Tax Alert
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The prescribed conditions for banks to benefit from 5% reduced tax rate have been published

There has been a major change in the taxation of companies engaged in banking activities which takes effect as from the year of assessment commencing on 01 July 2020. This tax reform is in line with the recommendation of the OECD and the EU and has led to the phasing out of the 80% deemed foreign tax credit regime, which was previously available to banks on their Segment B banking activities.

The new banking regime makes no distinction in tax treatment between profits derived from Segment A banking activities (transaction with residents) and Segment B banking activities (transactions with non-residents and corporations holding global business licenses). As such, the requirement to submit an auditor's certificate certifying that expenses have been correctly apportioned between Segment A and B activities is no longer applicable. Also, banks are henceforth not entitled to claim credit on foreign tax suffered.

The main features of this new regime are the introduction of a reduced tax rate of 5%, the concept of 'base year' and different tax bands.

Conditions to be satisfied to benefit from the reduced tax rate of 5%

In order to benefit from the reduced rate of 5%, the bank should grant at least 5% of its credit facilities during an income year to any of the following categories of business:

- small and medium enterprises in Mauritius;
- enterprises engaged in agriculture, manufacturing or production of renewable energy in Mauritius; or
- operators in African or Asian countries.

'Credit facilities' is defined as:

- any facility, whether fund based or non-fund based, made available to a person and containing an obligation to disburse a sum of money in exchange for a right to repayment of the amount disbursed and outstanding and to payment of interest or other charges on such amount including loans, overdrafts and leasing facilities; or
- any extension of the due date of a debt, any guarantee issued, and any commitment to acquire a debt security or other right to payment of a sum of money.

Base year

The 'base year' is defined as follows:

Status	Base year
Bank in operation as at 30 June 2018	Year of assessment 2017/2018
Bank starting operation after 1 July 2018	First year of assessment corresponding to a period of 12 months

Tax bands:

General rule

The general rule is that banks will be taxed as follows:

Chargeable Income	Tax Rate
Up to Rs 1.5 bn	5%
Remainder	15%

Where a bank has a chargeable income exceeding Rs 1.5 bn, it may still be taxed in whole or in part at 5% depending on whether its chargeable income for the year exceeds the chargeable income of the 'base year' and it satisfies the conditions described above.

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Scenario 1

Where in an income year, a bank has a chargeable income exceeding Rs1.5bn and:

- its chargeable income of the base year exceeds Rs 1.5 billion;
- its chargeable income exceeds that of its base year;
- the bank satisfies the above conditions.

The tax rates would be as follows:

Chargeable income	Tax rate
Up to Rs 1.5bn	5%
Above Rs 1.5bn up to the amount equivalent to the chargeable income of the base year	15%
Remainder	5%

Scenario 2

Where in an income year, a bank has a chargeable income exceeding Rs1.5 bn and:

- its chargeable income of the base year does not exceed Rs 1.5 billion;
- its chargeable income exceeds that of its base year;
- the bank satisfies the conditions described above,

the tax rate would be 5%.

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