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Mauritius Budget Highlights 2022/23

KPMG View

June 07, 2022

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KPMG view

Securing social stability between a pandemic, a war and a slow domestic recovery in sight

The Hon Finance Minister delivered the 2022-23 Budget speech entitled “With the people, For the people”. With the post-covid recovery hopes rapidly shattered by the Ukraine-Russia war, the new constraints limiting the government’s maneouvre are unprecedented. Of most concern will certainly be the duration and aftermath of the war. As an open island economy dependent on international trade, tourism and food imports, there is now an urgency to become resilient and reduce dependency on imports. With the externally driven shocks, rising food and fuel prices, coupled with Government finances at a critically low level and public debt at a high of 96.1% of GDP, there was not much leeway for the Minister in formulating a confident forward-looking scoresheet. With inflation projected at 8.6%, the budget measures are expected to steer the country with forecasted GDP growth of 8.5%, a budget deficit at 4% of GDP and public sector debt sitting at 72.9% of GDP in 2022/23.

KPMG view (cont.)

Income and expenditure profiles indicate a socially protective budget funded by a consumption drive

The Budget revolves around three main themes: food security, sustainable economy and social protection. Measures largely relate to grants, preferential loan schemes, tax holiday and the creation of food security clusters.

Government expenditure is increasing by Rs 11bn to reach a forecast of Rs 172.9bn, driven by Social Protection to the tune of Rs 9bn. On the revenue side, government income is increasing by Rs 13.5bn mainly driven by higher inflows from taxes on goods and services, in the form of VAT and other specific duties on general consumption, luxury goods and gaming. Therefore, the budget is based on a moderate level of renewed optimism and consumption drives flowing from tourism, manufacturing and financial services.

An array of social contributions and immediate cash incentives

The budget speech contains an elaborate list of increases of social aid and welfare benefits, across all social aid programmes. However, the increased focus on the social protection does not come as a trade-off on the infrastructure spend. Projects announced in previous budgets in the form of road infrastructure, social housing units, community development, and water supply remain on the cards. This flavour of more-of-the-same will unfortunately come at a higher cost to execute given the delays and rising cost of construction.

Easing of tax burden

A new and unexpected measure announced was the abolition of municipal taxes. This is a bold measure, against all political odds given the high density of urban housing in Mauritius. Conversely, it indicates that the divide between urban and rural demography in Mauritius is being eroded. Individual tax payers falling in the low to middle income groups earning a monthly income of up to Rs 75,000 will be subject to progressive tax rates between 10% to 12.5% as opposed to a flat 15% on taxable income. Furthermore, tax paying families with children attending universities will now be able to deduct up to Rs 500,000 per year of study from their taxable income base. Other measures also announced higher tax credits for holders of private medical insurance. In summary, tax payers in general did not see any new punitive personal tax changes for this budget year.

KPMG view (cont.)

Accelerating the green agenda

The government reaffirmed its commitment to the transition to a green economy. Keeping in mind the COP-26 target of 60% of energy from renewable sources by 2030 and to meet our increasing energy consumption needs, a Green Transformation Package and a renewable energy transition framework have been announced, aiming at producing electricity from renewable sources with the setting up of hybrid renewable energy facilities, in partnership with private promoters, with a total capacity of 140 MW. Incentives around solar energy include investments in solar farms and installation of solar systems on households and non-commercial entities. These aim at producing an additional 200 MW adding up to 40% of our energy from renewable sources by 2025.

A welcome and impactful announcement was the removal of duties on hybrid and electric cars. For electric vehicles to become a reality in Mauritius, we also need to address the demand for the charging infrastructure and support for charging station financing and ownership, which are yet to be defined. While this measure will boost the sales of new cars, this might seem a contradiction to the national road decongestion objectives. In the longer term, the battery recycling and disposal will also become a challenge.

The business agenda

Businesses and HNWI have been relieved in the absence of new wealth taxing measures, indicating that Government has realised that in the current context, the burden of social protection cannot be passed directly to the private sector which is still healing its wounds from the pandemic. These measures presume that the worse may not yet be behind us, with inflation being already a major concern within a worldwide cost of living crisis. Ongoing geo-political uncertainties, further disruptions to production and trade, indicate an outlook without respite. To this end, the protective and prudent stance of the government is a just and safe option.

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The above information has been extracted from the budget speech delivered by Dr the Honourable Renganaden Padayachy, Minister of Finance, Economic Planning and Development, to the National Assembly, on 07 June 2022.

The Budget proposals may be amended significantly before enactment. The content of this summary is intended to provide a general guide to the subject matter and should not be regarded as a basis for ascertaining liability to tax or determining investment strategy in specific circumstances. In such cases specialist advice should be taken.