

ORAL ANSWERS TO QUESTIONS

BUDGET SPEECH (2006-2007) – TAXATION MEASURES

The Leader of the Opposition (Mr N. Bodha) (*By Private Notice*) asked the Deputy Prime Minister, Minister of Finance and Economic Development whether, in regard to the taxation measures regarding income announced in the 2006-2007 Budget Speech, he will state –

- (a) Government policy in regard to income derived in the form of
 - (i) interest, and
 - (ii) other benefits, and
- (b) the changes proposed to be taken in tax enforcement and collection measures to secure greater compliance.

The Deputy Prime Minister, Minister of Finance & Economic Development (Mr R. Sithanen): Mr Speaker, Sir, as I have stated in reply to a recent PNQ on the issue of taxation, Government has embraced a radically different policy mix from the previous one. The outgoing Government had pursued a policy mix comprising high expenditure, financed by high increases in VAT, high budget deficit and high public debt. This approach to the management of public finances led inevitably to a focus on continuously adjusting tax policy to raise revenue. This objective of tax policy in the past has dominated the need for simplifying and rationalising the tax system. Fairness, equity and efficiency of the system have also been overlooked with the result that we have ended up with a very complicated tax system, with a multitude of exemptions, allowances and deductions that have rendered the system unfair, inequitable and, in some cases, regressive.

That is why, Mr Speaker, Sir, we have opted for a comprehensive reform package to consolidate public finances while simplifying and rationalising the tax system, making it progressive instead of regressive, and making it more transparent and simple to comply with. We are drastically reducing the opportunities for tax evasion and avoidance that characterised the present system. As an example, Mr Speaker, Sir, only Rs53 m. of interest income was declared by individuals in 2004/2005 income year. Yet

interest income was taxable and at rates of up to 25 and 30 percent in the current system. Moreover these two rates were reached very fast with a chargeable income of Rs50,000 and Rs500,000 respectively. This is but one conspicuous example of how easy it is for many taxpayers, especially those in the highest income brackets to take advantage of the system through tax planning and ending up paying less tax as a proportion of their income than taxpayers in lower income brackets.

Mr Speaker, Sir, our new tax policy cleans up the system of these exemptions and deductions most of which, as I have said before, have outlived their purposes and, in some cases, had become counterproductive, perverting the tax regime and distorting resource allocation in the economy. The reforms we have brought about also fully compensate the taxpayers for the removal of these tax incentives by lowering the tax rate. In fact, in the new system, with the combination of higher tax thresholds and lower tax rates 40,000 taxpayers out of around 72,000 will be removed from the tax net. In other words, Mr Speaker, Sir, 56 percent of taxpayers will be out of the tax net next year. Moreover, of the remaining 32,000 some 26,000 will pay less tax than before. This means that 92 percent of taxpayers in all will pay less tax. Of the remaining 8 percent, that is, some 6000 taxpayers will all pay less than 22.5 percent effective tax rate on their income. And as the tax rate reaches the single and low tax rate of 15 percent in 3 years, all taxpayers in this country will pay an effective rate of tax of less than 15 percent.

In regard to income derived in the form of interest, the new policy is clear. Interest income will be considered as any other income and as such there will be no specific exemption threshold for interest. What this means is that if a person is receiving income solely in the form of interest, he or she will not pay any tax on an amount equal to the general income threshold. This further means that for senior citizens, interest income ranging from Rs215,000 to Rs 325,000 will not be taxed.

For those with income above the threshold interest income will be taxed at a flat rate of 15 percent as compared to rates that could reach 25 and 30 percent in the current tax system.

As regards other benefits, Mr Speaker Sir, with your permission I would like to reply also to PQ B/847, B/848, B/854, B/857 and B/859 as they relate more or less to the same subject matter.

As I have already announced publicly, the post-budget income tax treatment in respect of

- (i) annual passage benefits and accumulated passage benefits paid on retirement;
- (ii) annual sick leaves and accumulated sick leaves;
- (iii) transport allowances, including refund of bus fare, commuted travelling allowance, travel grant, petrol or travelling allowance, and
- (iv) rent and housing allowance received by public officers

all will remain unchanged.

Concerning the lump sum or gratuity payable to a retiring person, the current tax exemption is an anomaly. In fact, the lump sum on retirement is simply a commutation of pension or an upfront payment of the monthly pension. Since the monthly pension itself is currently taxable and will remain taxable, it follows that fiscally the lump sum should also be taxable.

However, we appreciate, Mr Speaker, Sir, that since the lump sum amount may represent more than two years salary, making the full amount taxable in the year it is paid may well make the recipient subject to tax or bring him or her in a higher tax band.

That is why, Mr Speaker, Sir, as already announced, we have decided to exempt the first Rs1 m. of lump sum received by a retiring person. Thus, the lump sum receivable by a civil servant whose emoluments before retirement is below Rs40,000 a month will not be part of his taxable income. For instance, the lump sum received by a wide range of officers such as clerical officers, executive officers, administrative assistants, teachers, police constables, nursing officers, economists, engineers up to the level of Principal Assistant Secretary will not be taxable

The exemption of the first Rs1 m. from taxable income will apply, Mr Speaker, Sir, both for the public and the private sectors.

Regarding the amount payable on maturity of a life insurance policy, it is currently not taxable and will remain untaxed in the new system.

In regard to any income earner who does not have a dependent spouse or child, and having a yearly income not exceeding Rs215,000, he or she will not pay any income tax. This corresponds, Mr Speaker, Sir, to a 12-monthly income of Rs17,917 or, if the one month end-of-year bonus is also taken into account, to a monthly income of Rs16,538.

In regard to part (b) of the question, i.e. measures for improving tax collection, enforcement and compliance, I wish to mention the following -

- First, extension of the deduction at source method of tax collection. Deduction at source that currently applies to salaries only under Pay-As-You-Earn, commonly known as PAYE, will be extended to other types of income such as interests, royalties, fees for technical services, rental income and payments to contractors and sub-contractors. Concerning interest income, Mr Speaker, Sir, deduction at source will apply only in respect of amounts exceeding Rs120,000 in a year, on average Rs20,000 per month. The modalities and *modus operandi* of deduction at source on interest income are being finalised with banking and other financial institutions.
- Second, use of economic and wealth indicators for compulsory filing of returns. Thus, any individual who owns more than one residence or is owner of an immovable property with price at time of purchase exceeding Rs2 m., will be required to file an income tax return, irrespective of whether his or her income is chargeable or not. The same will apply to individuals owning a car with an engine capacity exceeding 2,000 cc and to owners of a private pleasure craft.
- Third, compulsory declaration of all income in tax returns. All persons will be required to declare in their income tax returns the total income derived in the year, including exempt income such as dividends.
- Fourth, strengthening of the Current Payments Systems (CPS). Returns that have to be submitted by self-employed will henceforth be on a quarterly basis instead of a half yearly basis.

- Fifth, more intensive and effective use of information and data bases. The MRA has developed an interim integrated IT system covering all taxes, in particular VAT and income tax, which will enable it to compare the information of various taxpayers and use it for tax administration and audit. It is also investing more than Rs100 m. in the development of a comprehensive end to end IT solution which will cover Customs and Excise, VAT, Personal Income Tax, Corporate Tax.
- Sixth, more productive use of human resources. With the simplification of the income tax system and reduction in the number of income taxpayers as well as the coming into operation of the MRA on 01 July 2006, a significant number of staff from both VAT and Income Tax can be redeployed to enforcement functions.
- Seventh, better identification of person in business. With the coming into effect of the Business Registration Act, scheduled for October this year, every person in business, including traders and other self-employed, will be required to obtain a unique Business Registration Number. Together with the re-engineering of the MRA Register of Taxpayers, this will significantly improve identification of non-filers.
- Eighth, penalty provisions for non-compliance with tax laws are being revised in order to ensure better enforcement and compliance.
- Ninth, synergies and efficiency gains from the new organisational structure of the MRA, for instance, separate departments are being set up under functional lines for registration, audit and enforcement.
- Tenth, to promote voluntary compliance, a dedicated department for taxpayer education and services is being set up to assist and facilitate taxpayers.

Mr Speaker, Sir, details and modalities of all these measures will be spelt out clearly in the forthcoming Finance Bill. With the new tax policy, Mauritius will be among the nations with the lowest tax rate and most fairly spread tax burden in the world. We need to attain this to send a strong signal to investors in the international community and locally about our commitment to global competitiveness so that they can come and invest in our country to create wealth, to add value and to generate gainful employment.

Mr Speaker, Sir, our tax policy is consistent with our broader objective of stimulating the economy, of rewarding efforts in enterprise, and of ensuring greater social justice.

Mr Bodha: *M. le président, nous pensons que taxer les intérêts est une mesure irréfléchie qui fera beaucoup de tort au pays.*

Mr Speaker, Sir, the Deputy Prime Minister and Minister of Finance has promised a simple, transparent and easy-to-comply system. In fact, we find that it is going to be more complex than that. My question is whether every individual will have to file in a return whether he has to pay tax or no?

Mr Sithanen: Mr Speaker, Sir, let me answer to the first comment that the hon. Leader of the Opposition made, that it is unfair to tax interests. Interest is already taxable in the current system after a particular threshold. We all know how much abuse there is in the current system. Let me, for the benefit of the hon. Leader of the Opposition, cite what the then Minister of Finance, when he delivered his speech in 2004/2005 said -

"Mr Speaker, Sir, all interest income above that ceiling will be taxable, regardless of the maturity of the deposits and instruments. I must add that no assessments would be raised in respect of taxable interest income that had not been declared in previous income tax returns."

Mr Speaker, Sir, let me reassure the nation that I am going to implement exactly what the then hon. Deputy Prime Minister said, that we are not going to raise anything in respect of taxable interest income that have not been declared in previous income return.

I am sure that hon. Members on the other side who have been Ministers know what I mean. But, as from now, we have a new tax regime and all interests will be taxed. But what we have suggested in the Budget, Mr Speaker, Sir, is that the interest that would be taxed at source will only concern those who earn interest above Rs120, 000 per year.

Mr Bodha: Mr Speaker, Sir, the Deputy Prime Minister and Minister of Finance has not answered my question, which was, whether every individual will have to file in a return.

Mr Sithanen: This is not the case, Mr Speaker, Sir. We have said it very clearly. There are two issues here. Those who are on the Pay As You Earn (PAYE) system, we all know, Mr Speaker, Sir, that it is quite difficult if you are on the PAYE system to play around with the system. So, these people, depending basically on what is the threshold, because we have four types of thresholds –

- (i) if you have no dependent
- (ii) with one dependent
- (iii) with two dependents
- (iv) and with three dependents.

Most of them, Mr Speaker, Sir, are probably honest citizens who pay their fair share of taxation. The problem that we face, Mr Speaker, Sir, is often in the CPS. And, it is precisely to ensure that the taxation is fair. We want the taxation to be fair, Mr Speaker, Sir, is that the fairer the taxation is, the more people who are supposed to pay, and pay the share of taxation, the less Government will have to tax other people.

It is to ensure that we minimize, if not eliminate tax evasion and tax avoidance, that we have laid down the procedures that I have just stated, *ce qu'on appelle le signe extérieur des richesses*, if you own a car that exceeds 2,000 c.c., if you own more than one property, or if you own a pleasure craft, you will have to declare this in your income tax, so as to make sure that there is better compliance and enforcement.

Mr Bodha: Mr Speaker, Sir, my question is very simple: whether every individual will have to file in a return?

(Interruptions)

Why I am asking this question is because all income is income, and all interests are chargeable at 15%, whether Rs120,000 or not. I'll give the Deputy Prime Minister and Minister of Finance an example. For example, if you have someone who is retired and has four or five Savings Accounts in a certain number of banks, getting interests from those accounts in different banks, will that person have to file in a return?

Mr Sithanen: Very simple, Mr Speaker, Sir.

(Interruptions)

The Prime Minister said 'oh', because we have discussed all these in details. We were aware that we will have a system that will prevent fragmentation of accounts, Mr Speaker, Sir. This is done in all countries in the world where there is deduction at source; it is done in the UK and it is done in other countries also. The system that will apply, Mr Speaker, Sir, is identical to the Pay As You Earn (PAYE) system that applies today. Because the PAYE system is a deduction at source. So, we are just broadening the scope of what income is going to be taxed on the basis of PAYE.

Mr Bodha: Let me take another example, Mr Speaker, Sir. We can have somebody who may have a salary, rent and interests. If he is still under Rs215,000, will he have to file a return?

Mr Sithanen: It depends. We have said, Mr Speaker, Sir, again, that we want to fight tax evasion and we want to diminish considerably tax avoidance. There are techniques that are applied all over the world on how this will be done and let me reassure the overwhelming majority of people who are on the PAYE system that they won't be harassed. We are saying that there are categories of people – I don't want to name them, because I am not one of the people who name and shame. But, we know, Mr Speaker, Sir,

how many people avoid paying tax, how many people evade taxation and, because of this evasion, the poor people have to pay VAT, the poor people have to carry a heavy burden. What we are trying to do is, better administration and, especially, with the coming into effect of the MRA, there would be better exchange of information between the different tax raising Departments of Government. We'll try to make sure that people who should pay their fair share of taxation do so. We all know in this country who they are, Mr Speaker, Sir.

We have tried to design a system that will ensure that the tax authority has a better indication of what is happening.

Mr Bodha: Which means that everyone will have to file a return.

Mr Sithanen: No!

(Interruptions)

Let me reassure the hon. Leader of the Opposition, and the House, the overwhelming majority of people, who are on PAYE system, their salary is known with certainty. Very often, for those income where is no certainty, I have given the explanation how people use some tricks to avoid it. What I am saying is that those people, who have got a car, whose c.c. exceed 2000, if they have got more than one property and a pleasure craft - not everybody has this, Mr Speaker, Sir.

Let me very honest about it, there are only going to be some 30,000 to 32,000 taxpayers. What we are saying is that those who should pay, those who have avoided and evaded tax need to pay their fair share of taxation so as to relieve the fiscal burden of other people in this country, Mr Speaker, Sir.

Mr Bodha: Mr Speaker, Sir, we have 535,000 people working in this country; 80,000 in the public sector and 80,000 in the free zone. We still have a big chunk of the Mauritian population, who, in fact, does not have this Pay As You Earn system. So, that was my question.

Over and above that category of people, we have a lot of retiring persons who have an income, which is chargeable. That's why my question is: whether everyone will have to file in a return today?

Mr Sithanen: I have said that everyone, whose income exceeds the threshold that we have stated, and everyone who has got a car that exceeds 2,000 c.c., or has got a pleasure craft, and a second property.

Mrs Dookun-Luchoomun: Mr Speaker, Sir, may I ask the Deputy Prime Minister and Minister of Finance whether someone who is paying tax in the form of PAYE, having money in the bank and earning interest on that money, will not have to file, on his income tax form, the money that he is earning as interests on his bank's accounts?

Mr Sithanen: Today, again, this is where the hon. Lady is making confusion. What we are saying is that there is a threshold. It will depend, basically, on the characteristics of that taxpayer, whether he is alone, if the interest and the income he earns is below Rs215,000, he won't have to pay tax. If he has one dependent, then the figure increases. If he has two dependents, the figure increases; if he has three dependents, the figure goes up. I have said that very clearly, Mr Speaker, Sir. And, in case of doubts, all these would be spelt out, clearly and unambiguously, in the Finance Bill. We are going to circulate the Finance Bill well in advance, so as to give the chance to everybody, not only in this House, but also experts outside to make their comments.

Mrs Dookun-Luchoomun: Mr Speaker, Sir, I am well aware that there are three thresholds: Rs215,000, Rs325,000 and Rs385,000. We agree that these are the thresholds that we have. But a person, over and above his salaries, may have money in the bank and may be earning interests. Let's say someone earning Rs214,000, who is not paying tax right now, and has interests earnings of, let's say, Rs20,000 per year. Will that person have to fill in his return, 'yes' or 'no', Mr Speaker Sir?

Mr Sithanen: There won't be deduction at source, but when he files his return at the end....

(Interruptions)

So, what do they want? Well, they have to decide. Are they defending the poor, or are they defending the rich?

(Interruptions)

Mr Speaker: Order! Order!

Mr Sithanen: One day they defend the poor, one day they defend the rich. They have to decide.

Mr Speaker, Sir, let me repeat to hon. Members of the House, we have decided on a new policy mix; their policy mix was to increase VAT by 50%.

Their policy mix was to raise the deficit...

(Interruptions)

Their policy mix was to do it. And, what they fail to understand is that it is a new paradigm, a new policy mix and we are going to assume the responsibility for this policy mix.

What we are saying is that, at the end of the year, on 30 September, if you add your income and you add your interests, and if this exceeds the threshold, obviously, people will have to pay tax, Mr Speaker, Sir.

(Interruptions)

Mr Bodha: Mr Speaker, Sir, the Deputy Prime Minister and Minister of Finance promised a simple, transparent and easy-to-comply system. We see, in fact, that it is more complex than what we had.

May I come to another point, Mr Speaker, Sir. Will the Deputy Prime Minister and Minister of Finance agree that the rate of savings in the country is low? Doesn't he believe that with the computation of interest on savings, this will have a very negative impact on the saving culture of Mauritius?

Mr Sithanen: Mr Speaker, Sir, I would ask the hon. Leader of the Opposition to read the speech of 2004 from his Leader.

(Interruptions)

Let me reply! This is what the then hon. Minister of Finance said, I quote –

“ (...) I must add that all interest income will be taxable, regardless of the maturity of deposits and instruments. (...)”

Now, let me come to the point that has been made. We have inherited a very bad economic legacy from the outgoing Government, Mr Speaker, Sir.

Saving is low, investment is low, the deficit is high, unemployment is high; and what we have tried to do in this budget is to address most of these issues. It is to create a platform where investment will increase. The investment will come either locally or from FDI, Mr Speaker, Sir. And that's why one of the most important aspects of this Budget is what needs to be done to attract investment, not only locally but also from outside. Some points have been raised in some quarters, Mr Speaker, Sir, that because we have changed the regime, this might have an impact on saving, but it is going to be a new regime altogether, it is going to be a new ball game altogether. And let's wait and see what is going to happen! Other measures will be taken with a view to stimulating investment and increasing savings.

Mr Dowarkasing: Mr Speaker, Sir, may I know from the hon. Deputy Prime Minister what mechanism he is going to put in place to verify the interests earned by people who have accounts in banks?

Mr Sithanen: There are two solutions to that problem, Mr Speaker, Sir, and we are studying the two possibilities. We'll probably go for the solution that will place less burden on those who have to file returns; and everybody who knows how this is done abroad, know what I am talking about; and we will include these provisions in the Finance Bill. But all of us know that there are two broad solutions that can be used in order to ensure that one, there is no fragmentation of accounts and two, what is supposed to be paid by way of income tax is paid to the tax authority.

Mr Dowarkasing: Doesn't the hon. Deputy Prime Minister think that by doing so, that will be contrary in terms of secrecy of people?

Mr Sithanen: That's why I am telling the hon. Member, in the UK it is done, in many other countries it is done without breaching one of the canons of banking which is confidentiality, confidentiality, confidentiality. One solution would be exactly what happens with Pay As You Earn today. You have a slip and you present that slip to the tax authority.

Mr Speaker: I will have to inform the House that being given that five Parliamentary Questions have been answered together with the Private Notice Question, I am going to allow ten minutes more for supplementary questions.

Mrs Hanoomanjee: Doesn't the Deputy Prime Minister think that this new taxation policy then will result in a massive transfer of capital abroad?

Mr Sithanen: Mr Speaker, Sir, everybody wants to make an omelette, but nobody wants to break the egg! We have reached a crossroad where we have to take certain bold measures. And what everybody is saying - Minister or Prime Minister, keep what is good in the system, but change what we don't like in the system. And then you remove the essence and the fundamentals of the reform. Let me remind my hon. friends of one thing, Mr Speaker, Sir, which seems to have been overlooked by everybody.

Mr Speaker, Sir, we have inherited a very bad economic legacy. We all know that. Everybody in this country knows that, Mr Speaker, Sir.

(Interruptions)

Hon. Bodha, the IMF, the World Bank, the OECD, all these best economists cannot be wrong and you are the only one who is right. Mr Pierre Dinan all these people cannot be wrong.

(Interruptions)

Let me say one thing, Mr Speaker, Sir, which seems to have been overlooked by many people, including people outside the House. We have inherited an awful economic legacy. We have to confront three external shocks, Mr Speaker, Sir. Everybody in this country before the presentation of the Budget was scared that we were going to impose tax on them, what's going to be in this Budget. Let me give an example since we are in the World Cup period, Mr Speaker, Sir. It is as if a team that has not performed well in the past and is facing new challenges. And they all think that we are going to lose by 3 zeros, because the outgoing team has not performed well. And now you have a new coach, we played, we won by one nil, instead of congratulating us, you say: why did you not score 5 zeros?

(Interruptions)

Mr Speaker: Order!

Mr Sithanen: Mr Speaker, Sir, everybody in this country was expecting the Budget to be an extremely difficult one. Yet, we have made

reform. Everybody from the OECD to the African Development Bank, all these people are saying we are in deep problem, including the former Prime Minister who said: *"La crise est sans précédent, on est dans un état d'urgence économique."*

So, what I was saying, Mr Speaker, Sir, everybody expected the Budget to be a difficult one and yet, Mr Speaker, Sir, except for some few measures the Budget has been well acclaimed by most people.

Mr Bodha: Mr Speaker, Sir, in fact, the Deputy Prime Minister made the nation to believe that the Budget is going to be a difficult one. May I ask him whether he is aware that, at this point in time, with a depreciation of the rupee of 13% over the last 11 months, a lot of people are already thinking of transferring their foreign currency and having savings abroad instead of Mauritius.

Mr Sithanen: Mr Speaker, Sir, one thing that has come back after this Budget is what we call confidence, confidence, confidence. Mr Speaker, Sir, our friends on the other side may engage in counter productive populism. That's their job! Good luck to them! But if you look at all the experts, Mr Speaker, Sir, 94% of the experts - and these experts, Mr Speaker, Sir, do not belong to the constituency Labour Party, they are not Members of the Labour Party - who follow the international economy, who follow the local economy.

(Interruptions)

Mr Speaker: Order! Order!

Mr Sithanen: All of them, Mr Speaker, Sir, 94% of these people have said it is a good Budget.

The second thing, when asked the question: do you have confidence in the short-term, in the medium-term, in the long-term? Most of them have answered unequivocally, Mr Speaker, Sir, that confidence is going to be back. That's what comes out. When confidence is down the boss of the hon. Leader of the Opposition gives a press conference to say confidence is down. Now, confidence is up. The SEMDEX has increased immediately after the Budget. The acclaim that we have had internationally, Mr Speaker,

Sir, has been a good one. So, that's what I am saying that confidence is back and when confidence is back, investment will increase and when investment increases, growth would be reignited and when growth is reignited employment will be created and unemployment will come down.

Mr Guinness: Mr Speaker, Sir, I don't know whether the Deputy Prime Minister is answering PQs B/854 and B/855 also in his answer, but I take it from B/854 regarding the lump sum. The Deputy Prime Minister announced that it will be tax free below Rs1 m.. Can I know from the Deputy Prime Minister whether the full amount of those who get above Rs1 m. will be taxed?

Mr Sithanen: It is so obvious, Mr Speaker, Sir, that up to Rs1 m. is not going to be taxed, above that, obviously, is going to be taxed.

Mr Guinness: Mr Speaker, Sir, I know below Rs1 m. is not taxable. For somebody who gets Rs1.1 m., is he taxed on Rs100,000 or is he taxed on Rs1.1 m.?

Mr Sithanen: Mr Speaker, Sir, it is so obvious and if I reply, they will say...

Mr Speaker: The Deputy Prime Minister has already replied.

(Interruptions)

Order! Order! Order! Order, please!

Mr Bundhoo: Mr Speaker, Sir, the Deputy Prime Minister, in his reply, earlier mentioned about policy mix. Can I ask him how his policy mix differ from the previous Government?

(Interruptions)

Mr Speaker: Order, please! I am informing hon. Members that they have another five minutes to go. If they continue like this, then they know what is going to happen.

(Interruptions)

Order!

Mr Sithanen: Mr Speaker, Sir, we have said very clearly that our economic policy mix is significantly and radically different from what was embraced by the outgoing Government. They pursued a policy of high expenditure, financed by high VAT, high budget deficit and by exceptionally high debt. Mr Speaker, Sir, we have said very clearly that we want to put an end to that vicious circle of high expenditure, with high debt and high deficit. Otherwise, a significant share of our budget will have to be dedicated to the repayment of loan. That's why we have brought an end to that, with the result that the deficit has come down from 5.5% to 4%. The new policy, Mr Speaker, Sir, is a simple one. We want to contain public expenditure, and this is what we have done. At the same time, we want to make sure that every penny or every cent of public expenditure is well spent. We have had to raise taxation somewhere, but we have protected those who are at the lowest rung of the ladder, we have not increased VAT and, at the same time, we have tried to get some revenue from people who have the ability to pay.

Mr Bodha: Mr Speaker, Sir, we read what the experts say, we listen to the people. One of the questions I am going to ask the Deputy Prime Minister is whether the fact that interests on housing loans are not deductible from income tax, and the fact that this has been *une façon de vivre, une culture mauricienne*, this is not a disincentive for people to invest in property and houses?

Mr Sithanen: Mr Speaker, Sir, let me explain very simply. I don't want to be technical. The hon. Leader of the Opposition is looking at only one aspect of our tax. There are five issues. The first one, Mr Speaker, Sir, is the threshold. We have raised the threshold considerably. Second, we have collapsed – admittedly, as the hon. Leader of the Opposition said – basically the allowances and deductions. Third, we have reduced the number of bands, from four to two, and, eventually, to one. The next thing – and this is where the hon. Leader of the Opposition is making a mistake – is that in l'Express of Sunday last, there was a survey of six categories of people; from those who are in the upper middle income group to those who are *célibataires*. In all cases, Mr Speaker, Sir, they were better off, and they are winners. This is so, because today 20% tax is applicable on Rs25,000 and 15% will be applicable on Rs500,000. That's make a big difference, Mr Speaker, Sir! I asked all my friends, in the House and outside, to continue the exercise and not stop only at what is happening to interests. The last

thing that we have done, that is, the fifth one, is to reduce the tax rate from 30% to 15%, 25% to 15%, 20% to 15%. If they look at the four positive things that we have done, that is, raise the threshold, reduce the number of bands, make sure that the next does not come very fast, and reduce the tax rate itself, they will see that it more than offsets what has taken place in the simplification and rationalisation of the allowances, Mr Speaker, Sir.

Mrs Martin: Mr Speaker, Sir, I would like to ask the hon. Deputy Prime Minister whether he could state the relations between savings and investment? Does he not agree that, by taxing interests, he is actually discouraging savings contrary to his policy of encouraging investment?

Mr Sithanen: Mr Speaker, Sir, I don't want to give a lecture on savings and investment. I have already replied to that question. What I have said is that it is basically a new regime. Confidence is back, and when confidence is back, investment should increase and, hopefully, this is going to be funded both by savings locally and savings internationally.

Mr Bodha: May I raise the issue of the small planter, Mr Speaker, Sir? Formerly, the small planter could deduct income up to 60 tonnes of sugar from his income tax return. What happens to him now?

Mr Sithanen: Mr Speaker, Sir, I have done this exercise in close collaboration with my colleague, the Minister of Agro Industry. In the overwhelming majority of cases – here, we are talking about those 80% who own less than 2.5 or 3 acres - if we take the income they are receiving, we must deduct the cost of production. In many cases, the cost of production is about 75%-80% of the earnings. If we add the money that they get from bagasse and transport – because they get some refund – in the overwhelming majority of cases, not only they will not pay any tax, but even if they have a secondary occupation – and we all know that, in the majority of cases, they have a secondary occupation – they will not be above the threshold. In many cases it will depend on whether they have one dependent, two dependents or three dependents. But, I can reassure the community of small planters that the overwhelming majority of them will not pay a single cent of taxation.

Mr Bodha: Mr Speaker, Sir, we maintain that taxing the interests is going to be detrimental to the economy. My question is: will he do it? He

has back-pedalled on a certain number of issues. I am asking the Deputy Prime Minister whether he is going to back-pedal on that issue.

Mr Sithanen: I will ask the hon. Leader of the Opposition to ask his boss to review what he said on page 66, paragraph 303, namely –

“All interest income above that ceiling will be taxable, regardless of the maturity of the deposits and instruments”

Mr Speaker: Time is over. Questions addressed to Dr. the hon. Prime Minister. The Table has been advised that PQ Nos. B/825 & B/826 have been withdrawn.