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Global Tax Alert

Mauritius introduces fiscal incentives in response to COVID-19

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Executive summary

Like many countries, Mauritius is currently the subject matter of a curfew order (the order) as a result of COVID-19. The order was to be effective as from 23 March 2020 to 2 April 2020: however, it has been extended to 15 April considering the increasing number of infected individuals.

Virtually all businesses have closed further to the order and the unprecedented nature of COVID-19 has compelled the Government to implement a set of priority measures for the safety and health of the population. The main fiscal measures are summarized below:

1. **Income tax relief for contributions to COVID-19 Solidarity Fund**

   Contributions made by individuals and companies through 31 December 2020 would qualify for tax deduction.

2. **Double deduction for certain capital expenditures**

   Investment made in plant and machinery by a company would be eligible for a double deduction if the capital expenditure is made between 1 March to 30 June 2020.

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3. **Zero-rated status for hand-sanitizers and other breathing appliances**

   Hand-sanitizers, protective masks and other breathing appliances are taxed at the zero rate for value-added tax (VAT) purposes as from 24 March 2020.

The Mauritius Revenue Authority has advised that no interest and penalties will apply if non-submission of a tax return or the non-payment of any tax is the result of the current order.

Detailed discussion

Contributions to COVID-19 Solidarity Fund

The COVID-19 Solidarity Fund (COVID-19 Fund) is the subject matter of the Finance and Audit (COVID-19 Solidarity Fund) Regulations 2020 and is essentially aimed at funding COVID-19 related projects. This includes financial support to Mauritian residents and the financing of projects, programs and schemes related to the COVID-19 virus and other related health issues.

Contributions made by individuals to the COVID-19 Fund through 31 December 2020 would qualify for the deduction. For this purpose, the contribution made through 30 June 2020 would be the subject matter of the annual income tax return (ATR) for the year of assessment 2020/2021. The contribution made during the six months ending 31 December 2020 would be the subject matter of the ATR for the year of assessment 2021/2022.

Any unutilized contribution would be utilized during the succeeding two income years. The last year of assessment the excess contribution could be utilized would therefore be the year of assessment 2023/2024, the basis period of which would be the year ending 30 June 2023.

This measure was the subject matter of a circular issued by the Ministry of Finance, Economic Planning and Development (MOFEPD). The circular does not specifically provide whether relief would also apply to nonresident individuals.

Contributions made by companies would also qualify for deduction.

We presume that only contributions made during the period of up to 31 December 2020 would qualify for relief to ensure a level playing field. The circular issued by MOFEPD does not provide the manner in which any excess deduction would be dealt with. The measure would not be adequate to encourage loss making companies to contribute to the COVID-19 Fund the in view of the existing restriction on the utilization of tax losses.

Double deduction on certain capital expenditures

Enterprises affected by COVID-19 would be entitled to a double deduction on their investment in plant and machinery for the period from 1 March to 30 June 2020.

The benefit of this measure may not be material in view of the current order. If the curfew order terminates on 15 April 2020, an entity would only be able to incur any capital expenditure as from 16 April 2020. It is doubtful if this measure would encourage corporates to invest in plant and machinery. At this time, an investment in plant and machinery would be considered only if there is a commercial benefit.

All enterprises are affected by COVID-19, even though the extent of the financial impact varies. The mechanism of the relief should be clarified. Investment in plant and machinery qualifies for annual allowances. If the relief is implemented by way of annual allowances then any resulting loss would not be subject to the 5-year time limit on the utilization of tax losses. If the extra deduction is considered to be of a similar character as an expense, then it may not generally benefit loss-making companies.

VAT on hand sanitizers and protective masks

As from 24 March 2020, the following items are treated as zero-rated supplies:

a. Hand sanitizers

b. Protective masks against dust, odors and the like

c. Other breathing appliances and gas masks, excluding protective masks having neither mechanical parts nor replaceable filters

The above goods were previously standard rated supplies for VAT purposes. This is a positive development as it benefits businesses and final consumers. Businesses should, however, be careful in the application of any VAT refund in view of the heavy penalties for a wrong refund claim.

Wage assistance scheme

Under the wage assistance scheme (WAS), employers were entitled to an amount equal to 15 days of the wages of employees with a basic salary of up to Rs50,000 for the month of March 2020.

The WAS applied for the month of March 2020. It is unclear if it will apply for the month of April 2020 in view of the current order. It is anticipated that the Government would communicate on its stand in the coming weeks.

The amount provided under WAS does not appear to be refundable so that it is effectively a subsidy. Considering its specific objective, it should be considered as a reduction in the wage bills of the relevant employers. Depending on the fact pattern, the impact may mean that the effective benefit is reduced by 17%, taking into account the 2% Corporate Social Responsibility.

For VAT purposes, the amount given to VAT-registered employers under the WAS should not be reported and should not also impact on its input tax.

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