

## Impact of Income tax reforms from 2016 to 2018

Considerable attention has been given by government over the years to address the concerns of the cost of living as well as providing attractive pay for workers. The State of the Nation Address in 2016, announced several Income tax reforms to be taken, in the lead up to the introduction of a fully-fledged progressive income tax (PIT) system. These reforms targeted lower income earners only and was split into two phases.

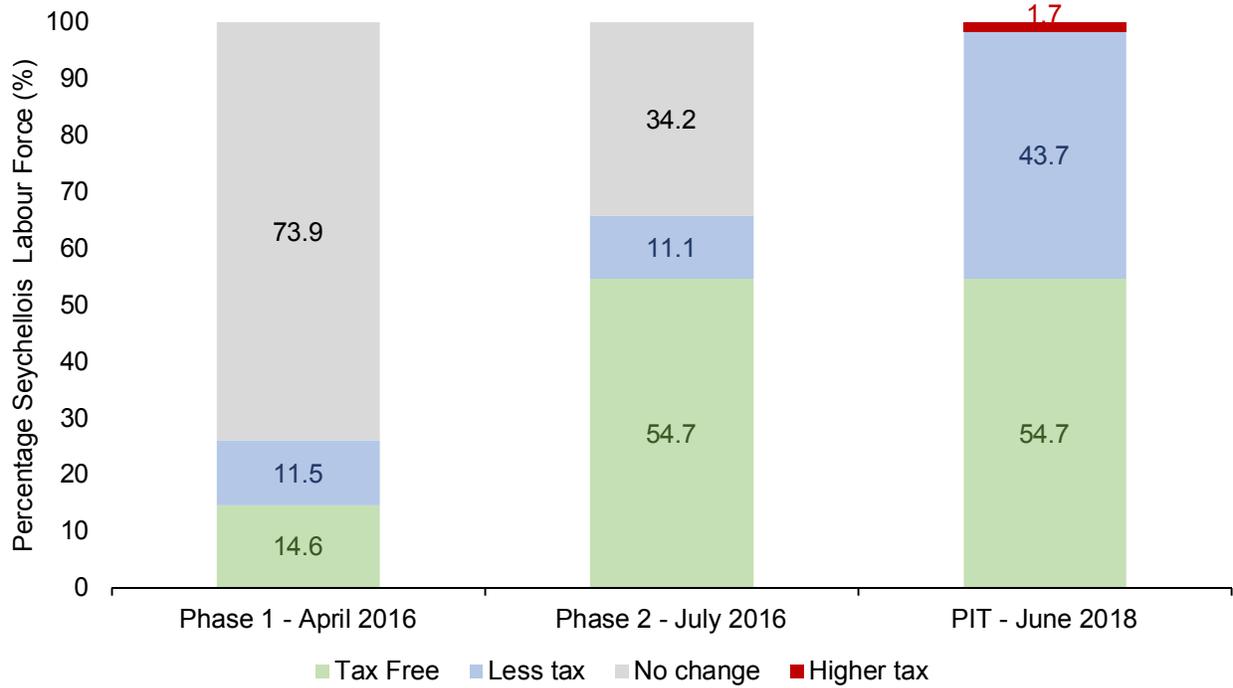
- Under **phase 1**, effective from April 2016, incomes up to the then minimum wage of SR 5,050 per month were exempted from tax (0 per cent tax rate). This accounted for about 14.6 per cent of Seychellois (chart below). In addition to this, a mitigation policy was also in effect which offsets the unfair nature of this exemption on earners slightly above this level who will be relatively worse off (given the steep increase in tax rate from 0 to 15 per cent above minimum wage level). This policy ensured that all those earning up to SR 5,941 did not take home less than SR 5,050 per month. This accounted for about 11.5 per cent of Seychellois, whilst the remainder of the work force faced no change to their tax burden.
- Under **phase 2**, the low income band exempt from tax widened from SR 5,050 to SR 8,555.50. This meant that now about 54.7 per cent of Seychellois paid no Income tax. Additionally, a mitigation policy was similarly set in place whereby earners up to now SR 10,065 per month did not take home less than SR 8,555.50 (affecting about 11.1 per cent of the Seychellois labour force). The remainder faced no change to their tax burden – about 34.2 per cent.
- The Phase 2 policy of July 2016 was extended up to June 2018 when the **new PIT system** was introduced. This involved progressive tax rates applied to different income brackets. Exemptions were also reviewed in order to provide more vertical equity and lessen the burden on lower income earners. The first bracket of up to SR 8,555.50 per month remained tax free, with rates increasing from 15 to 20 to 30 per cent.

Under the PIT system, Seychellois earning up to about SR 35,667 per month have a lower tax burden (lower effective tax rate than before when the rate was flat 15 per cent). Now, an *additional* 16,159 of Seychellois (or 43.7 per cent ) face a lower tax burden and therefore an increase in their take home pay from the phase 2 policy. In total, about 98.4 per cent of Seychellois have a lower tax burden under the PIT. The PIT system also means that much higher income earners face higher tax burdens (those above SR 35,667 per month). About 1.7 per cent of Seychellois now pay more tax.

The rationale of a progressive income tax in principle is 'to tax the rich more'. That is, the more you earn, the more tax you pay. Government adopted this approach and as a result ensure that any employee earning a salary below SR 8,555.50 pays no tax. The amount they used to pay previously as tax, is now remaining in the pocket of the worker. Secondly those earning below, SR 35,667 are also paying less tax. However, anyone earning above SR 35,667 now pays more tax than previously in view that above this threshold, the tax rate is more than those below this bracket.

The rationale of the progressive incomes tax which was used to address tax burden of the low pay workers, differs in principle from the current intention of the government to provide a proportionate pay rise to its public sector employees. It aims to review the wage grid as required by the Public Service Salary Act every five years. Any intent to assess further measures to address the low income earners has to be carried out through other measures which Government have already mandated the Finance department to carry out. Such recommendations are then assessed and introduced based on available fiscal space and in line with priority objectives of government.

Chart showing the Impact of Income tax reforms on Seychellois from 2016-18



Source. Macroeconomic Forecasting & Analysis Branch