

## Tax Incentives and Exemptions for Small and Medium Enterprises (SMEs)

Over the years, Small and Medium Enterprises (SMEs) have been growing exponentially in Mauritius due to the financial and tax incentives provided by the Government to enable small entrepreneurs to contribute to the expansion of the economy and maintain a sustainable social life.

The aim of this paper is to highlight the main incentives that are available to the SMEs under the consolidated Income Tax Act 1995.

The different types of SMEs, the conditions to qualify for SMEs and most importantly the main tax incentives are set out below:

### Types of SMEs in Mauritius

- Microenterprise: a very small business, with an annual turnover of not more than 2 million.
- Small Enterprise: a business that has a turnover of more than 2 million up to 10 million.
- Medium Enterprise: a business whose annual turnover is more than 10 million up to 50 million.

### Conditions to qualify for SMEs

Some of the salient conditions to qualify for SMEs are as follows:

- Applicable to Individuals who are Self-employed.
- Applicable to Companies registered with Corporate and Business Registration Department (CBRD).
- Applicable to Registered and compliant Cooperative Society.
- Expected duration:- in operation for 6 months and SMEs in operation for less than 3 months will qualify as start-ups.
- Any legal value creating economic activity is allowed except pure Trading.
- A minimum of 51% shareholding by a Mauritian national is required to benefit from any scheme.
- An entity having a director/shareholder with shares in another company where the turnover exceeds Rs 100 million does not qualify for the schemes.
- Any entity should not be held by another entity where the turnover exceeds Rs 100 million.
- The registration certificate shall be valid for a period of 5 years.

## Incentives

The main incentives provided to SMEs are as follows:-

- i. Tax Holiday.
- ii. Presumptive Tax.
- iii. Wage Financial Assistance Incentives.
- iv. Angel Incentive Allowance.
- v. Prime à l'emploi scheme.
- vi. Export Incentives.

### **i. Tax Holiday**

**Item 11 of Sub-Part C of Part II of the Second Schedule of the Income Tax Act 1995** also provides a period of exemption of 4 years as from the date of start of activities for enterprises registered under the repealed Small and Medium Enterprises Development Authority Act or the Small and Medium Enterprises Act 2017 based on the following conditions:

- the enterprise does not provide any activities related to information and communication technologies under the Information and Communication Technologies Act or financial services under the Financial Services Act;
- the enterprise operated by a person, other than a company, is converted into a company; or
- the enterprise is operated by a company.

We are given to understand that to be eligible for the Four (4) years of tax holiday, the annual turnover of the enterprise must be below MUR 30 million.

### **ii. Presumptive Tax (starting as from year of assessment 2020/21)**

Section 111U of the Income Tax Act 1995 states that:

Where the gross income of a small and medium enterprise does not exceed 10 million rupees, a taxpayer may be eligible to elect for the presumptive tax system and pay tax at the rate of 1% of his gross income provided that he satisfies the following criteria:

- The small enterprises should be engaged in any of the following activities to be eligible to the presumptive tax system:
  - i. Agriculture, forestry and fishing;
  - ii. Manufacturing excluding restaurants;
  - iii. Retail of goods, including sale of food to be consumed off premises;
  - iv. Wholesale goods.

- The gross income from sources other than those mentioned above does not exceed Rs.400,000.
- The small enterprise may opt to be taxed under the Presumptive Tax system after its tax holiday period.

### iii. Wage Financial Assistance

Some of the relevant provisions of section 150EB on the financial assistance of wage and salary compensation for Small and Medium Enterprises (SMEs) with an annual turnover not exceeding Rs. 100 million (for the year of assessment 2023-2024) are stipulated below and may apply in respect of their full-time employees:

- SMEs would be eligible to the financial assistance where the enterprise has incurred an accounting loss or where its accounting profits for the year of assessment 2022/2023 would be reduced by more than 50% or by more than 10%, as applicable, after considering the payment of the increased National Minimum Wage and Salary Compensation 2024.
- The amount of financial assistance applicable depends on the impact of the payment of increased national minimum wage and salary compensation 2024 on the profits of the employer.
- Financial assistance of Rs. 500 or Rs. 1,000 monthly will be granted to eligible employers paying the national minimum wage to all its full-time employees.
- The employer may also avail financial assistance of an amount equivalent to either 100% or 50% of the salary compensation payable to each full-time employee drawing at least the national minimum wage for 2024.

### iv. Angel Investor Allowance

- The Angel Investor Allowance has been introduced by the Finance Act 2022 and a new section 28 has been inserted in the Income Tax Act 1995 which came into operation in respect of the income year commencing 1<sup>st</sup> July 2022 and for every subsequent income year.

The Angel Investor Allowance is an incentive which an Angel Investor may benefit from investments made in qualifying start up SME.

Angel Investor is defined as an individual aged 18 or above who is:

- (a) A citizen of Mauritius; or
- (b) Holder of a permanent residence permit or residence permit.

- A Qualifying Start-up SME is defined under the Income Tax (Angel Investor Allowance) Regulations 2023 as an SME which:
  - (a) was set up on or after 1 July 2022 and is managed in Mauritius.
  - (b) conducts business operations in Mauritius or Africa.
  - (c) is a start-up under the National SME Incubator Scheme (NSIS) of the Mauritius Research and Innovation Council and supported by an accredited incubator.
  - (d) has an annual turnover not exceeding 100 million rupees.

The Angel Investor Allowance is available subject to satisfying the following conditions:

- The Angel Investor must invest at least 100,000 rupees in the seed capital of a qualifying start-up SME by acquiring shares.
- The Angel Investor and their relatives cannot hold more than 25% of the share capital of the qualifying start-up SME.
- The shares must be held for at least 36 months.

The **tax reliefs** available to an Angel Investor are as follows:

- An Angel Investor who invests at least Rs 100,000 in the seed capital of a qualifying start-up SME, by way of acquisition of shares, may qualify for relief. This relief takes the form of a 50% deduction from their net income, based on the amount invested during the income year.
- The maximum deduction available in a single income year is limited to Rs 500,000.
- Any unused portion of the Angel Investor Allowance may be carried forward and deducted from the net income in the next two consecutive income years.

**The Limitations are:**

- If the Angel Investor sells the shares of the qualifying start-up SME within **36 months**, the deduction previously granted must be clawed back in the year the shares are sold which will lead to a taxable income. Additionally, the qualifying start-up SME is required to inform the Director-General of the Mauritius Revenue Authority about any share disposal within **36 months of the sale**.
- An Angel Investor is not entitled to relief if the investment in a qualifying start-up SME is made in any form other than ordinary shares, as per section 28(1)(b) of the Income Tax Act 1995.

#### v. Prime à l'emploi Scheme

The Prime à l'emploi Scheme has been introduced under the Finance Act 2022 and came into effect on 02 August 2022 in accordance with section 150F of the Income Tax Act 1995. The scheme applies to employees who meet specific criteria such as:

➤ Eligible employees:

- i. must be a citizen and resident of Mauritius.
- ii. must be over 18 years old at the time of employment.
- iii. if male, not older than 35 years.
- iv. if female, not older than 50 years.
- v. should not have been employed for at least 6 months prior to starting their position with the eligible employer.
- vi. And their monthly basic wage or salary must not exceed 50,000 rupees.

➤ Qualifying employees:

- i. must be a female person or a person with disabilities who:
  - a. is a citizen and resident of Mauritius.
  - b. is employed full-time by an eligible employer, or employed part-time by an eligible employer, working at least 20 hours per week.
  - c. must be over 18 years old when employed, except during the period from 17 November 2023 to 30 June 2024, when the age limit is under 62 years.
  - d. must not have been employed for at least 3 months before being employed by the eligible employer.
  - e. the basic wage or salary should not exceed 50,000 rupees per month.
- ii. Exclude a person undergoing training or a household employee.

Eligible employers (including a company, société, association, trust, foundation, cooperative, approved charitable institution, religious body, individual employer) are provided certain incentives accordingly subject to satisfying the conditions set out under the provision of the Income Tax Act 1995. The incentives are as follows:

- Employers can apply for financial allowances for approved eligible employees and qualifying employees on a full-time basis, with allowances capped at 15,000 rupees per month for up to 12 or 24 months, respectively.

- Employers can apply for financial allowances for approved eligible employees and qualifying employees on a part-time basis, with allowance capped at 7,500 rupees per month up to 24 months.
- Additional sums may be provided for specific months following employment as defined under section 150F of the Income Tax Act.
- Employers should ensure that employees receive their wages.
- Employers must refund allowances if they fail to pay wages or terminate employment prematurely.
- The employer shall undertake to safeguard the employment of an approved or qualified eligible employee for a period of at least 3 years.

## vi. Exports Incentives

Section 44B of the Income Tax Act 1995 provides a reduced tax rate of 3% for companies engaged in export of goods or manufacturing activities in a freeport zone, and an SME involved in export of goods can equally take advantage of that incentive.

Should you require any additional information or advice, please do not hesitate to contact our tax advisory team on [taxadvisory@dtos-mu.com](mailto:taxadvisory@dtos-mu.com).

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