import of raw materials

As an economy with limited natural resources, Mauritius has to import most of its raw materials from abroad. It is also at a disadvantage, as being a small island developing state (SIDS), its cost to import raw materials is high - with its nearest mainland being Africa. Mauritian companies are challenged by a higher cost of bringing raw materials to Mauritius in order to conduct processing and manufacturing activities. This prevents Mauritian operators from being competitive on the world market against our main competitors. Indeed, a number of MCCI members have pointed out that excluding freight, they are competitive on the world market but are at a disadvantage due to high freight costs which can reach more than $3,000 for one container.

Proposal:- The MCCI thus proposes that a tax credit be introduced on the freight cost born by companies for the import of raw materials.

4.1.4. **50-50 Matching Grant Scheme for Export and Innovation**

There is today a lack of coordination and efficiency in the different schemes provided to SMEs and companies in order to engage in export promotion exercises and technology and innovation fairs. The bureaucracy surrounding the refunds of participation to these events act as an impediment to companies to engage in innovation fairs and seek participation in export events. It is hence essential to rationalise the schemes and provide an effective instrument for the delivery of support to enterprises wishing to export and engage in innovation fairs abroad.

The MCCI proposes that a 50-50 Matching Grant Scheme be provided to companies wishing to engage in Buyers/Sellers Meetings, technology and innovation fairs abroad and gain access to international expertise. The matching grant should be open to all enterprises engaged in the priority areas defined as per the National Export Strategy Blueprint.

Proposal:- The MCCI thus proposes that a **50-50 matching grant scheme** be introduced for companies wishing to engage in international events on export and innovation. Companies engaged in the priority areas of the National Export Strategy shall be eligible for the scheme.

4.1.5. **Extension of Speed-to-Market' Scheme (STMS) to all productive sector**

In the wake of uncertainty following 'Brexit', the Government announced the setting up of a 'Speed-to-Market' Scheme which provides for a 40 percent refund on air freight cost to exporters of textile and apparel manufacturing to Europe, including the UK, for the next two years. The Scheme is operational as from 1st April 2017.

Nonetheless, the manufacturing sector as a whole, is largely exposed to the effects of Brexit and more than 60 percent of our exports to Europe do not concern textile and apparel. For instance, the growing Life Sciences and Biotechnology Sector and the Jewellery Sector highly depend on airfreight. It is hence necessary to extend the measure to all sectors.

Proposal: -The MCCI proposes that the 'Speed to Market' Scheme be extended to all exports towards Europe for the next two years.

4.2. Labour and Employment

In the last few years, since the economic crisis, unemployment rate has been continuously on the rise, reaching 7.9 percent in 2015. In 2016, with a number of schemes and incentives introduced, the unemployment rate has fallen to 7.4 percent. The figure remains nonetheless high in comparison to a number of countries which have gone through recession. This is largely due to an increasing level of skills mismatches in the country since the turn of the 21st century, as shown by a recent World Bank report.[3]

In addition, the country will be faced by an ageing population in the next decades. Indeed, according to the United Nations population statistics, it is estimated that the working age population will recede by nearly 150,000 individuals by 2050 and in 2100 the working age population will be less than half what it is today.

There is thus an urgent need to prepare our labour market for the challenges of the next decades and undertake radical reforms. The MCCI proposes the following measures for the labour market in Mauritius:-

4.2.1. Increasing the HRDC Grant

It is proposed to increase the grant of the HRDC given to employers sending their workers for continuous training to 90 percent. The existing ceiling on the amount that can be claimed should also be reviewed to reach four times the annual levy paid for employees contributing to more than Rs. 100,000 annually.

Proposal: -Amend the Employer's HRDC Refund Scheme as follows:-

Employer's Tax Rate	***HRDC Grant***
15 %	*90%*
0%	*100%*

Annual Levy Paid	***Maximum Grant Refund***
(i) Up to 20,000	*10 times levy paid*
(ii) > Rs. 20,000 and < Rs. 100,000	*5 times levy paid subject to a maximum of Rs. 300,000 (however for the first Rs 20,000 the grant paid will be as per above)*
(iii) Above Rs. 100,000	*4 times levy paid (however for the first Rs. 100,000 the grant paid will be as per above)*

[3]*Mauritius, Inclusiveness of Growth and Shared Prosperity, World Bank, September 2015*

4.2.2. Extension of HRDC to working professionals

It is proposed to extend the HRDC Grant to working professionals. These concern an increasing number of professions, including lawyers, doctors, engineers. There has been over the years a move towards the liberal professions. The extension of the HRDC Grant refund to such professionals will encourage continuous training.

Proposal: - Amend Section (18) of the HRDC Act as follows:-
(1) Subject to section 18A,
(a) every employer shall, in respect of every employee, other than a household worker, who is an insured person, pay a training levy in accordance with subsection (2a).
(b) every self-employed earner, who is an insured person, may register with HRDC and pay a training levy in accordance with subsection (2b)

(2) The levy under subsection (1) shall be payable
(a) on the employee's total basic wage or salary, excluding overtime, bonuses and allowances, in respect of a month at the rate specified in the First Schedule.

(b) on the earner's total profits, in respect of a month at the rate specified in the First Schedule.

Economic Effect:- *The measure has the potential to increase the use of HRDC Grants by working professionals to conduct continuous training. With an estimated 100,000 working professionals who are self-employed, the HRDC levy is expected to increase by Rs. 500M..*

4.2.3. Dual Training Programme

In order to increase job creation and incentivise companies to recruit workers, it is proposed to revisit the training refund scheme. Government aid and HRDC refund should hence be linked to a proper training needs analysis and priority should be given to schemes such as the Dual Training Programme.

The Dual Training Programme (DTP) system combines apprenticeships in a company and education at a vocational school in one course. This system is practiced in several countries, notably Germany, France, and for some years now in China.

The DTP system plays on three main linkages- Training institute and Enterprise, Training institute and Trainee, Trainee and Enterprise- to address skills mismatch and improve the performance of enterprises through better trained workers.

Since several years, a number of private operators have been offering courses that reconcile academic instruction with hands-on work experience, with job placements holding a predominant place in the curriculum. Graduates of the courses on offer are deemed as being highly employable, with a majority of them being able to find a job within weeks of completing their studies.

It is proposed to refund the cost of DTP training, which lead directly to job creation and employment up to 90 percent of the total cost of training through the HRDC, in line with the HRDC Grant provided to employers for training of workers.

Proposal: -Amend Section (18) of the HRDC Act as follows:-
1 (c) every employee, under the Dual Training Programme, who is an insured person, may register with HRDC and pay a training levy in accordance with subsection (2c)

(2) (c)on the employee's total basic wage or salary, excluding overtime and bonuses at the rate specified in the First Schedule.

(Please refer to 4.2.1 & 4.2.2 for other HRDC Amendments)

4.2.4. Foreign Workers

Mauritius faces the prospect of an increasingly ageing population. By 2054, the proportion of people aged 60 and above in the population is projected to be 33.8 percent[4], around a third of the country's total population. This will not only decrease our working population but also create a higher demand for health-related jobs. It is essential to address these issues proactively.

In order to transform the economy, it is essential to recruit foreigners at every job level, similar to what is currently practiced in countries such as the US, Singapore and Hong Kong. The MCCI proposes that limitations (quota) on the recruitment of foreign employees be completely removed. This will not only help to address the skills mismatch, but also help to maintain a dynamic working population.

Proposal: -To Amend the Guidelines for grant of Work Permits as follows:-
2) Main criteria for the grant of Work Permits
The main criteria for the grant of Work Permits are as follows:
(i)foreign workers should possess the skills, qualifications and expertise required for the job applied for;
(ii)foreign workers should normally be aged between 20 and 60 years. Departure from this policy is exceptionally made for investors and expatriates who are above 60 years and who possess specific expertise;
(iii) A contribution of one month salary be paid into a Mauritius training fund for each work permit granted

4.2.5. Flexible Working - Work from Home

Mauritius is currently faced with high levels of labour market rigidity and the legislative framework does not foster flexible working arrangements. It is proposed that as part of a review of the Employment legislation, provision should be made for allowing employees to work from home and for flexible working hours for employees in the private sector. Flexible working hours is already being implemented in the Civil Service and should be extended to all employees. These measures will not only help to reduce absenteeism at work, but also enhance productivity of the labour force.

Proposal: -Insert, after Section 32 of the Employment Rights Act, a Section 32(A) as follows:-
32A Flexible Working
(1*) An employee, having been in employment for a period of more than 52 weeks, may apply to his employer for a change in his terms and conditions of employment if the change*

[4] *Family Planning and Demographics Yearbook, Ministry of Health, 2014*

relates to—
(i) The hours he is required to work,
(ii)The times when he is required to work,
(iii)Where, as between his home and a place of business of his employer, he is required to work, or
(iv) such other aspect of his terms and conditions of employment as the Permanent Secretary may specify by regulations.

(2)An application under this section must—
(a)state that it is such an application,
(b)specify the change applied for and the date on which it is proposed the change should become effective,
(c)explain what effect, if any, the employee thinks making the change applied for would have on his employer and how, in his opinion, any such effect might be dealt with,

(3) An employer to whom an application under section 32 (1), (2) is made—
(a) Shall deal with the application in a reasonable manner and notify the employee of the decision on the application within 15 days, and
(b) Shall only refuse the application because he considers that one or more of the following grounds applies—
(i)The burden of additional costs,
(ii)Detrimental effect on ability to meet customer demand,
(iii) Inability to re-organise work among existing staff,
(iv)Inability to recruit additional staff,
(v)Detrimental impact on quality,
(vi)Detrimental impact on performance,
(vii)Insufficiency of work during the periods the employee proposes to work,
(viii)Planned structural changes, and
(ix)Such other grounds as the Permanent Secretary may specify by regulations.

4.3. <u>Opening Mauritius to the World</u>

The Mauritian economy has been exceptionally efficient at anticipating the challenges of the future. Throughout our history, our country has managed to sustain high levels of economic growth despite downturns and uncertainties in the world economy, moving from a mono-crop to a diversified services-oriented economy. Looking forward, the country needs to review its population policy, enhance its air connectivity and look at the economic platforms of tomorrow to enjoy preferential access.

4.3.1. Resident Scheme for Retired Foreigners

In our effort to boost the consumption base and in order to mitigate against our receding population levels, Mauritius should aim at attracting 200,000 retired foreigners to Mauritius by 2020. In addition to the budgetary measures to attract pensioners in nursing homes in Mauritius, we should amend the "Resident Scheme for Retired Individuals" to allow retired foreigners with a Gross Monthly Pension of a minimum of USD 1,500 for an individual and USD 2,000 for couples to live in Mauritius for a minimum of six months.

If Mauritius manages to attract 200,000 retired foreigners, it is estimated to bring an additional Rs.65 BN yearly in terms of consumption into our economy.

To kick start, we should aim at attracting 20,000 such individuals to Mauritius in the fiscal year 2017-2018.

This measure is expected to have a spillover effect on all sectors of the economy. The increase in consumption will boost supply, increase investment in the economy, revitalize the construction industry and have an effect on all sectors of activity.

Proposal: -The MCCI proposes that the *Residency Scheme for retired individuals be amended as follows:-*

B. Definition of Retired Non-Citizen

2) A Retired Non-Citizen should provide documentary evidence of a monthly pension of at least 1,500 US dollars for an individual and 2,000 US dollars for a couple or its equivalent in freely convertible foreign currency.

3) A Retired Non-Citizen must undertake to transfer to his/her local bank account in Mauritius at least 18,000 US dollars annually, or its equivalent in freely convertible foreign currency.

Economic Effect:- *The measure has the potential to increase our consumption by Rs 6.5 billion for the fiscal year 2017-2018, thus increasing our GDP growth by an estimated **1 percentage point**, ceteris paribus.*

4.3.2. Multiple Entry Business Visas

In line with the country's aim to becoming a unique business platform, it is proposed that a multi-entry business visa be introduced for entrepreneurs and businessmen to enter Mauritius. The absence of a formal procedure for the entry of business people in Mauritius today acts as a detriment to the expansion of the country as a business hub.

Proposal: -To introduce a Business Visa as follows: -

A business visa is attributable to a businessmen for a maximum of 5 years, and renewable for another 5 years. The business visa shall be a multiple entry visa.

4.3.3. Air Connectivity

Air connectivity is today an essential aspect of any economy. Nonetheless, there are today less than 10 weekly flights to Africa from Mauritius, and it takes between 20 to 30 hours to reach a number of African destinations. The case is similar when we look at destinations in Asia and America. The MCCI, as a pro-active institution has been a strong proponent of enhanced air access and believes that the Air Corridor between Africa and Asia with Mauritius and Singapore as hubs is a highly welcomed initiative.

The MCCI has identified the following as key destinations in the near future:-

- Nairobi
- Lagos
- Mumbai

- Singapore

There is a need for Mauritius to aim at having a daily direct flight to the above destinations. Increased air connectivity will be a useful tool to attract multi-national companies and international law firms to set-up regional offices in the country.

Proposal: -To introduce daily direct flights to Nairobi, Lagos, Mumbai and Singapore.

4.4. Utilities

As the Mauritian economy transforms itself into a new level of development and industrialisation, there is a fundamental need to look at the utilities - be it electricity or water. These are highly important tools for industries and businesses, especially high-end manufacturers. The efficiency of the utilities system in Mauritius is a particular cause of concern. In the long-run, Mauritius needs to move towards a development model which is at the same time in line with the protection of the environment.

4.4.1. Preferential Industrial Tariffs

Utility costs are high in Mauritius and entrepreneurs find themselves faced with an increasing cost of doing business due to the latter. For instance, the cost of electricity in Mauritius is more expensive as compared to France and the United States due to the need to import coal and heavy fuel. In addition, preferential electricity tariffs to industrials are no longer applicable for new enterprises.

The MCCI proposes to re-instate preferential tariffs on electricity for industrials and to apply preferential water tariffs for all companies holding an industrial license.

Proposal: -To re-introduce preferential industrial tariffs for new and existing companies:- Reintroduction of industrial tariffs lines, including special industrial tariffs for supermarkets and hypermarkets

4.4.2. Solar Units for Businesses

For the provision of its energy, Mauritius is highly dependent on the import of fossil fuels and coal. There is room for the growth of renewable energy and a shift towards a fully sustainable development model. In the budget 2015/16, the Government has encouraged households to implement solar energy units through a tax deduction on the investment. Nevertheless, this will not be enough to attain a high energy mix from renewable resources as businesses and industries consume an important share of electricity. A number of industrials and businesses are today implementing photovoltaic units. However, they are faced by an unfair "Contention Fee" by the CEB.

Proposal: -To remove the **Contention Fee** by the CEB on photovoltaic for businesses and industrials.

5. OTHER SECTORWISE POLICIES

5.1. Agro-Industry

As Mauritius embarks on a transformation of its economic model, it is primordial for us to address food security and traceability issues in a world of increasing diseases. The Agro-Industry is a strategic sector of the Mauritian economy, and given our geographical specificities, there is a real risk of Mauritius facing shortages in case of a natural disaster. In this changing economic order, it is more than ever necessary for us to aim at attaining self-sufficiency and reducing our reliance on imports for basic commodities.

In recent years, and with the phasing out of the Sugar Protocol, the sector's contribution to GDP has been decreasing from a high of more than 20 percent post-independence to approximately 3.5 percent in 2016.

There is a need for a comprehensive policy to enhance the agro-industry in the economy. The Budget 2016/2017 measures for horticulture and dairy production are highly welcomed. The MCCI proposes the following measures for the Agro-Industry:

5.1.1. Towards self-sufficiency

With the erosion of the Sugar Protocol, a number of ex-sugarcane planters are today looking at new opportunities to diversify their production. It is proposed that sugarcane planters be incentivised through a grant to shift production towards cereal products such as maize and fodder. Moreover, AREU and FAREI should give the necessary assistance to planters through R&D and analysis.

Proposal: - The introduction of a grant to ex-sugarcane planters to diversify production towards cereal products such as maize and fodder.

5.1.2. Agricultural Economic Zones

The MCCI proposes the setting up of agricultural Special Economic Zones (SEZs) to further the development of agro-industry in the country. Such special clusters will help achieve economies of scale, reducing costs of inputs while taking a significant leap in reaching self sustainability. The Bio-Farming/Organic Zone at Britannia, and the pilot Agri-Business Park at Highlands, announced in the last Budget, are welcomed initiatives but there is a need to further consolidate and structure these zones.

The MCCI believes that a product-specific approach is required, and in a first instance, focus should be given to horticulture, dairy and rice production. The SEZ's should benefit from a special package of measures to attract local and foreign investment and include:-

- An 8- year tax holiday for new and existing companies operating at SEZs
- Cheap access to unused agricultural land.
- Access to foreign labour force

- Duty free imports of productive inputs such as plant and machinery
- Access to basic infrastructures
- Improved logistics at SEZs through on-site port facilitation, customs inspection and documentation at the zones.

The Agricultural economic zones, as described above, are further endorsed in the National Export Strategy Blueprint, devised by the Government of Mauritius, with the support of the International Trade Centre (ITC). It is thus one of the priority measures to be implemented in the upcoming budget.

5.2. Manufacturing

The manufacturing industry is an essential component of any economy which has the aim of becoming a high income country. The strong spill over effects of an established industrial base have prompted economies throughout the world to refocus on the domestic agenda, and the local industry. There is today a pressing need for economies to integrate the industrial sector in the value-addition and

The Mauritian manufacturing sector has for the last decade been highly affected by the strong trade liberalisation policy of the economy. With rapidly increasing imports, and an inability to effectively boost the exports of our goods, the local manufacturing sector stagnated. The sector, which employs more than 50,000 individuals, nonetheless continues to contribute to the economic development of the country and to job creation, despite the share of GDP continuously falling to less than 16 percent in recent years.

The MCCI is fully aligned with the Vision 2030 Blueprint of the Government in its aiming at achieving 25 percent of the GDP through the industrial sector. In addition to a number of fiscal and regulatory measures highlighted above, the MCCI believes that there is a real need for the public authorities to send a strong signal and adopt explicit policies for the enhancement of the manufacturing sector.

5.2.1. Buy National Policy

More than setting mandatory requirements, a relevant and fully functioning Buy National Policy should aim at changing the mindset about prioritising consumption of local products.

A Buy Mauritian Policy would go a long way in providing local manufacturers with a boost in their activities as well as sending a strong signal that the Government believes in the quality of local production. The policy could include, amongst others, the following propositions:

a. *Extension of Bid Price Preferences*

The Budget 2016/2017 makes provision for an increase in price preferences for SMEs for shoes, uniforms, school books, printing materials and furniture from 10 percent to 20 percent. It is proposed that the Bid Price Preference be extended to all manufacturing products and companies. This will give a much needed boost to the local manufacturing companies. Large manufacturers should benefit from a 10 percent price preference while SMEs should benefit from a preference of 10 percent on public purchases. This will not only encourage larger businesses to subcontract but also form consortiums with SMEs.

A. *Proposal: -* Amend Circular No. 13 (2012) of the Public Procurement Office as follows:-

Margin of Preference for Procurement of Goods

1.0 A Margin of Preference for procurement of goods shall apply to local Small and Medium Enterprises as follows:

1.1 For International Bidding

(a) A local Small and Medium Enterprise with an annual turn-over not exceeding Rs 50M shall be eligible for a preference of 20 % for goods manufactured locally, where the value of local inputs in terms of labour and/or materials account for at least 30 %.

(b) Any other local enterprise with an annual turn-over exceeding Rs 50M shall be eligible for a preference of 10 % for goods manufactured locally, where the value of local inputs in terms of labour and/or materials account for at least 30 %.

1.2 For National Bidding

(a) A local Small and Medium Enterprise with an annual turn-over not exceeding Rs 50M shall be eligible for a preference of 20 % for goods manufactured locally, where the value of local inputs in terms of labour and/or materials account for at least 30 %.

(b) Any other local enterprise with an annual turn-over exceeding Rs 50M shall be eligible for a preference of 10 % for goods manufactured locally, where the value of local inputs in terms of labour and/or materials account for at least 30 %.

b. *Minimum domestic content in Government Supplies*

In a number of countries today, the USA, Malaysia and Madagascar, there is a minimum domestic content requirement in government supplies. These usually range from 50 to almost 100 percent in some cases. The introduction of such a measure in Mauritius will send a strong signal as to the protection of the local industry and could cover a range of supplies such as prisons catering, hospitals, schools, and Ministries for instance.

c. *Grant to the 'Made in Moris' subscription fee for SMEs*

Born out of a private sector initiative to boost the visibility and quality of local production in 2013, the 'Made in Moris' is today entrenched in the minds of consumers and is highly sought by tourists. The label counts more than 2500 products and 190 brands. In a latest survey conducted by DCDM Research, more than 90 percent of customers know of the 'Made in Moris' label. In the country's efforts to boost the productivity and visibility of SMEs manufacturers, it is proposed that a grant of a maximum of Rs. 5000 be provided to SMEs for their adherence to 'Made in Moris'. The 'Made in Moris' would hence become a truly national project, led by the private sector with the support of the Government authorities.

Proposal: - Amend the SME Scheme as follows: -

'Made in Moris'

(a) A local Small and Medium Enterprise with an annual turn-over not exceeding Rs. 50M shall be eligible for a financing of the subscription fee of 'Made in Moris', up to maximum of Rs. 5,000 for a period of 5 years.

5.2.2. Preferential Port Handling Charges for manufacturing activities

The manufacturing sector is today faced by high port handling charges, from the Mauritius Ports Authority and the Cargo Handling Corporation (CHCL).

Manufacturing companies are faced with high port handling charges while importing raw materials and semi-finished goods with the costs associated with the import of one container at $538. At exports, the port handling charges for one container of goods are estimated at around $431. This is high compared to countries like Vietnam, Malaysia and Singapore, which are our direct competitors in a number of manufacturing segments. According to the World Bank Doing Business Report 2017, around 20 economies including a majority of E.U countries, the cost associated to the import and export of goods is at **zero.**

The MCCI proposes that, in addition to the rationalisation of port handling charges proposed as per Proposal 4.1.2, the manufacturing sector should be given the same preferential Port Handling Charges as companies operating in the Freeport Sector.

Proposal: - *The MCCI proposes that Preferential Port Handling Charges applied to the Freeport Sector be extended to the whole manufacturing sector.*

5.2.3. Mitigating against dumping practices

With the elimination of trade barriers, a number of Mauritian manufacturers are experiencing unfair competition from imported products that often have a low shelf life remaining. In order to reduce the exposure of locally manufactured products to potential dumping practices, the MCCI is of the view that the government should impose a minimum shelf period of 50 percent for the import of dry products which have an equivalent local product. Hence, a product which has a shelf life of 12 months would be allowed to be imported only if there is more than 6 months remaining when it reaches customs.

Proposal: - To prepare a Regulation under the Food Act as follows:-
Shelf Life:-
Import of all dry food products governed by Food Act, shall also be subject to the condition that, at the time of importation, the products are having a valid shelf life of not less than 50% of its original shelf life. Shelf life of the product is to be calculated, based on the declaration given on the label of the product, regarding its date of manufacture and the due date for expiry.

5.3. Wholesale and Retail

With the country experiencing modest economic growth in the last decade, and a general stagnation in the purchasing power of consumers, the wholesale and retail sector has experienced tamed growth, of around 3 percent. In the last few years, the sector contributed to approximately 12 percent of the country's GDP. In order to give a real impulse to trade and consumption, there is a need for a number of measures for the sector:-

5.3.1. VAT refund for Mauritians

The Mauritian economy is today faced by a growing number of people spending their income abroad, contributing to an outflow of foreign currency and lower domestic consumption. According to latest data from the UNWTO[5], outbound tourists from Mauritius spend approximately USD 503 M i.e. **Rs 17 Billion** in other countries and shopping expenditure represents around 25 percent of this amount.

The MCCI proposes that the **tax-free shopping be extended to the Mauritian Diaspora and all departing Mauritians.** MCCI analysis shows that around Rs 4 Billion could be ploughed back into the economy.

This would lead to a significant increase in domestic consumption and have vast spill over effects across all sectors of economic activity.

Any additional injection, coming from an increased expenditure in the domestic economy will hence seep in to benefit different other sectors, stimulating economic activity and creating employment. The additional contribution to GDP is much needed, and the extension of the system to Mauritians would go a long way in fulfilling our development agenda.

Proposal: -*Amend the Customs Act of 1988, Section (2) as follows:-*
"visitor" means a person holding -
(a) a foreign or a Mauritian passport; and
(b) a valid ticket for travel by air or sea to a foreign port or airport;

Economic Effect:-The measure is expected to boost local consumption and duty-free shopping in Mauritius. Our estimates point to an additional **1 percentage points** in our GDP, ceteris paribus.

5.4. Construction

After more than 5 years of contraction in the construction industry, the sector experienced stagnation in 2016, and Statistics Mauritius expects a growth 7 percent on the back of the implementation of major public investments projects such as the Metro Express and the taking off of some major private sector projects. The construction Industry is a vital part of the economic landscape and gives an indication as to the state of the economy. Indeed, the Budget 2016/2017 makes provision for a number of measures including the opening up of apartments to foreigners, and a review of the VAT Refund for construction of private dwellings. For the Budget 2017/2018, the MCCI proposes the following measures:-

[5] Compendium of Tourism Statistics 2011-2015, United Nations World Tourism Organisation

5.4.1. Review of Bank of Mauritius Macro-Prudential Policy

In October 2013, the Bank of Mauritius issued macro-prudential policy measures for the banking sector, expressing a growing level of credit risk in certain sectors of the economy. In particular, the BoM raised concerns of the risk of a looming asset price bubble in the property market. After more than three years, it is clearly shown that this apprehension is unwarranted, with inflation at one of its lowest rates in the country's post-independence history.

These macro-prudential policies have placed strict conditions on loans for the purchase and construction of properties and this is adversely affecting the construction industry.

The MCCI proposes to review the macro-prudential policies of the Bank of Mauritius.

Proposal: - To review the macro-prudential policies of the BoM and amend the loan to value ratio and sectoral policies

5.4.2. Public Infrastructure Fund

The Mauritius Government is currently engaged in a massive public infrastructure programme which includes high-capital projects such as the Metro Express the Road Decongestion Programme, and the Port Masterplan amongst others. Such projects currently need to be funded from Government funds or through loans from commercial banks or international agencies.

Such projects could be financed by private equity investment. In this respect, the MCCI proposes the setting up of a public infrastructure fund, encompassing different asset groups. Such a fund will be akin to the Port Louis Fund or the Macquarie European Infrastructure Funds to focus on investments in high-quality infrastructure businesses across the island and will provide a rate of return on investment.

The public infrastructure fund will group the country's utilities, road infrastructure, port and airport amongst others. This will provide the ability to leverage on the income generated by utilities and other public-owned infrastructure to raise equity for financing of public infrastructure. Local and international operators and individuals will also be invited to invest private equity in the Fund. The fund would provide an alternative source to bridge the ever-increasing gap between investment demand in key public infrastructure projects and available resources to develop the economy's infrastructure of the future.

Proposal: - To set up a Public Infrastructure Fund, similar to the Macquarie European Infrastructure Fund

5.4.3. Review of VAT refund on acquisition and construction of new residence

The VAT refund scheme on the acquisition and construction of a new residences provides a number of inconsistencies, which act as a barrier to a boost in the construction industry.

1) **Value of less than Rs. 4 Million**

The VAT refund Scheme is applicable only to a residence with a cost of less than Rs. 4 Million. This measure is unfair and against the spirit of boosting construction as an individual acquiring or constructing a residence of Rs. 4.2 Million will not benefit from the measure. The VAT refund is today already restricted to a maximum of Rs. 500,000 of refunds.

The MCCI thus proposes that the restriction on the value of the residence be completely removed.

2) **Household Income Eligibility Threshold**

The household income eligibility threshold of Rs. 2 Million per annum is similarly restrictive and should be removed. Measures to boost construction and property ownership for households should be applicable to everyone.

5.5. Tourism

Similar to the last few years, the tourism industry remains one of the fastest growing segments of the economy in 2016, with a growth rate of 8.7 percent, higher than the growth of 7.2 percent in 2015. Indeed, through the opening of the air access, and continued promotion of the destination abroad, tourist arrivals in the country increased by approximately 10 percent as compared to 2015, to reach 1,265,000. There is nonetheless room for further developing of the sector through a number of quick wins:-

5.5.1. Duty-Free Voucher

The percentage of tourists claiming back VAT on spending is today at 6 percent, the aim is to achieve 25 percent of refunds by the end of the fiscal year 2017-2018. In line with the aim to boosting tourism expenditure (the figure is at Rs 43,835 per tourist in 2016), the MCCI is proposing that a Rs. 500 voucher for tourists entering Mauritius to be redeemable in duly registered tax-free shopping shops, with a minimum of Rs. 1000 spent.

Proposal:-To propose a Rs 500 Duty-Free Voucher to all incoming tourists, redeemable at duly registered tax-free shopping shops as follows:-

- A minimum spend of Rs. 1000 for all other products

5.5.2. Removal of minimum spend per shop to claim tax refund

The Tax Refund Scheme is today restricted to a minimum purchase amount of Rs. 2,300 in one given shop. However, the shopping trend of tourists in the last few years is a repartition of their spending in different shops.

The MCCI thus proposes that amendments be brought such to allow for refunds to be made to tourists if their total amount spent in different shops is more than Rs 2,300

Proposal:-To amend the VAT Regulations 1998 No. 14 (7) as follows:-

No refund of VAT shall be made by the approved person where the amount otherwise refundable before deduction of administrative charges is less than 300* rupees in the aggregate in respect of **total** purchases made in one **trip**.

5.5.3. Review of Deferred Duty and Tax Scheme

The percentage of tourists visiting Mauritius and claiming Tax refund today stands at 6 percent, the aim is to achieve 25 percent of refunds. Today, operators who sell less than 80 percent to tourists are unable to join the Deferred Duty and Tax Scheme. To open up the duty free shopping to all operators, the MCCI proposes that the Customs Regulations be amended.

Proposal:-To delete the Paragraph 90 (4c) of the Customs Regulations which restricts duty-free shops to operators who sell mainly to visitors only.

5.5.4. A 'Mauritian Experience' Publication

The tourism industry has been a catalyst for economic development in the economy, with vast spill-over effects on all sectors of activity. There is a need however to boost tourism expenditure and to have a coherent approach in promoting the Mauritian destination. The Mauritian tourism industry needs to move from a hotel-only industry to a tourism industry, thereby promoting the entire tourism value chain.

The MCCI proposes the introduction of a new pocket size publication to depict the Mauritian experience to tourists. This new marketing tool will be an asset in targeting the tourists even before they land in the country. The publication which will contain a panorama of the endless opportunities in Mauritius - ranging from our rich historical and cultural sites, the entertainment, leisure and shopping activities, to include even investment and business opportunities amongst others - should be mandatory on all inbound flights to Mauritius. Available in English, French and Mandarin, the booklet will provide passengers onboard with a firsthand experience in his own language.

. **Proposal:-**To introduce a 'Mauritian Experience' publication which will be mandatory on all inbound flights to Mauritius.

5.6. <u>ICT/BPO</u>

The ICT/BPO Sector has, for a number of years, been one of the most dynamic sectors in Mauritius with a long phase of growth of over 10 percent annually. Nonetheless, since 2012, growth in the sector continues to slow down significantly, reaching 5.9 percent in 2016. The share of GDP from the sector has also remained stagnant, at around 5.5 percent in the last few years. The sector faces a number of challenges to develop significantly and the MCCI is of the view that there is a need for a number of measures for the sector:-

5.6.1. Review of tariffs for International Private Leased Circuits (IPLC)

The competitiveness of Mauritius as an ICT/BPO destination is highly dependent on the price of Internet Service. The last review of the IPLC prices under the SAFE cable was in 2014. It is hence necessary that 3 years later, the price of IPLC be reviewed downwards. The MCCI believes that the price of IPLC can be reduced by a minimum of 30 percent. This will hence allow the country to have a more affordable internet pricing.

Proposal:- ICTA to reduce the IPLC price by 30%.

5.6.2. Telecommunications Levy

The Telecommunications industry is today highly affected by a solidarity levy on both its profits and turnover. The measure was recently extended in 2014 up to 2018. The MCCI believes that taxes should only be paid on the profits of a company, and not on the turnover. The MCCI thus proposes that for the fiscal year 2017/2018, telecommunications levy be reduced such that only the 5 percent levy on profits be applied. Subsequently, as from 2018, the solidarity levy should be completely abolished.

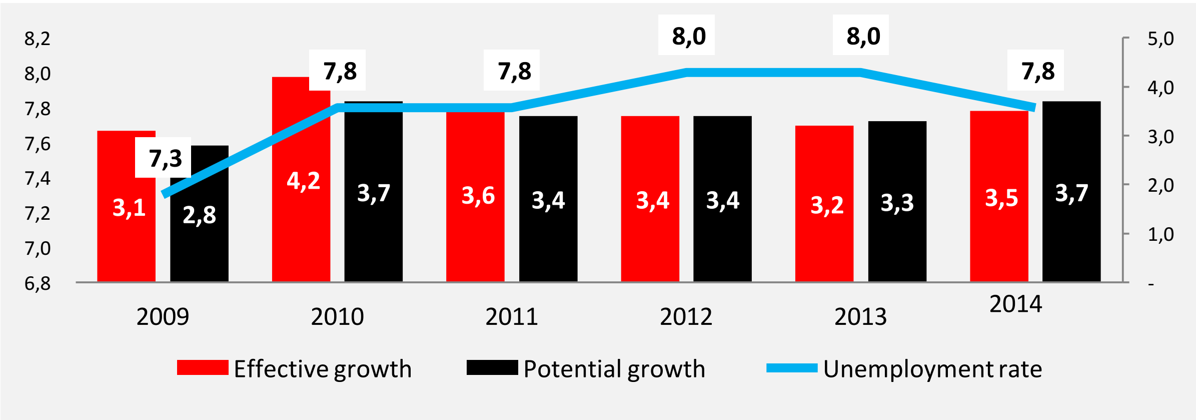
Proposal: -To amend 50(J), **Paragraph 2 of the Income Tax Act** as follows:-
The levy under subsection (1) shall be calculated at the rate of 5 per
cent of the book profit in respect of each of the years of assessment commencing on 1 July 2017

ANNEX I

The Case for an Knowledge Tax Regime in Mauritius

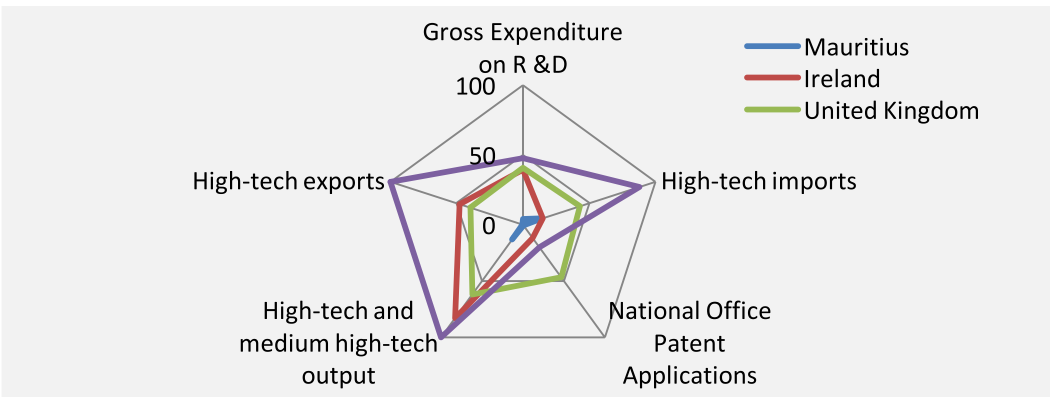
1. MOVING TO AN IN INNOVATION-LED ECONOMY - CRITICAL TO THE MAURITIAN ECONOMY

The Mauritian growth path is one based on the country's capacity to transform its economic structure and make the most of available resources and conditions. While growth rates of 5 percent and above were achieved in the years following independence, the country has, in the last few years, experienced timid growth. This not only has an effect on the capacity of the country to move to a high-income economy in the future but also affects our unemployment levels.



The country is thus today in dire need of reinventing itself once again, and this will inevitably be achieved through a boost in its drive towards R & D and Innovation, with a spill-over effect on all sectors of economic activity. However, as shown by the latest Global Innovation Index, expenditure on R&D in Mauritius represents a meagre 0.18% of GDP today. Meanwhile while EU countries in particular have R&D expenditure to GDP of 2 percent and further aim to spend at least 3 percent of their GDP on R &D as per the Europe 2020 Strategy.

Global Innovation Index - Comparison of Key Indicators[6]



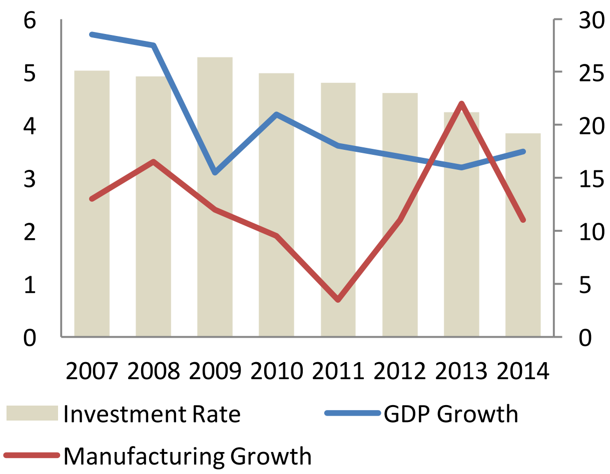
[6] Global Innovation Index 2015, WIPO

It is widely recognised that most advanced economies are heavily reliant on innovation to drive long-term economic growth and improvements in living standards. In fact, though Mauritius experienced a similar GDP growth path as Singapore till the 1980s, it has since failed to keep up with the growth in GDP experienced by Singapore. The latter has invested in intensive industrial development in the 1990s and from 2000 onwards, switched to an innovation-led industrialisation model.

2. Innovation - Key Driver of the Manufacturing Sector

A solid industrial base is essential for any economy that wants to reach the status of a high income country, especially with its ability to pull other sectors of activity through strong spill-over effects. The most advanced economies in the world today have based their post-crisis growth model on industrial advances, as the crisis bared the fact that those countries with a potent manufacturing sector have fared better than the others.

However, while manufacturing was once the lodestar of our economic development paradigm, is has recently started losing some of its shine with progress in the sector being pallid over the last few years. The share of GDP from the sector has fallen below 17 percent in recent years, and this figure should be increased to 25 percent for the country to benefit from the multifarious benefits of a healthy industrial base. In order to achieve the latter, structural reform is needed in the manufacturing sector with a move towards the production of high tech and medium high-tech goods, which accounts for less than ten percent of the country's manufacturing goods today.



In fact, innovation and manufacturing are different sides of the same coin. A constant push-pull operates, whereby innovation in product design encourages innovation in manufacturing processes, and vice versa. The manufacturing future of Mauritius thus lies in a number of high-tech and medium-tech industries such as pharmaceuticals, medical devices, light manufacturing, high precision engineering, food processing and jewellery to name but a few.

What is a "Knowledge Tax Regime"?

A "knowledge tax regime" is a preferential tax regime offered by a country to support growth and innovation. Countries offer a tax incentive, such as a lower rate of corporate tax, to encourage companies to locate activities associated with the development, manufacture and exploitation of patents in that country.

The special tax regime concept first appeared in France and Ireland in the 1970s and has in recent years been adopted by a number of European countries and China, while countries such as the United States are actively considering its implementation

3. The Way Forward - Towards a Knowledge Tax Regime

Recent studies and empirical models have shown that a one-percent increase in R &D investment spending will result in an average of 0.15 percent points in GDP growth in the short run and this can increase to nearly a one percent increase in some countries. 7 The way forward for a country like Mauritius is to foster innovation by providing a preferential regime to support growth and innovation and devising a policy framework that supports all industries of the future, as well as traditional manufacturers, to maximise their potential for a stronger manufacturing and innovation sector in Mauritius.

If we are to maximise innovation and reinvigorate the manufacturing sector in Mauritius, it is vital that preferential tax regime be set-up to secure Mauritius' competitiveness and attractiveness for the future. The Patent/ Innovation Box Regime or Knowledge Tax Regime thus provides a novel-approach by enticing companies with incentives at the back-end of the innovation chain. This takes the form of a lower rate of corporate tax or an exemption for income derived from IP assets.

In fact, over the last decade, countries throughout the world, and most particularly European Union (EU) countries, have started to adopt "Patent/ Innovation Box" regimes and Knowledge Tax regimes, designed to increase innovation activities, create and maintain high-value jobs, and foster global leadership in patented technology.

4. GAMECHANGERS

United Kingdom

In response to high-tech company departures from the UK, the UK Government announced an initiative in 2009 called the 'Patent Box' - an effective reduction of corporation tax to 10% for income from patents. The scheme applies to the worldwide income arising from the exploitation of inventions that benefit from certain IP rights. With its aim at improving the competitiveness of the UK in the high-tech arena, companies have been offered the possibility to elect to enter the Patent Box regime since 1 April 2013. The regime is intended to apply to the worldwide income arising from the exploitation of inventions which benefit from a qualifying patent.

[7] Study on Relationship between R&D Expenditure and Economic Growth of China, Peng, 2010

Cyprus

In May 2012, the Cyprus Government has introduced growth measures which include a package of incentives and tax exemptions relating to income from intellectual property rights, aimed at stimulating investment in research and development. Cyprus is considered to be the clear leader in terms of benefits offered to innovators through its Patent Box regime with a maximum effective tax rate of 2.5 %, the lowest in the EU.

Compared to a reduced rate of tax as adopted by the UK and Ireland, the Cyprus model provides for an exemption to taxation for a specific proportion of revenues. Cyprus not only provides for a four-fifths deduction of revenue from exploitation of IP rights, but also allows for deduction of the costs, including amortisation. Therefore, the actual rate of tax for most companies is below 2.5 %.

Ireland

As the pioneer of the patent box regime, Ireland has been an example of a country geared towards Innovation and Research and Development (R& D). The country is one of the world's fastest growing economies, and has been steadily growing since the mid-1960s.

Since 1973 itself, Ireland has incentivised its enterprises to involve themselves in innovative processes by allowing a zero percent tax rate for revenue derived from patented products. The Scheme has since been phased out but will be replaced in 2015 by a "Knowledge Development Box", similar to the Patent Box regime recently introduced in the United Kingdom.

5. ADAPTING THE KNOWLEDGE TAX REGIME TO THE MAURITIAN CONTEXT

The MCCI thus proposes that a broad-based Knowledge Tax Regime be put into place to incentivise firms to increase investment in innovation activities, attract and retain mobile investments that may be associated with high-skilled jobs and knowledge creation. The model proposed for Mauritius should be based on the Cyprus model, considered to be the leader in benefits offered through its Patent Box tax regime. The policy should be adapted to the Mauritian context, with a tax rate on income derived from Innovation activities at **zero percent**.

The Innovation Box incentive would address the gap that leaves Intellectual Property vulnerable by supporting Mauritian innovators and manufacturers to invest in innovative ideas. The tax regime would not only help to retain home-grown IP but also attracting IP created overseas to be commercialised and managed from Mauritius. The implementation of the Innovation Box Incentive should make the commercialisation of IP and manufacturing in Mauritius more genuinely viable for businesses, especially, if coupled with other measures, such as cutting red tape and increasing flexibility in industrial relations. The Mauritian Innovation Box regime should consider the following key aspects: -

I. Preferential Tax Rate

The goal of a Knowledge Tax Regime is to offer preferential rates to IP-sourced income. The tax rate applied would determine the attractiveness and effectiveness of the regime to bring R & D and Innovation to the country. Countries that have implemented such regimes have effective tax rates ranging from 0 (Malta, Ireland before 2010) to 15.5 percent (France). As Mauritius already enjoys a comparatively low corporate tax rate of 15 percent, the knowledge tax regime should provide for a zero percent tax on IP-related income.

II. Eligible IP Assets

In order to be competitive and remain attractive as compared to other patent box regimes throughout the world, the Mauritian model should be as broad-based as possible and provide for the incentive on **all income derived from the totality of IP assets including:**

- Patents and associated patent rights
- Supplementary Protection Certificate (SPC)
- Software
- Trademarks
- Designs and models
- Copyrights
- Utility models
- Domain names
- Trade secrets/know-how including Secret formulas and processes

III. Eligible IP Income

In order to have a truly attractive Knowledge tax regime, thereby encouraging IP and its flow on benefits to be developed, marketed, and remain in Mauritius, the Knowledge tax regime should apply on **all worldwide income including compensation received for breach of rights.**

IV. Disposal of IP

After patenting and successfully commercialising an innovation, firms are still unlikely to capture all the benefits of their patent in the form of profits. Incentives should thus be given to innovators, allowing the disposal of their IP asset to be taxed at zero percent under the Knowledge Tax Regime.

ANNEX : KEY ASPECTS OF EUROPEAN BOX REGIMES AND PROPOSAL FOR MAURITIUS

	Cyprus	Belgium	France	Hungary	Luxembourg	Netherlands	Ireland (2010)	United Kingdom	MAURITIUS
Effective tax rate	2.5%	6.8%	15%	9.5%	5.76%	5%	0 %	10%	0%
Qualifying IP assets	All IP assets, including patents, trademarks, copyright, formulas, designs, know-how and processes	Patents and supplementary patent certificates	Patents, extensions, patentable inventions and industrial fabrication processes	Patents, know-how, trademarks, business names, know-how and copyrights	Patents, trademarks, designs, domain names, models and software copyrights	Self-developed intellectual property relating to patents or approved R&D	Qualifying Patents	UK and European patents, supplementary protection certificates and plant variety rights	All IP assets, including patents, trademarks, copyright, formulas, designs, know-how and processes
Ineligible IP assets	None	Know-how, trademarks, designs, models, formulas and processes	Acquired IP rights held for less than two years	None	Know-how, formulas, copyrights (other than software)	Trademarks and brands and acquired IP	Trademarks, brands, copyrights	Trademarks, copyrights and designs	None
Internally developed or acquired?	Internally developed and acquired intellectual property	Internally developed intellectual property and improvements to acquired intellectual property	Internally developed and acquired intellectual property	Internally developed and acquired intellectual property	Internally developed and acquired intellectual property, but not IP acquired from a related party	Self-developed only	Internally developed and acquired IP	Self-developed and actively managed (used in business) only	Internally developed and acquired intellectual property
Limitations on where R&D takes place	None	Some	None	None	None	Some	Some	None	None
Qualifying revenue	All income, including compensation for breach of rights	Patent income	Royalties net of cost of managing qualifying intellectual property	Royalties	Royalties net of costs (amortisation, R&D costs, interest)	Net income from qualifying assets	Net income from qualifying assets	Net income from qualifying intellectual property	All income, including compensation for breach of rights
Deduction rate	80%	80%	None – reduced tax rate	50%	80%	None – reduced tax rate	Exemption	None – reduced tax rate	Exemption
Overall limit of deduction	None	100% of pre-tax income	None	50% of pre-tax income	None	None	None		None
Gains on disposal included	Yes	No	Yes	Yes	Yes	Yes	No	Yes	Yes

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