# Executive summary

**Despite relatively robust growth in recent years, Seychelles faces a number of economic, social and environmental challenges** including climate change, economic diversification, population ageing, inequality and enhancing the quality of public services. Many of these challenges will put additional pressure on public finances. In addition, Seychelles is planning major public investments to enhance infrastructure and strengthen resilience to climate change. As a result, the government of Seychelles will likely have to raise additional revenues in the medium to long run. Strengthening the tax system will be particularly important as the scope to use other sources of financing, including public debt and development aid, is relatively limited. Indeed, public debt levels, while drastically lower than a decade ago, remain relatively high, and grants from development banks and donor countries are expected to decline as a result of Seychelles' newly acquired "high-income" status.[1]

**Overall, Seychelles' total tax take is high compared to other African countries and comparable small island states.** At 31.5% of GDP, Seychelles' tax-to-GDP ratio is the highest across all the African countries covered by the *OECD Global Revenue Statistics Database*. Seychelles also collects high tax revenues as a share of its GDP in comparison to other small and highly tourism-dependent island economies. This means that potential changes to the tax system need to be carefully assessed, to ensure that these do not hurt growth or fairness.

**Seychelles' tax revenues predominantly come from indirect taxes and the business tax.** VAT is the largest source of tax revenues, accounting for a third of total tax revenues in 2017. Other indirect taxes play a major role too, accounting for 30% of the tax revenues raised by Seychelles. The third largest source of tax revenues is the business tax, making up 21% of Seychelles' total tax take. Personal income tax accounts for about 14% of total revenues, but revenues from social security contributions are low. Property and environmentally related taxes, on the other hand, represent only a very small share of total taxes raised. This suggests that these taxes could play a more significant role in Seychelles' tax system.

**The business tax burden is highly concentrated on a small number of taxpayers**. Indeed, 30 companies accounted for almost 80% of the business tax take in 2017, while companies in the bottom 70% accounted for only 1.3% of business tax revenues. The 30 companies that contribute the most to business tax revenues are predominantly in the financial sector, wholesale trade and support activities for transportation. On the other hand, some businesses contribute only marginally to the collection of business tax revenues in comparison to the role they play in the economy. For instance, the tourism sector accounted for only 8% of business tax revenues in 2017, while it accounted for 33% of total value added in the country and for 47% of total VAT collected.

**This imbalance in the business tax burden results in large part from a combination of differentiated tax rates across sectors and generous tax base provisions targeted at specific sectors**. Businesses are subject to different statutory tax rates depending on their sector of operation and size. Businesses under the regular regime as well as in "high-end" sectors (telecommunications service providers, banks, insurance companies, and alcohol and tobacco manufacturers) are taxed at progressive rates that are high in comparison to other countries. On the other hand, preferential tax rates are granted to businesses in tourism, fisheries and agriculture, as well as to private medical and educational service providers and companies listed on the Seychelles Securities Exchange. Companies in International Trade Zones (ITZs) are fully exempt from business tax. Seychelles also provides generous tax deductions, including accelerated and enhanced tax depreciation allowances to businesses operating in tourism, fisheries and agriculture. Companies have used these generous deductions to significantly reduce their taxable income, often to negative values. The amount of deductions claimed under enhanced and accelerated depreciation allowances is particularly striking: the report finds that the tax depreciation allowances used by corporations in the tourism sector amounted to an average of 132% of turnover in 2017.

**The imbalance in the business tax burden also results from tax evasion, particularly among smaller businesses, and tax avoidance by companies that are part of multinational groups**. Informality remains an issue in Seychelles, with evidence that some businesses are not adequately reporting their activities and income. More importantly from a revenue-raising perspective, larger companies that are part of multinational groups can easily reduce their effective tax burdens through international tax planning as Seychelles' current international tax rules do not effectively protect its corporate tax base.

**Seychelles should aim at rebalancing its business tax burden by combining base broadening measures with a revision of tax rates**. There are a number of ways in which the business tax base could be broadened. First, efforts could be made to revise and better target tax incentives, including the business tax exemption under the ITZ regime and the generous tax depreciation allowances granted to businesses in specific sectors. Second, measures should be put in place to prevent the erosion of the corporate tax base through international profit shifting. These measures would contribute to raising additional business tax revenues and to enhancing the fairness of the business tax. The tax base could also be broadened by strengthening the tax administration's verification and enforcement capacity, which would create greater incentives for businesses to operate in the formal economy. A broader business tax base could then contribute to financing an alignment and an overall decrease in business tax rates.

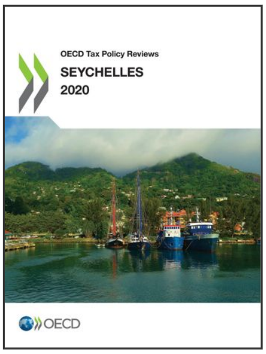
**Using business taxpayer microdata, the report simulates the impact of different business tax reform scenarios aimed at reducing differences in tax rates across sectors**. Such reforms would involve lowering statutory tax rates, and in doing so, lower the tax burden on many operators that currently face high tax rates, and increasing overall levels of taxation on businesses in sectors that currently contribute little to the collection of revenues. Each business tax reform scenario is assessed in light of its impact on tax revenues and businesses' effective tax rates. The exercise concludes that a unified progressive tax rate schedule applying to all sectors (including those that are currently taxed at preferential rates, but excluding the "high-end" sectors, which would remain taxed under the existing regime) could ensure a fairer distribution of the business tax burden across businesses. The analysis suggests that a unified business tax rate schedule across sectors that would tax profits below SCR 1 million at 15% and profits above that level at 25% could contribute to levelling the playing field across sectors and to lowering tax rates for smaller businesses, without losing much revenue.

**The report also examines and provides recommendations on the other taxes that bear on businesses**. Regarding the simplified presumptive tax regime, which levies a 1.5% tax on the turnover of small businesses and currently covers 68% of companies, the report recommends maintaining the eligibility threshold at SCR 1 million, but suggests that higher presumptive tax rates for services or professionals may be worth considering. Enhancing the monitoring of the presumptive tax is also advised. Regarding the corporate social responsibility tax (CSRT) and the tourism marketing tax (TMT), the report recommends making them creditable against the business tax in the short run and, in the medium run, if the business tax base is broadened, eliminating them as these taxes on turnover have distortive effects. Administrative improvements are also recommended, with a focus on encouraging electronic tax filing and reinforcing the tax administration's verification and enforcement capacity, in particular through a greater use of third-party information and an automated risk-based audit system.

**The report finally emphasises the need to look at the overall tax system and to improve the design of non-business taxes.** While Seychelles has a relatively well-designed VAT system, improvements could include removing VAT exemptions for fuels (with possible compensation targeted at low-income households), lowering the VAT registration threshold if the capacity of the tax administration is strengthened, broadening the VAT base by ensuring the taxation of foreign business-to-consumer (B2C) supplies of services and intangibles, and involving digital platforms in the collection of VAT. To address environmental challenges and raise revenues, the report also recommends the introduction of a broad-based low-rate carbon tax. The report also briefly assesses the personal income tax system and provides a number of reform recommendations, most notably aimed at broadening the tax base and, in the medium to long run, at modernising the system through the introduction of an end-of-year tax declaration. The report also suggests that personal capital income, in particular dividends at the shareholder level, could start being taxed in the medium run, particularly if the business tax rates are lowered as recommended in this report.

## Notes

[1] Seychelles graduated to high-income status according to World Bank standards in 2015.




**From:**

## OECD Tax Policy Reviews: Seychelles 2020

**Access the complete publication at:**

https://doi.org/10.1787/cba38d19-en

**Please cite this chapter as:**

OECD (2020), “Executive summary”, in *OECD Tax Policy Reviews: Seychelles 2020*, OECD Publishing, Paris.

DOI: https://doi.org/10.1787/6ee94dfd-en