

APPENDIX A: REVENUE

Table A6: Tax Expenditure (As % of GDP)

		2010	2011	2012
<u>SUMMARY</u>				
1	Corporate Income Tax	0.53%	0.46%	0.41%
2	Value Added Tax	0.45%	0.45%	0.46%
3	Customs Duty	0.07%	0.10%	0.09%
4	Excise Duty	0.17%	0.18%	0.18%
TOTAL		1.23%	1.19%	1.14%
1 Corporate Income Tax*		0.53%	0.46%	0.41%
a	Exempt Income	0.32%	0.05%	0.04%
b	Annual Allowance	0.00%	0.02%	0.02%
c	Investment Allowance	0.00%	0.00%	0.00%
d	Overseas Marketing and Promotional Expenses	0.04%	0.04%	0.03%
e	Authorised Deductions	0.17%	0.35%	0.32%
2 Value Added Tax		0.45%	0.45%	0.46%
a	Zero-Rated Supplies	0.64%	0.64%	0.64%
b	Exempt Supplies	0.13%	0.13%	0.13%
c	Taxable Supplies Made to Exempt Persons	0.11%	0.11%	0.11%
d	Exemptions under the Customs Tariff Act and Excise Act	0.03%	0.03%	0.04%
e	Taxable Input on which No Input Tax is Allowed as Credit	-0.46%	-0.46%	-0.46%
3 Customs Duty**		0.07%	0.10%	0.09%
a	Foodstuffs and Agricultural Produce	0.00%	0.02%	0.02%
b	Plastics and Rubber	0.03%	0.04%	0.04%
c	Paper and Paperboards	0.00%	0.00%	0.00%
d	Base Metal and Articles Thereof	0.01%	0.01%	0.01%
e	Parts for Engines	0.01%	0.01%	0.01%
f	Motor Vehicles	0.00%	--	--
g	Furniture and Parts Thereof	0.01%	0.01%	0.01%
h	Footwear	0.00%	0.00%	--
i	Others	0.01%	0.02%	0.02%
4 Excise Duty		0.17%	0.18%	0.18%
a	Alcoholic Beverages	0.00%	0.00%	0.00%
b	Tobacco	0.00%	0.00%	0.00%
c	Petroleum Products	0.00%	0.00%	0.00%
d	Motor Vehicles	0.17%	0.17%	0.17%

Notes:

* : For assessment year

** : Excludes exemptions granted under SADC, COMESA and COI

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Notes on Tax Expenditure

Tax expenditure is normally defined as that part of the tax revenue foregone by government which is due to provisions in tax legislations allowing for exemptions, deductions or special exclusions 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.

Methodology of Estimation

Tax expenditures are deviations or exceptions from what is accepted as normal tax provisions. The first step in their quantification 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 summarised 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.

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 and double deduction for overseas marketing and promotional expenses, which erode the tax base and constitute the main elements of tax expenditure under CIT.

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

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

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registered with the Mauritius Revenue Authority (MRA) and, therefore, do not submit returns. To that extent, the estimates provided are lower bound estimates.

Customs Duty

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 customs duty 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.

The data used for the computation of tax expenditure under customs duty has been obtained from bills of entry processed by the MRA (Customs). From the data available, a fair estimate of tax expenditure arising from customs duty 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.

Excise Duty

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. The estimates of tax expenditure under excise duty have been worked out using data obtained from bills of entry/returns processed by the MRA (Customs).

Tax expenditure on motor vehicles is mainly in respect of various concessions and exemptions granted 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.

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.