PRICEWATERHOUSECOOPERS

Tax times

Mauritius

June 2005 - Issue No 1

*connectedthinking

Tax practice
Alternative Minimum Tax (AMT)

1. Provisions were made in the Income Tax Act through the Finance Act 2004 for the introduction of an **Alternative Minimum Tax (AMT)**.

2. AMT will apply as from the year of assessment 2005/2006 to companies that have declared dividends but have not paid any or enough tax.

3. However, AMT will **not** apply –

(a) where the normal tax payable (before foreign tax credit) exceeds 10% of dividends declared and

(b) to companies that are fully exempt, e.g. Freeport companies.

4. For companies **not falling** under 3(a) or 3(b) above, the following steps should be followed to ascertain whether or not AMT is payable:-

(a) Compute book profit by

(i) taking the net profit/loss before tax per Income Statement

(ii) adding to it any loss on disposal / revaluation of fixed assets, any loss from sale / revaluation of securities if these were charged to the Income Statement, any unauthorized expenditure and

(iii) deducting from the amount obtained at (ii) above, dividends received from companies resident in Mauritius, profit from disposal / revaluation of fixed assets and profit from sale / revaluation of securities if these were included as income in the Income Statement

(b) Compute 5% of amount at (a)(iii) above

(c) Compute 10% of dividends declared

(d) The lower of (b) and (c) is the AMT.

The amount obtained at (d) above should then be compared to the normal tax.

The higher of the two amounts will be the tax payable – normal tax or AMT.

5.(a) **Example 1**

A company paying tax at 15% has made a net profit of 100 and has declared a dividend of 70. The profit of 100 has been arrived at after charging a loss on disposal of fixed assets of 15, and crediting dividends received of 25 to the Income Statement.
The normal tax payable after allowing capital allowances and other deductions totaling 50 is 6.

AMT calculation is as follows –

(i) Book profit –

Net profit		100
Add	(a) loss on disposal	15
	(b) unauthorized expenditure attributable to dividends	2
Less dividends		(25)
Book profit		92

(ii) 5% of book profit	4.6
(iii) 10% of dividends declared	7

(iv) AMT is lower of (ii) and (iii), i.e. 4.6

The tax payable in this case is 6 (the normal tax) as it is higher than the AMT.

5.(b) **Example 2**

If the company in example 1 made a profit of 70 instead of 100, then the normal tax payable would be 1.5 and AMT would be computed as follows –

(i) Book profit –

Net profit		70
Add	(a) loss on disposal	15
	(b) unauthorized expenditure attributable to dividends	2
Less dividends		(25)
Book profit		62

(ii) 5% of book profit	3.1
(iii) 10% of dividends declared	7

(iv) AMT is lower of (ii) and (iii), i.e. 3.1

The tax payable here is 3.1 (the AMT) as it is higher than the normal tax payable.

Tax briefs

Nepal
- VAT Rate in Nepal has increased from 10% to 13%

India
- With effect from 1 April 2005, 21 States and 4 Union Territories in India have introduced the VAT.

- Launching a new online tax payment system recently, Indian Finance Minister Palaniappan Chidambaram pledged to reduce the level of taxation in India to that seen in ASEAN members (Association of South East Asian Nations), whilst also promising additional measures to improve tax compliance.

United States
- A new measure approved by the US Senate Finance Committee requires chief executive officers to assume ultimate responsibility for the veracity of their company's tax statements.

- In a bid to encourage home ownership at all levels of American society, US President George W. Bush has indicated his support for the retention of the tax deduction for interest paid on mortgages as the country braces itself for potentially major tax reform in the coming years.

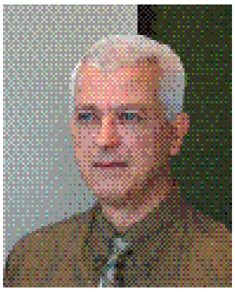
Greece
- The Greek Government has introduced legislation amending the VAT rates in Greece with effect from 1 April 2005 as follows -
  - > Standard VAT rate: Increased from 18% to 19%
  - > Reduced rate: Increased from 8% to 9%
  - > Reduced rate: Increased from 4% to 4.5%

Mauritius
- The requirement under the Income Tax Act to pay 30% of tax assessed at objection stage has been extended to value added tax.

China
- The Chinese government has decided to act to discourage speculative dealings in the country's real estate market with a range of new measures, including a tax on the full profits of property sales if the owner sells within two years.

Foreword

To Introduce "Tax Times"



It is with great pleasure that we are today officially launching the PwC Tax newsletter, **"Tax Times"**.

"Tax Times" has been designed to keep you abreast of tax developments in Mauritius and around the world on a regular basis.

It features a variety of practical guidelines, tax law updates, news briefs and tax definitions covering all areas of local and international taxation.

Tax issues in Mauritius have become, over time, increasingly complex, due to the various forms which our national development policies are assuming.

Sound tax planning is often central to company strategies. It is essential for all finance and tax professionals to be, at all times, up-to-date with latest thoughts and proposals in that sphere.

We are sure this publication will go a long way towards ensuring this is the case, as Mauritius moves to a more sophisticated business environment.

I hope that you will enjoy reading **"Tax Times"** and that it will become a useful tool in your daily tax planning.

Robert Bigaignon

Tax treaties
China

Resident
The treaty applies to any person who is resident in one or both states. Resident of a state means a person who is liable to tax under the laws of that state by reason of his domicile, residence, place of head office, place of effective management or any other criterion of a similar nature. A person includes an individual, a company, any other body of persons as well as a taxable unit under the taxation laws of the state.

Permanent establishment
A person resident in a state and carrying on business in the other state will be taxed in the other state only if he has a permanent establishment there. Permanent establishment essentially means substantial presence, e.g. a place of management, a branch, an office, etc. It also includes a building site or construction or installation project lasting more than 12 months. The provision of services through employees for more than 12 months within any 24 month-period will constitute a permanent establishment.

Dividends
Dividends may be subject to tax in the source country at a rate not exceeding 5%. However, Mauritius does not levy tax on dividends paid by resident companies.

Interest
Interest may be subject to tax in the source country at a rate not exceeding 10% but is tax free under certain conditions, e.g. if paid to the Government of the other state or its agencies or to an approved financial institution resident in the other state. Under Mauritius tax law, interest paid by a company holding a Global Business Licence Category 1 or a bank holding a Category 2 Banking Licence to a non-resident not carrying on any business in Mauritius is tax exempt.

Royalties
Royalties may be subject to tax in the source country at a rate not exceeding 10%. Under Mauritius tax law, royalties paid by a company holding a Global Business Licence Category 1 to a non-resident are tax exempt.

Capital gains
Gains from the sale of shares are taxable only in the country where the shareholder is resident. However gains derived from the disposal of shares of a company holding assets consisting mainly of immoveable property situated in the other state may be taxed in that state. While Mauritius does not levy capital gains tax, any gain or profit from the sale of securities or units is specifically exempt from income tax.

Relief from double taxation
Double taxation is avoided by means of a tax credit allowed for tax paid in the other state. The treaty as well as Mauritius tax law provide for credit in respect of underlying tax relating to dividends and tax sparing relief for tax exemption or reduction granted by a state.

General
Although Mauritius has taxing rights over directors' fees payable to company directors resident in China, such fees are exempt from tax under Mauritius tax law.

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Tax Basics
Key concepts, definitions and regulations

Mauritius Tax System

Mauritius has a global system of taxation as opposed to a schedular system. It is a self-assessment system based on the residence concept.

Under this system, income from all sources is added up and the appropriate tax rate or rates are applied after reckoning all allowable deductions and exemptions.

A person resident in Mauritius is liable to tax on the worldwide income derived by that person. However, earned income derived from overseas by an individual resident in Mauritius is taxable to the extent it is remitted to Mauritius.

Mauritian residents who are not citizens of Mauritius are not taxed on foreign source income.

A non-resident is taxed on income derived from sources in Mauritius.

Income tax is payable on income derived in the preceding year. The fiscal year runs from 1 July to 30 June.

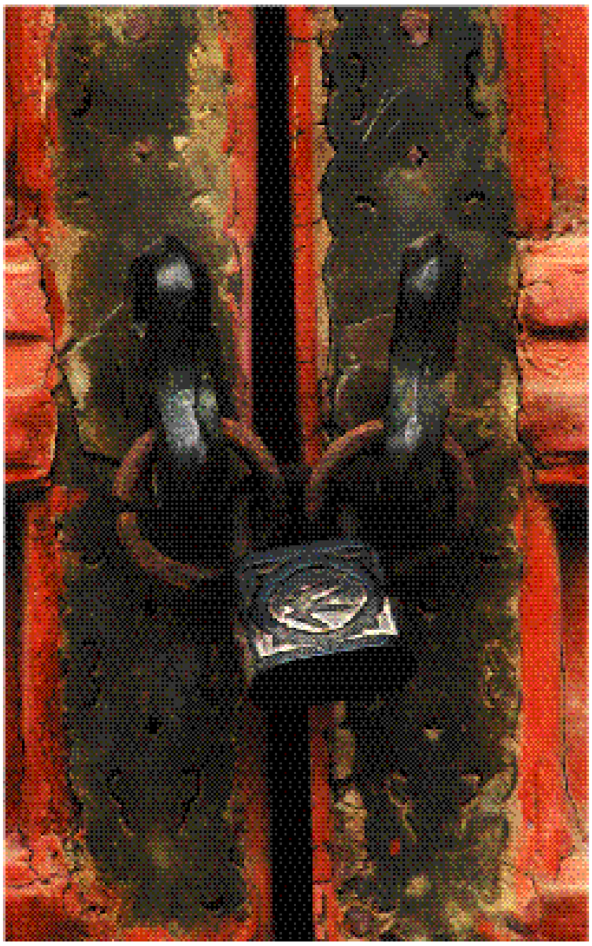
Useful Links

2005/06 Mauritian budget analysis by PwC including tax tables and rates

www.pwc.com/mu

Chartered Institute of Taxation (CIOT)

www.tax.org.uk



Personal Taxation

Who is a Tax Resident in Mauritius?

A **Resident** (for an individual) is defined as a person who :

- has his domicile in Mauritius unless his permanent place of abode is outside Mauritius;
- has been present in Mauritius in an income year for a period of, or an aggregate period of, 183 days or more; or
- has been present in Mauritius in an income year and the 2 preceding income years for an aggregate period of 270 days or more.

Corporate Taxation

What are the due dates for submission of return and payment of tax?

- 30 September in the year of assessment (where accounting year ends on a date other than 30 June)
- 31 January in the year of assessment (where accounting year ends on 30 June)

What are the Penalties?

- Late submission of return - a penalty of Rs 5,000 per month or part of the month up to a maximum of Rs 50,000.
- Late payment of tax - a penalty of 2% on tax payable per month or part of the month up to a maximum of 100% of the tax.

Did you know?

Where a corporate body does not attach its Profit and Loss Account and Balance Sheet, or any other appropriate statement of account, it shall be deemed NOT to have submitted a return.

VAT

Who does the burden of proof lie on?

The burden of proof that any tax has been paid, or any supply of goods or services, or any person, is exempt from tax shall lie on the person -

(a) liable to pay the tax;
(b) claiming that the tax has been paid; or
(c) claiming that he is, or the supply of the goods or services is, exempt from tax.

International Taxation

A territory can decide what it will tax on the basis of **source** or **residence** principles.

In theory, the legal right of territories to tax is unlimited, due to the sovereignty of states. This gives states total freedom to set their own laws, including their global right to tax.

Each state could target any income, in any other state, in any part of the world. In practice, however, territories limit their right to tax. This is due, in part, to the practical difficulty of actually enforcing an unlimited right to tax.

Instead, territories restrict their right to tax to income with a connection to that territory.

The personal connection to a territory is defined as the taxpayer being **'resident'** in that territory. This is the state to which the person / company belongs.

Non-residents have no personal connection. Instead their connection is economic: there is a **source** of income arising in a territory.

Source of Income

The place (or country) where a particular item of income is deemed to originate or where it is deemed to be generated.

The rules which determine the source of income may be embodied in the legislation or case law of a particular country, or in tax treaties. National rules vary, depending on which concept of source is used.

For example, a dividend distributed by a company may be deemed to have its source in the country of residence of the company distributing the dividend, or in the country or countries from which the company has derived its profits.

Source: International Tax Glossary, copyright International Bureau of Fiscal Documentation (IBFD), Amsterdam, the Netherlands.

About us

PricewaterhouseCoopers Mauritius
(www.pwc.com/mu) was created on 1 July 1998, following the merger of Price Waterhouse and Coopers & Lybrand.

PricewaterhouseCoopers in Mauritius is recognised as a thought leader and a change initiator, offering the resources of a global organisation combined with detailed knowledge of local issues.

With over 200 professional staff, we serve a large number of multinational companies doing business in Mauritius, a cross section of the local business community as well as public institutions.

Tax Services

Assessment and appeals

- Attending to assessments and processing objections
- Preparation of appeal documents
- Representation at tax appeal tribunals

Corporate (Income) Tax services

- Preparation, review and filing of tax returns
- Monitoring compliance with filing and payment deadlines
- Correspondence or meetings with authorities to finalise tax assessments

International Assignee Solutions

We provide expatriates with tailor made tax planning and tax compliance services.

Value Added Tax services

- Advice on VAT compliance obligations
- Preparation, review and filing of tax returns
- Monitoring compliance with filing and payment deadlines
- Correspondence or meetings with authorities to finalise tax assessments

Tax Health Checks

We carry out tax health checks to provide assurance on compliance with Income tax, PAYE, social security and VAT

Tax Advisory and Planning services

This includes general tax issues including:

- Mergers and Acquisitions
- Restructuring
- Disposals
- Value Added Tax
- International taxation
- Customs and excise duties
- Stamp duty

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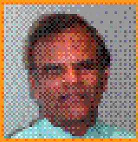

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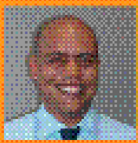

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