Mozambique

Tax Guide

2016/17

FOREWORD

A country's tax regime is always a key factor for any business considering moving into new markets. What is the corporate tax rate? Are there any incentives for overseas businesses? Are there double tax treaties in place? How will foreign source income be taxed?

Since 1994, the PKF network of independent member firms, administered by PKF International Limited, has produced the PKF Worldwide Tax Guide (WWTG) to provide international businesses with the answers to these key tax questions.

As you will appreciate, the production of the WWTG is a huge team effort and we would like to thank all tax experts within PKF member firms who gave up their time to contribute the vital information on their country's taxes that forms the heart of this publication.

The PKF Worldwide Tax Guide 2016/17 (WWTG) is an annual publication that provides an overview of the taxation and business regulation regimes of the world's most significant trading countries. In compiling this publication, member firms of the PKF network have based their summaries on information current on 30 April 2016, while also noting imminent changes where necessary.

On a country-by-country basis, each summary such as this one, addresses the major taxes applicable to business; how taxable income is determined; sundry other related taxation and business issues; and the country's personal tax regime. The final section of each country summary sets out the Double Tax Treaty and Non-Treaty rates of tax withholding relating to the payment of dividends, interest, royalties and other related payments.

While the WWTG should not to be regarded as offering a complete explanation of the taxation issues in each country, we hope readers will use the publication as their first point of reference and then use the services of their local PKF member firm to provide specific information and advice.

Services provided by member firms include:

- Assurance & Advisory;
- Financial Planning / Wealth Management;
- Corporate Finance;
- Management Consultancy;
- IT Consultancy;
- Insolvency - Corporate and Personal;
- Taxation;
- Forensic Accounting; and,
- Hotel Consultancy.

In addition to the printed version of the WWTG, individual country taxation guides such as this are available in PDF format which can be downloaded from the PKF website at www.pkf.com

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PKF INTERNATIONAL LIMITED
JUNE 2016

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MEMBER FIRM

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BASIC FACTS

Full name:	Mozambique
Capital:	Maputo
Main languages:	Portuguese
Population:	24.3 million (2013 PRB)
Major religion:	Christianity
Monetary unit:	Mozambican Metical (MZN)
Internet domain:	.mz
Int. dialling code:	+258

KEY TAX POINTS

- Resident corporations are subject to corporate income tax (IRPC) on their worldwide income. Non-resident companies with a permanent establishment in Mozambique are liable for IRPC on the income attributable to that permanent establishment.
- The standard rate of Values Added Tax is 17%. VAT is chargeable on the sale of almost all goods and services as well as on imports.
- Payments between resident companies are liable to withholding tax if they originate from certain specified income types.
- Transfer pricing legislation enables the tax authorities to make corrections to taxable income when the conditions (and prices) agreed between related parties are different from those that would have been agreed and accepted by independent entities. Taxpayers must keep the necessary documentation to support the transfer pricing policy within the group.
- Resident individuals are subject to income tax on their worldwide income while non-residents are liable to income tax only on income sourced in Mozambique.

A. TAXES PAYABLE

COMPANY TAX

Resident corporations are subject to corporate income tax (IRPC) on their worldwide income. Resident companies are those which have their head office, or place of effective management, in Mozambique. Non-resident companies with a permanent establishment in Mozambique are liable for IRPC on the income attributable to that permanent establishment. A non-resident company with no permanent establishment in Mozambique is taxed on the following types of income sourced in Mozambique: capital gains, dividends, interests, royalties, services and rents.

Taxable profit is taxed, normally, at 32%. Non documented expenses are taxed at 35%.
The tax year usually coincides with the calendar year (1 January to 31 December). Exceptions must be previously approved by the Finance Minister and only applies if a company is owned, more than 50%, by another with a different tax year it may adopt that different tax year. Tax is payable as follows:

Taxable persons	Tax payment
Resident entities whose main activity is commercial, industrial or agricultural and non-residents with a permanent establishment in Mozambique.	- Payments on account (PC) in May, July and September (5th, 7th and 9th Month after year end).

Taxable persons	Tax payment
	- Special payments on account (PEC) in June, August and October (5th, 8th and 10th Month after year end). - The balance is due by the date when the tax return is filed – generally 31 May. (5th month after year-end)
Resident entities whose main activity is neither commercial, industrial nor agricultural.	Tax is payable by 31 May following the end of the tax year.
Non-resident entities without a permanent establishment.	Taxed by definitive withholding made by client or by independent tax return

Payments on account (PC) are estimated on the basis of 80% of previous tax year's IRPC liability, less any tax withheld at source and divided into three equal instalments.

$$PC = \frac{(IRPC\ of\ previous\ year\ - withheld\ taxes\ of\ previous\ year) \times 80\%}{3\ instalments}$$

Special payments on account (PEC) are estimated on the basis of 0.5% of the sales and/or services rendered during the previous financial year, with the minimum amount of 30.000 MT and maximum of 100.000 MT, net of provisional tax payments made in the previous year and divided into three equal instalments.

$$PEC = \frac{(turnover\ of\ previous\ year\ \times\ 0{,}5\%\ - PC\ of\ previous\ year)}{3\ instalments}$$

Permanent establishments of non-resident companies are taxed at the rates applicable to resident companies. When there is no permanent establishment, tax is levied at rates varying between 10% and 20% according to the source of income.

CAPITAL GAINS TAX

Worldwide capital gains obtained by resident companies are included in taxable income. The gain (or loss) is calculated by the difference between the sales proceeds and the acquisition cost which may be updated using official inflation coefficients. If the proceeds of the sales are reinvested in other fixed assets, within three tax years following the year of sale, 100% of the gain obtained (net of the related losses) will be excluded from taxation. When only part of the consideration is reinvested, only the corresponding part of the gain qualifies for the relief.

BRANCH PROFITS TAX

All income attributable to the Mozambique branch (permanent establishment) is subject to corporation tax. No tax is imposed on the eventual remittances of profits to the head office.

VALUE ADDED TAX (VAT)

The standard rate is 17%. VAT is chargeable on the sale of almost all goods and services as well as on imports. Usually VAT is recoverable by corporate entities.

OTHER TAXES
MUNICIPAL TAX REAL ESTATE

Owners of real estate properties are subject to tax between 0.2% and 1% for urban properties depending on the municipality.

REAL ESTATE TRANSFER TAX (SISA)

Real Estate Transfer Tax applies to transfer of real estate property and is normally payable by the purchaser at a rate of 2%. A 10% rate applies when the purchaser of the property is a resident of a black-listed offshore jurisdiction. *Social security contributions (INSS):* Social security contributions are payable by employers (4%) and employees (3%) on monthly remuneration.

B. DETERMINATION OF TAXABLE INCOME (IRPC)

Normally net income, or taxable income, is arrived at by adjusting the accounting profits for non-taxed income and non-deductible expenses. As a general principle, costs are only deductible when necessarily incurred for the purpose of producing income.

DEPRECIATION

Fixed assets can be depreciated for tax purposes. The main depreciation rates are:

Assets	Rate %
Tangible assets:	
Industrial buildings	4
Office and residential buildings	2
Machinery and installations, air conditioning, and telephone equipment	10
Lifts	8.33
Tools	25
Laboratory equipment	12.5
Telex and interior equipment	10
Furniture and filing systems	10
Typewriters and accounting machines	14.28
Computer hardware	16.66
Warehouse and filing installations:	
Of concrete	5
Of wood	6.66
Of steel	8.33
Trucks	20
Automobiles	25
Intangible assets:	
Pre-operating expenses incurred prior to the commencement of business	33.33
Deferred expenses arising in connection with increases in share capital, changes in form of business enterprises, issuance of debentures, marketing and other studies, and financial expenses incurred for the acquisition or own production of fixed assets prior to completion	33.33
Patents	10
Manufacturing licences, concessionaire agreements, and similar rights	5 *
Trademark or premium of taking over leases of real estate	**

NOTES:
* If some conditions are met.
** May be accepted by tax authorities if proven the decrease of the value.

STOCK / INVENTORY

Inventory must normally be valued at the effective cost of acquisition or production (historic cost). Other methods which may be adopted include:

- The standard cost method, which must be calculated in accordance with the appropriate technical and accounting principles;
- The sale price method, based on the market value less a normal profit margin;
- The special costing for basic or normal inventory, subject to prior approval of the tax authorities; and,
- The costing based on market price quote, this can be used by companies selling agricultural products and other biological assets.

CAPITAL GAINS AND LOSSES

Gains obtained by non-resident entities from the disposal of shares may be exempt from tax depending on the holding period of the shares. This exemption is not applicable if the gains are obtained from a non-resident.

Period of detention of shares	Reduction %	Effective Rate
Less than one year	0%	32%
12 to 24 months	15%	27.2%
24 to 60 months	35%	20.8%
More than 60 months	45%	17.6%

DIVIDENDS

There is a full participation exemption for the payment of dividends between Mozambique resident companies, when the recipient of the dividends is a company that has held a participation of not less than 20% of the share capital of the distributing company for a minimum period of two years (if the investment is held for less than 2 year the law allows that the shareholders will still be exempt if the holds the investment until It completes 2 years). If such conditions are not met, the dividend amount is subject to taxation.

INTEREST DEDUCTIONS

Interest is deductible on an accruals basis. The Fiscal Administration is entitled, under certain circumstances, to disallow interest payments to related parties in excess of arm's length arrangements. Thin capitalization rules are applied when the debt/equity ratio exceeds 2:1.

LOSSES

Operating losses incurred by resident companies, or by a branch of a non-resident company, may be carried forward to set off against taxable profits for five years. No carry backward is allowed.

FOREIGN SOURCE INCOME

Taxation of resident companies and permanent establishments takes into account their worldwide income. Double taxation treaties may allow to balance the tax paid overseas and IRPC.

TAX INCENTIVES

The Investment Law grants certain tax and customs benefits depending on the amount, location and sector of investment activity.

C. FOREIGN TAX RELIEF

Foreign-sourced income, gross of tax paid abroad, is included in taxable income. A unilateral credit for foreign income tax suffered can be set off against the IRPC. Mozambique's tax treaties also apply the ordinary credit method. The tax credit is restricted to the lower of:

- The income tax paid abroad (ordinary credit method); and,
- The Mozambique income tax chargeable on that foreign income.

D. CORPORATE GROUPS

There is no group basis tax option in Mozambique. Each company has to fill in its tax returns separately.

E. RELATED PARTY TRANSACTIONS

Transfer pricing legislation enables the tax authorities to make corrections to taxable income when the conditions (and prices) agreed between related parties are different from those that would have been agreed and accepted by independent entities.

Taxpayers must keep the necessary documentation to support the transfer pricing policy within the group.

F. WITHHOLDING TAX

Payments between resident companies are liable to withholding tax if they are originated from:

a) Income from intellectual property or industrial as well as the provision of know-how;
b) Income derived from the use of or right to use, industrial, agricultural, commercial or scientific equipment;
c) Income from investment not covered in the preceding paragraphs and property income;
d) Remuneration earned as a member of the statutory bodies of legal persons and other entities;
e) Income from the intermediary in the conclusion of any contract and income other services rendered or used in Mozambique.

Non-resident entities without permanent establishment are liable to a final and definitive 20% WHT that is applied on all income earned. An exception exists for:

(i) Telecommunications and international transport, as well as the respective installation and assembly of equipment made by those same entities;
(ii) Construction and rehabilitation of production, transport, and distribution of electricity infrastructures in the rural zones under the public projects of rural electrification; and,
(iii) Maritime vessels freight for fishing and coasting activities, all of which are subject to a 10% WHT rate.

G. EXCHANGE CONTROL

All transfers to and from abroad are subject to registration with the Bank of Mozambique and may be not authorized in certain circumstances. Shareholders loans or any other type of foreign loan are liable to pre-approval by the Central Bank. Other examples of operations that require pre-approval are insurance operations and guarantees operations.

H. PERSONAL TAX

Personal Income tax (IRPS) is payable by individuals on income obtained from employment, a business activity or independent profession, investment income, immovable property, capital gains, pensions and betting or gambling profits. Resident individuals are subject to income tax on their worldwide income while non-residents are liable to income tax only on income sourced in Mozambique.

Taxable Income	Tax Rate (%)	Flat Rate Rebate
Less than 42,000	10	-
42,000 – 168,000	15	2,100
168,000 – 504,000	20	10,500
504,000 – 1,512,000	25	25,700
More than 1,512,000	32	141,540

I. TREATY AND NON-TREATY WITHHOLDING TAX RATES

Mozambique has established DTT with the following countries: Portugal, Italy, Mauritius, UAE, South Africa, Macau, Vietnam, Botswana and India. Under the DTT treaties in place tax is levied at the following reduced rates:

Country	Dividends	Interest	Royalties	Capital Gains
Portugal	10%	10%	10%	0% *
Italy	15%	10%	10%	0%
Mauritius	8 / 10 / 15% **	8%	5%	0%
UAE	0%	0%	5%	0% *
South Africa	8 / 15% ***	8%	5%	0%
Macau	10%	10%	10%	0%
Vietnam	10%	10%	10%	0% *
Botswana	0 / 12% ****	10%	10%	0% *
India	7,5%	10%	10%	0% *

NOTES:

* In case the shares sold are from a company which its value is constituted with more than 50% of immovable property, the capital gains are taxed in Mozambique.

** 8% for dividend payments by a 25% or more owned subsidiary in Mozambique to its Mauritius parent company; 10% for dividend payments by a less than 25% owned subsidiary in Mozambique to its Mauritius parent company; 15% in all other cases.

*** 8% for dividend payments by a 25% or more owned subsidiary in Mozambique to its South Africa parent company; 15% in all other cases.

**** 0% for dividend payments by a 25% or more owned subsidiary in Mozambique to its Botswana parent company; 12% in all other cases.

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