Aon News Alert

Budget 2023-2024

Introduction

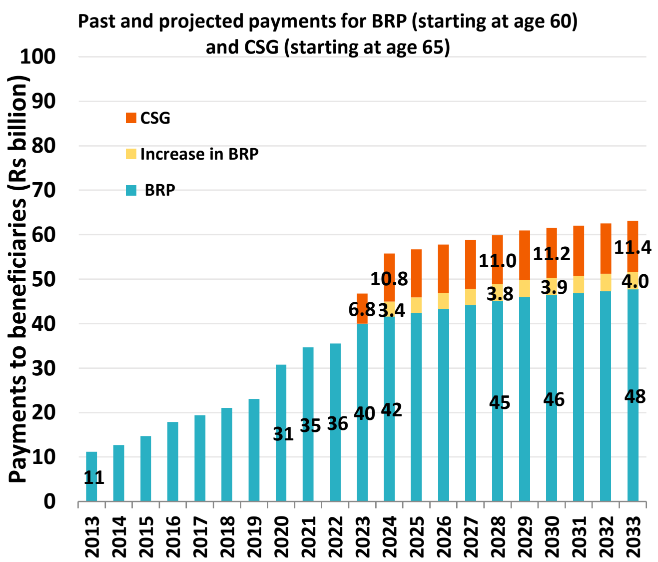
The Minister of Finance presented his fourth Budget for the period 2023-2024 and beyond last Friday with a famous quote from Jimmy Carter, thus setting the tone for a 'social' budget. Indeed, a number of social measures were announced to help the population, including the most vulnerable, but the most glaring announcement is a complete overhaul of the income tax system.

In this paper, we summarize and comment on the financial implications of the popular social security measures (in particular the Basic Retirement Pension and CSG allowances). We also set out the other 'announcements' made this year, whilst attempting to compare those with similar announcements made in previous budgets together with an assessment on their implementation.

Pension and CSG Allowances

The most significant is yet another increase in the Basic Retirement Pension (BRP) of Rs 1,000 to Rs11,000 per month. Recall that, last year, the Government increased the BRP by Rs1,000 from Rs 9,000 to Rs10,000 per month. The Government's promise made in the Minister's first budget speech 3 years ago to freeze BRP at Rs 9,000 per month (with future increases made only via CSG benefits) has clearly been forgotten! In addition, according to paragraph 492 of the Budget Speech, all BRP beneficiaries will also now receive a child allowance of Rs 2,000 per month for each child (up to 3) (we assume that this will be paid only if they have children below the age of 15 (20 if undergoing full time education) under their custody).

Furthermore, a new CSG allowance of Rs2,000 per month will be paid to families for each child under the age of 3 years). Beneficiaries of Basic Widow's Pension, Basic Invalidity Pension and Survivor's Pension will also receive this improved child allowance.



As can be seen in the above chart, total actual spending on BRP was Rs40 billion in 2022-2023 and CSG payouts were Rs 6.8 billion compared with Rs41 billion and Rs 7.1 billion estimated respectively. **<u>This year's budget provides for higher BRP which will increase spending between Rs 3.4 billion and Rs 4 billion each year over the next 10 years</u>**, and for higher CSG benefits which will increase spending by Rs 4 billion each year from next year.

To see the increase in relation to CSG in more detail, the table below shows the various increases and new CSG allowances introduced in this budget, together with their financial implications for the coming financial year.

	CSG Benefits	Beneficiary	Budget 2023/24 Cost (Rs bn)	Actual 2022/23 Cost (Rs bn)
CSG Disability Allowance	Rs2,500 pm	10,000 individuals with disability between 40% and 59%)	0.3	0.3
CSG Retirement Benefit	Rs1,000 pm	Approx. 169,000 retirees aged 65 and above	2.3	2.2
CSG Income Allowance	Rs2,000 pm (earning less than Rs25k) Rs1,000m (earning between Rs25k-Rs50k)	200,000 employees earning less than Rs25k plus 150,000 employees earning between Rs25k and Rs50k and self-employed	6.9	4.3
CSG Child Allowance	Rs2,000m	48,000 children aged up to 3 years.	1.25	-
Total CSG Benefit			**10.8**	**6.8**

For example, those earning less than Rs 25,000 per month will now benefit from an additional CSG income allowance of Rs1,000 per month (some 200,000 individuals), costing an additional Rs 2.6 bn annually. However, there are questions on whether the eligibility criteria to be used will be basic salary or remuneration which could make a number of people unhappy!

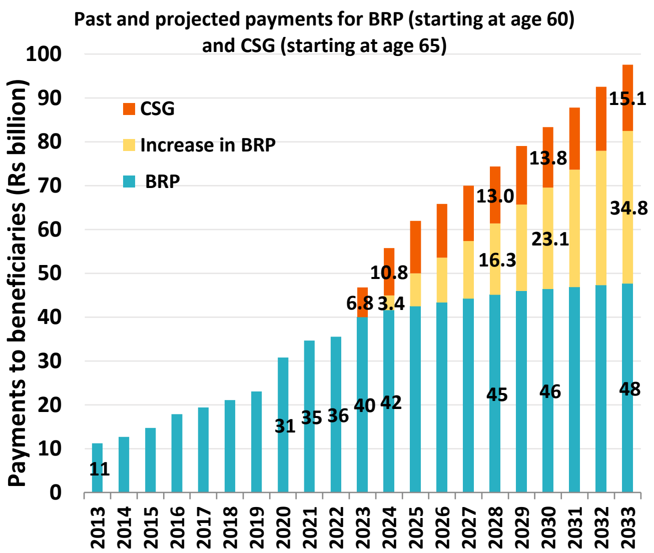
<u>In total, CSG allowances will now cost an additional staggering amount of Rs 4 bn for the forthcoming financial year.</u>

Comments on BRP and CSG changes

- When the CSG was first introduced, it was announced that a top-up pension of Rs 4,500 per month would be paid as CSG benefit from July 2023 (as per Section 43 and the Second Schedule of The Social Contribution and Social Benefits Act 2021) thus guaranteeing a total pension of Rs13,500 per month to those who are 65 years and above. It appears that this promise has been forgotten since this year's budget does not make reference to this at all. We had previously estimated that this 'top-up' would cost in the region of Rs 10 bn in the first year. These figures are nowhere to be seen in the 2023-24 estimates published. Instead, the Government has chosen to increase the BRP (by Rs 2,000 per month so far), provided an advance payment of CSG benefit of Rs1,000 (granted in last year's budget), making the total state pension some Rs 12,000 per month. It has also increased the CSG Income allowance by a further Rs 1,000 per month this year and introduced a new CSG allowance for children under the age of 3 years. This appears to be a re-allocation of the CSG tax collected from CSG retirement benefits promised into CSG income allowances. Whether or not the remaining CSG retirement benefit of Rs1,500 per month (to make a total of Rs13,500) is being kept for last minute 'distribution' is yet to be seen!

- We are very concerned that these increases, if the trend continues, will put a lot more pressure on the Government's finances in the future. Whilst the total GDP will increase (albeit with inflation), the proportion of GDP that will be allocated to Social Protection will be a worrying 9%. This clearly shows the extent of the financial burden of social security on future generations (assuming they remain in Mauritius). Some commentators have observed that we are already witnessing a significant 'brain drain'. If this migration trend continues, the financial burden we mention here will be even worse!

We still strongly believe that continuing to increase BRP (and other pensions) and CSG allowances will stack up more problems for Mauritius in the future. Based on our forecasts, assuming recent trends continue, i.e. there is a further increase of Rs 1,000 in BRP next year and CSG retirement benefit is topped up with Rs500 pm (to reach a total BRP + CSG of Rs13,500 per month as previously promised), and these to increase by 5% per annum going forward, and the other CSG allowances are maintained, total BRP and CSG allowance expenditures will reach Rs 98 bn by the year 2033 – a whopping 9% of GDP (assuming a growth rate in GDP of 5% pa). This is shown in the BRP and CSG forecasts chart below:



The above clearly shows that the burden of financing the BRP and CSG benefits on the next generations will be massive and we suspect that this is one of the reasons for the number of our skilled labour who have already migrated to other countries recently. Based on figures published by Statistics Mauritius, we have experienced a net loss of some 2,000 Mauritians (including their families) to other countries over the last three years. If we strip out foreigners who have come to Mauritius to settle (including manual workers), it is worrying to think that we may have lost a significantly higher number of skilled workers who have emigrated to countries like Canada and so on.

Taxation – a complete overhaul

The biggest change in the budget, in our opinion, relates to the complete overhaul of the income tax system. In addition, the solidarity levy has been abolished – this comes amidst an increasing pressure on the retention of talent who were previously hit by a marginal tax rate of 40%.

In summary, the income tax system is now more progressive than before, with 11 different income tax bands and rates - those with taxable income of less than Rs 390,000 and no dependants will pay no tax at all. We understand that the Income Exemption Threshold (IET) has been updated accordingly, although the budget does not clearly say what they will be from 1 July 2023. From our reading, those with no dependants will have an IET of Rs 390,000 (or Rs 30,000 per month). Those with two dependants will have an IET of Rs 650,000 (ie Rs 50,000 per month). The income tax bands are as follows:

Chargeable income	Tax %	Chargeable income	Tax %
First Rs 390,000	0%	Next Rs 300,000	12%
Next Rs 40,000	2%	Next Rs 300,000	14%
Next Rs 40,000	4%	Next Rs 400,000	16%
Next Rs 60,000	6%	Next Rs 500,000	18%
Next Rs 60,000	8%	Above Rs 2,390,000	20%
Next Rs 300,000	10%		

This means that the tax rates will be applied using a graduated system – something that we recommended last year. Based on this, we have determined the effective tax rates for a few examples (including CSG tax rates).

Example	Monthly Income (Rs)	Annual chargeable Income (Rs)	Incremental Chargeable Income	% Effective Income Tax	% CSG Tax	Effective Total Tax rate
Ex 1	11,575	150,475	-	0.0%	1.5%	**1.5%**
Ex 2	25,000	325,000	-	0.0%	1.5%	**1.5%**
Ex 3	30,000	390,000	-	0.0%	1.5%	**1.5%**
Ex 4	33,077	430,000	40,000	0.2%	1.5%	**1.7%**
Ex 5	36,154	470,000	40,000	0.5%	1.5%	**2.0%**
Ex 6	40,769	530,000	60,000	1.1%	1.5%	**2.6%**
Ex 7	45,385	590,000	60,000	1.8%	1.5%	**3.3%**
Ex 8	68,462	890,000	300,000	4.6%	3.0%	**7.6%**
Ex 9	91,538	1,190,000	300,000	6.5%	3.0%	**9.5%**
Ex 10	114,615	1,490,000	300,000	8.0%	3.0%	**11.0%**
Ex 11	145,385	1,890,000	400,000	9.7%	3.0%	**12.7%**
Ex 12	183,846	2,390,000	500,000	11.4%	3.0%	**14.4%**
Ex 13	230,769	3,000,000	610,000	13.2%	3.0%	**16.2%**

Another significant change is that those earning less than Rs15,000 per month will henceforth have a guaranteed minimum income of Rs15,000 via the 'revenu minimum garanti'. We understand that the 'salaire minimum' of Rs 11,575 topped up with Rs 2,000 of CSG allowances will further increase to Rs 15,000 via another government top-up of Rs1,425 per month. Taken together, the following table shows the effective 'gain' or taxes that will apply for the above examples (assuming no dependants):

		Assuming No Dependants				
Example	Monthly Income (Rs)	Income Tax (Rs)	CSG Tax (Rs)	CSG Income Allowance (Rs)	Revenu Minimum Garanti	Total Impact
Ex 1	11,575	-	174	2,000	1,425	(3,251)
Ex 2	25,000	-	375	2,000	-	(1,625)
Ex 3	30,000	-	450	1,000	-	(550)
Ex 4	33,077	62	496	1,000	-	(442)
Ex 5	36,154	185	542	1,000	-	(273)
Ex 6	40,769	462	612	1,000	-	73
Ex 7	45,385	831	681	1,000	-	512
Ex 8	68,462	3,138	2,054	-	-	5,192
Ex 9	91,538	5,908	2,746	-	-	8,654
Ex 10	114,615	9,138	3,438	-	-	12,577
Ex 11	145,385	14,062	4,362	-	-	18,423
Ex 12	183,846	20,985	5,515	-	-	26,500
Ex 13	230,769	30,369	6,923	-	-	37,292

Thus, those earning Rs11,575 a month will receive a net benefit of Rs 3,251 per month. Those having taxable income of Rs33,077 per month will pay Rs 62 of income tax per month, Rs 496 as CSG tax, but will benefit from an extra CSG allowance of Rs 1,000 making an overall gain Rs 442 per month.

Some commentators have observed that the change in the income tax system will only marginally benefit the low earners, whilst the high earners will see much more significant reductions in income tax. This is true in the transition year, but what is important to note is that, going forward, the high earners will be paying much more income tax (see the effective tax rates above), and this is the essence of a progressive tax system.

Comments:

1. The taxation system in Mauritius is now in line with the world where the higher tax rates are applied to higher salary bands (a progressive system). However, the sheer number of different tax income bands and rates (11 in total) is a little excessive and will make payroll systems for companies more complex.

2. The removal of the solidarity levy is welcome since we have started to witness a significant 'brain drain' in recent years. We hope this will help reverse the trend.

3. However, we find it very odd that only three years ago the Government introduced a CSG tax on everyone (including on employers) only to introduce an income tax system that will collect lower income tax going forward. Our reading of the Annex to the Budget Speech suggests that the Government will amend The Social Contributions and Social Benefits Act 2021 to remove the promise to start paying a CSG retirement benefit of Rs 4,500 per month from 1 July 2023, as intended. This is creating an illusion that CSG contributions collected can be used to finance the different CSG allowances that the Government has granted, whilst shifting the demographic time bomb back on the BRP. Back to square one?

4. Finally, the CSG tax still has a perverse effect around the Rs50,000 basic salary mark where someone earning Rs 49,700 for example is better off than someone earning Rs 50,300 because the latter has to pay CSG of 3% on his/her whole salary compared to the former paying CSG of 1.5%.

<u>Other measures to strengthen the foundations of our economy</u>

Key highlights include:

- Making it easier to do business, in particular SMEs;
- Improve our labour force through increased provision of childcare to boost women's participation in the labour market;
- Encourage foreign workers to come to Mauritius through easier issue of work permits;
- Measures to boost agro-industry, including the production of electricity from bagasse;
- Encouraging the development of a 'blue economy';
- Setting up of Special Economic Zones to boost exports to the African market;
- Boost productive capacity in the ICT industry through training;
- Reinforce our brand in relation to our Financial Services sector, by tightening compliance with AML/CFT laws;
- Helping operators in the Tourism industry to boost their marketing efforts so as to achieve a target of 1.4 million tourists for 2023-24;
- Encourage Arts/Culture by supporting local artists including the removal of VAT on all musical instruments;
- Preservation and upgrading of historical sites across the island;

Comments

We believe that a lot of these measures are laudable. However, it is unfortunate that they are not geared towards generating strong productive capabilities in particular the 'Blue Economy'. Our suggestion would be for the Mauritian Government to kick-start this sector by starting to operate a fleet of fishing vessels (through the acquisition of one such vessel every year), with the intention of securing strong international partnerships with more advanced countries in the field of deep-water fishing. It is only through this that we can see genuine interests arising from the private sector in future years. We also need a legal and insurance framework to protect the livelihoods of those involved in this industry given the high risk of loss of lives at sea.

Measures to transform Mauritius into a sustainable economy

Key highlights include:

- Boosting the production of energy from sustainable sources, including solar power
- Flood management works in various regions of the island (no target date for completion!)
- Help to protect our beaches from soil erosion
- Boosting rain-water harvesting by households on incomes of less than Rs 60,000 per month and building of new dams
- Making pre-primary education free

- Development of one e-health record per person, boosting cancer screening using Artificial Intelligence technologies
- Boosting law and order through the recruitment of 1,000 new police officers
- Acquisition of new equipment to combat drug trafficking
- Appointment of new Judges
- Construction of a new runway in Rodrigues

Comments

More should be done to kick-start energy production and the preservation of water resources. The incentive provided to lower income households could be extended to the whole population albeit with reduced incentives for higher earners. We would also suggest that the Government should set some clear target dates for the completion of major flood improvement works and report on progress in next year's budget. The same should apply for other measures announced in this budget, for example, through a live online monitoring system – this will generate more confidence generally with the population.

<u>Other social measures</u>

The following table summarises some other social measures not mentioned above. We believe that these are mostly positive measures that will help improve the lives of the most vulnerable of our society.

	Other Social Measures		
Purchasing power	- Rs5 reduction in price of petrol - Removed VAT on 15 items of everyday consumption - Subsidy to maintain the price of bread, LPG, flour and rice	70,000 households taking a loan to buy their home will get a Rs 1,000 relief.	- 150,000 income tax payers will pay less taxes - Solidarity levy abolished - No income tax for those earning Rs30k pm
Health	Govt cover full cost of overseas treatment for pediatric patients	Govt cover full costs of cancer care & treatment in foreign & local private hospitals	Incontinence allowance of Rs 1,800 pm to patients suffering from cancer of prostate, cancer of bladder, Alzheimer's and stroke.
Employment	Stand-alone leave of 5 days for a pregnancy loss.	Use of all sick leaves to take care of children with healthcare related issues.	Up to 10 days of sick leave on parents and grandparents with healthcare related issues.
Social Projects & Housing	Building residential care home for children in distress	Programmes for vulnerable youth, homeless persons, elderly persons living alone and rehabilitation of ex-detainees.	Increase in grants under Casting of Roof Slabs Grant Scheme and Purchases of Building Materials Scheme.
Children & Youth	Free pre-primary education for all as from the 1st of January 2024.	Increased the monthly allowance granted under the Foster Care Scheme + Enhanced allowance for special needs children	Increased Monthly child allowance paid to beneficiaries of Basic Widow's Pension, Basic Invalidity Pension and Survivor's Pension to Rs 2,000.
	Extend the child allowance to all Basic Retirement Pension beneficiaries.	Household earning up to Rs 30,000 monthly will benefit from the Multiple Birth Allowance of Rs 3,272 per month for a child	15,000 individuals reaching adulthood at 18 years will get a one-off grant of Rs 20,000.
Social Aid	20,000 vulnerable households will benefit from higher support under the SRM and the Database of Vulnerable Groups;	Crèche Allowance for SRM beneficiaries will be increased from Rs 2,000 to Rs 3,000.	Support vulnerable households (earning up to Rs35k pm) to purchase wheelchairs, spectacles, hearing aids and dentures.

Conclusion

The definition of 'Retirement Benefit' in the Social Contribution and Social Benefit Act will change from *'exceeding 1,000 rupees up to the amount specified in the Second Schedule (i.e. Rs 4,500), payable as from 1 July 2023 and every subsequent month'* to *<u>'Rs 1,000</u> or an amount exceeding Rs1,000 up to Rs 4,500 as from 1 July 2023 and every subsequent month'*, as it appears in the Annex to the Budget Speech, unlike three years ago, when the introduction was announced in the main body of the Budget Speech. As the French proverb goes: *Promettre est facile, tenir sa promesse est difficile!*

We are really concerned for Mauritius that soon more promises will be made on the eve of the general elections, only to be broken after the victors have been announced.

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