Tax expenditure is normally defined as that part of the tax revenue forgone by government due to provisions in tax legislations which allow for, inter-alia, special exclusion, exemption or deduction or which provide for a special credit, a preferential rate or deferral of liability.

It can thus be construed as a type of government financial assistance to certain groups or businesses which does not go through the normal appropriation process, but which is provided through the tax system. The impact on public finance is similar to a subsidy, but it is less transparent and not subject to the same level of public scrutiny as public spending. That is why an increasing number of countries have introduced tax expenditure accounting and reporting and subjected tax expenditure to normal budgetary controls.

The estimates of tax expenditure have been computed in respect of four major taxes from which government derives the bulk of its revenues. These are income tax, value added tax, customs duty and excise duty.

Methodology of Estimation

Tax expenditures are deviations or exceptions from what is accepted as normal tax provisions. The first step in their quantifications is to define and establish benchmarks, against which those provisions can be compared and the cost implications measured.

A normal tax mainly includes the following features:

- a base on which that tax is levied such as income or consumption;
- an entity which, by definition, includes any person, company, trust or société;
- a normal tax rate that is applied to the tax base; and
- the procedures for the administration of the tax

The methodology used for estimating tax expenditures for each tax type has been summarized below based on the type of information available. The static method, which allows only for changes in the tax provisions, has been used for that purpose. Hence, revenue loss arising from any specific tax expenditure is not likely to equal the gain in revenue from removal of the tax expenditure as behavioral changes have not been taken into account.

Tax Expenditure under Income Tax (IT)

Corporate Income Tax (CIT): The tax base under CIT normally relates to profits derived by a company or a body corporate after allowing for expenses incurred in the production of income. There are still certain items such as exempt income, annual allowance, investment allowance and deduction for overseas marketing and promotional expenses, which erode the tax base and constitute the main elements of tax expenditure under CIT.

The estimates provided in **Table 1A** have been worked out from returns of liable taxpayers only. They, however, exclude liable taxpayers who after allowing for exceptions become non liable.

Tax Expenditure under Value Added Tax (VAT)

VAT is chargeable on all taxable supplies of goods and services made by a taxable person. Under VAT, tax expenditure is the revenue foregone due to exemptions and zero-rating of certain goods and services as well as exemptions from payments of the tax by certain bodies or persons. The tax base for VAT also includes customs duty and excise duty payable. The VAT component foregone from any exemption given under the Customs Tariff Act or Excise Act therefore constitutes tax expenditure.

Zero-rating of exports is not considered as tax expenditure since VAT applicable in Mauritius is on a destination based principle. Exemption of businesses with turnover below the exemption threshold is a component of the baseline tax and, therefore, not considered as tax expenditure.

Normally an input-output table is used to estimate tax expenditure under VAT. However, due to unavailability of data, VAT expenditure has been estimated on an aggregate basis using information obtained from returns submitted by VAT registered persons, including those selling both zero-rated goods and exempt goods as well as taxable goods. Traders who sell exempt goods only are not registered with the Mauritius Revenue Authority (MRA) and therefore do not submit returns. To that extent the estimates provided in **Table 1B** are lower bound estimates.

Tax Expenditure under Customs Duty (CD)

In case of customs duty, different rates form part of the normal tax structure depending on the type of product category and these are provided in the schedule to the Customs Tariff Act. Tax expenditure in respect of CD is revenue foregone from exemptions provided to importers. This can be taken as the difference between the customs duty payable and the amount actually paid. It is calculated as follows:

In case of ad valorem rates

Revenue forgone = (c.i.f. value of imports x the tariff rate applicable) – customs duty paid

In case of specific rates

Revenue forgone = (volume of imports x the tariff rate applicable) – customs duty paid

The data used for the computation of tax expenditure under CD has been obtained from bills of entry processed by the MRA (Customs). From the data available, a fair estimate of tax expenditure arising from CD in respect of such imports could be calculated. However, tax expenditure arising from duty free allowances given to incoming passengers and goods imported by post or courier services up to Rs 1,000 c.i.f. value of imports have not been included as data is not captured under the present system. Exemptions arising from imports originating from countries with which Mauritius has entered into trade agreements (SADC, COMESA and COI) are not considered as tax expenditures and have thus been excluded from the estimates.

An estimate of tax expenditure under CD is provided in **Table 1C**.

Tax Expenditure under Excise Duty (ED)

As in the case of customs duty, under excise duty also different rates form part of the normal tax structure depending on the type of product. These are provided in the schedule to the Excise Act. Excise duty is applicable to both imported and locally manufactured goods, which include mainly motor vehicles, petroleum products, cigarettes, alcoholic beverages and plastic products. Tax expenditure under ED is normally calculated as follows:

In case of ad valorem rates

Revenue forgone = (c.i.f. value of imports/value of locally manufactured goods x the tariff rate applicable) – excise duty paid

In case of specific rates

Revenue forgone = (volume x the tariff rate applicable) – excise duty paid

The estimates of tax expenditure under ED have been worked out using data obtained from bills of entry/returns processed by the MRA (Customs). The tax expenditure under excise duty is mainly in respect of various concessions and exemptions granted on motor vehicles to taxi-drivers, civil servants/advisors, benevolent/religious associations, embassies etc.

Tax expenditure on petroleum products is due to exemption granted on gas oil to manufacturing enterprises.

On the other hand, tax expenditure on alcoholic beverages and tobacco products is basically the result of exemptions granted to foreign embassies. These have not been included in our tax expenditure estimates. In addition, tax expenditures arising from duty concessions to incoming passengers (i.e., 1 litre of spirit, 2 litres of wine and 250 grams of tobacco products) have not been included due to unavailability of data.

Table 1

SUMMARY OF ESTIMATES OF TAX EXPENDITURE BY TAX TYPE
(As A PERCENTAGE OF GDP)

		July-December 2009	2010	2011
A	Corporate Income Tax	0.713%	0.743%	0.726%
B	Value Added Tax	0.444%	0.455%	0.455%
C	Customs Duty	0.066%	0.071%	0.071%
D	Excise Duty	0.166%	0.164%	0.162%
	TOTAL	**1.389%**	**1.433%**	**1.414%**

Table 1A

A. CORPORATE INCOME TAX

	Assessment Year	July-December 2009	2010	2011
1	Exempt Income	0.439%	0.458%	0.447%
2	Annual Allowance	0.044%	0.046%	0.045%
3	Investment Allowance	0.001%	0.001%	0.001%
4	Overseas, Marketing and Promotional Expenses	0.047%	0.049%	0.048%
5	Authorised Deductions	0.181%	0.189%	0.184%
	TOTAL	**0.713%**	**0.743%**	**0.726%**

Table 1B

B. VALUE ADDED TAX

	Financial Year	July-December 2009	2010	2011
1	Zero-Rated Supplies	0.682%	0.643%	0.643%
2	Exempt Supplies	0.130%	0.127%	0.127%
3	Taxable supplies made to exempt persons	0.097%	0.111%	0.111%
4	Exemption under the Customs Tariff Act and Excise Act	0.035%	0.035%	0.035%
5	Taxable Input on which No Input Tax is allowed as Credit	-0.500%	-0.461%	-0.461%
	TOTAL	**0.444%**	**0.455%**	**0.455%**

Table 1C

C. CUSTOMS DUTY

	Financial Year	July-December 2009	2010	2011
1	Foodstuffs and Agricultural Produce	0.000%	0.000%	0.000%
2	Plastics and rubber	0.023%	0.027%	0.027%
3	Paper and Paperboards	0.005%	0.004%	0.004%
4	Articles of Apparel and Clothing	0.000%	0.000%	0.000%
5	Base Metal and Article thereof	0.004%	0.012%	0.012%
6	Mechanical, Electrical Appliances and Other Appliances	0.007%	0.007%	0.007%
7	Motor Vehicles	0.001%	0.000%	0.000%
8	Furniture and Part thereof	0.005%	0.005%	0.005%
9	Footwear	0.008%	0.005%	0.005%
10	Others	0.013%	0.011%	0.011%
	TOTAL	**0.066%**	**0.071%**	**0.071%**

Note: Excludes exemptions granted under SADC,COMESA and COI

Table 1D

D. EXCISE DUTY

	Financial Year	July-December 2009	2010	2011
1	Alcoholic Beverages	0.000%	0.000%	0.000%
2	Tobacco	0.000%	0.000%	0.000%
3	Petroleum Products	0.005%	0.003%	0.003%
4	Motor Vehicles	0.162%	0.161%	0.159%
	TOTAL	**0.166%**	**0.164%**	**0.162%**