



Tax Alert - May 2021

Amendments to PAYE calculations on solidarity levy for individuals earning more than Rs 3 M

The MRA has issued a PAYE Guide in March 2021 and the calculation of Solidarity Levy (“SL”) which is collected through the Pay As You Earn (“PAYE”) system has been amended.

PAYE on Solidarity Levy as per MRA Communique dated 10 August 2020:

PAYE on Solidarity Levy is calculated at the lower of:

- 25% of leviable income in excess of Rs3m; or
- 10% of net income including dividend

PAYE on Solidarity Levy as per MRA PAYE Guide:

PAYE on Solidarity Levy is calculated at the lower of:

- 25% of the cumulative excess taxable leviable income; or
- 10% of the cumulative emoluments; or
- 15% of the emoluments for the month.

The following illustration shows the impact of the additional limit on the SL on an employee's salary for a given period:

Calculation as per ITA				
MONTH	SEPT	OCT	NOV	DEC & BONUS
Emoluments net of exempt	6,000,000.00	100,000.00	300,000.00	600,000.00
Cumulative Leviable Income	9,125,000.00	9,200,000.00	9,475,000.00	10,025,000.00
Less: Solidarity Levy Exemption Threshold per month- Rs 3,000,000/13 (Cumulative)**	692,307.69	923,076.92	1,153,846.15	1,615,384.62
Cumulative Taxable Leviable Income	8,432,692.31	8,276,923.08	8,321,153.85	8,409,615.38
25 % of Cumulative Taxable Leviable Income	2,108,173.08	2,069,230.77	2,080,288.46	2,102,403.85
Less: cumulative SL already charged	-	600,000.00	610,000.00	640,000.00
PAYE for SL (before applying limit) (A)	2,108,173.08	1,469,230.77	1,470,288.46	1,462,403.85
10 % of monthly emoluments (B)	600,000.00	10,000.00	30,000.00	60,000.00
Second Limit SL for the month (15 % of monthly emoluments)	Not applicable			
SL for the month (Limited to 15% of monthly emoluments) ****	Not applicable			
SL for the month (Lower of A & B)	600,000.00	10,000.00	30,000.00	60,000.00
Total SL for the period Sep to Dec 2020	700,000.00			

Calculation provided in MRA's guide in March 2021				
MONTH	SEPT	OCT	NOV	DEC & BONUS
Emoluments net of exempt	6,000,000.00	100,000.00	300,000.00	600,000.00
Cumulative Leviable Income	9,125,000.00	9,200,000.00	9,475,000.00	10,025,000.00
Less: Solidarity Levy Exemption Threshold per month- Rs 3,000,000/13 (Cumulative)**	692,307.69	923,076.92	1,153,846.15	1,615,384.62
Cumulative Taxable Leviable Income	8,432,692.31	8,276,923.08	8,321,153.85	8,409,615.38
25 % of Cumulative Taxable Leviable Income (A)	2,108,173.08	2,069,230.77	2,080,288.46	2,102,403.85
First Limit SL for the month (10% of Cumulative Emoluments)***	920,000.00	930,000.00	960,000.00	1,020,000.00
Cumulative SL for the month	920,000.00	930,000.00	960,000.00	1,020,000.00
Less: cumulative SL already charged	-	900,000.00	915,000.00	960,000.00
PAYE for SL (before applying 2nd limit of 15% of emoluments for the month) (B)	920,000.00	30,000.00	45,000.00	60,000.00
Second Limit SL for the month (15% of monthly Emoluments) (C)	900,000.00	15,000.00	45,000.00	90,000.00
SL for the month (Lower of A, B and C)	900,000.00	15,000.00	45,000.00	60,000.00
Total SL for the period Sep to Dec 2020	1,020,000.00		Excess:-	320,000.00

Possible tax impact upon submission of tax return:	As per MRA Communique (Aug 2020)		As per MRA PAYE Guidelines (Mar 2021)	
	Rs	Rs	Rs	Rs
Taxable Leivable Income (assumed no other personal income)		8,409,615.38		8,409,615.38
Solidarity Levy: Lower of:				
SL at 25%	2,102,403.85		2,102,403.85	
10% of net income	1,020,000.00	1,020,000.00	1,020,000.00	1,020,000.00
Less: SL already paid/withheld		(720,000.00)		(1,020,000.00)
SL payable upon submission of return		320,000.00		Nil

Based on the above illustrative example, even though the monthly withholding tax for the employees increases, the final tax paid by the employee is equalised and no additional tax is to be paid by the employee upon submission of his final return.

The new formula for PAYE calculations as included in the PAYE guidelines is welcome as it will enable those subject to solidarity levy to better manage their cash flows on a monthly basis.

How can we help:

- We can assess the impact of the new PAYE guidelines with regards to your remuneration structure

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