

AT A GLANCE... CAPE VERDE TAX SYSTEM



TAX & BUSINESS



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1. GENERAL INFORMATION

Cape Verde tax system – The tax system of Cape Verde has been subject to a deep Reform. The tax Reform was initiated in 1996 and established three distinct categories of taxation. In 1996 the Single Income Tax (IUR) was established regarding personal income taxation and corporate income taxation. The Reform has also established the taxation on property by establishing the Single Property Tax (IUP) and also the taxation on consumption by establishing, in 2002, the Value Added Tax (IVA) and the Special Consumption Tax (ICE), in 2003. More legislative changes are due in 2015, related to income taxation, by breaking down the Single Income Tax, into a Personal Income Tax (IRPS) and a Corporate Income Tax (IRPC).

Official currency – Cape Verde Escudo (CVE)

Forms of business organization – The majority of commercial enterprises in Cape Verde adopt the form of a Joint

Stock Companies or a Limited Liability Company. It is also possible to implement a Limited Liability Company with a sole shareholder. Foreign companies that do not intend to establish in Cape Verde may operate through a branch or a representation office.

Interest rate – The reference interest rates are the official interest rates of the National Bank of Cape Verde (BCV): the Main Refinancing Rate, the Rediscount Rate and the Annual Base Rate. There are also other rates such as Liquidity Standing Facilities, and those related with Treasury Bills (Short Term Public Debt) and with the Treasury Bonds (Long Term Public Debt).

Accounting principles – The Cape Verdean accounting system is ruled by the Accounting Normalization System and Financial Reporting (SNCRF) and by rules of the International Accounting Standard Board (IASB). Being mandatory for several entities, the SNCRF is not applied to financial, insurance, and social welfare and banking sector which have their specific accounting plans.

Tax Benefits – Private investors in Cape Verde have access to several tax benefits if certain conditions are gathered. The tax benefits (such as tax and custom duties)

may be granted to foreign investors and to investments in the tourism sector.

Fiscal year – The fiscal year coincides with the civil year, although enterprises might use another accounting year, if duly authorized.

Double Taxation Agreements – Cape Verde has concluded Double Taxation Agreements (DTA) with Portugal and Macau. In the meanwhile negotiations are going on with Spain in order to conclude a similar treaty.

Ruling – Taxpayers are entitled to get advanced ruling and other information from the tax administration.

2. INCOME TAXATION

THE SINGLE INCOME TAX - INDIVIDUALS

Subjective effects – The Single Income Tax is due by residents in Cape Verdean territory and by non-resident that obtain income in Cape Verde. The non-residents are only subject to tax on income obtained in Cape Verde.

Residence – An individual is resident for tax purposes if he/she was present in the country for more than 183 days, consecutive or alternate; or if he/she was

established in the country for less than the latter period, but owns a house, on 31st of December of that year, in conditions which are able to establish the assumption that the person occupies it as a permanent residence.

Basis – A resident taxpayer is subject to the Single Income Tax on his worldwide income in accordance with the different income categories.

Taxable income – The income of an individual is taxed under separate schedules depending on the type of income obtained. According to the Regulation of the Single Income Tax there are: real estate income; business and industrial income, which includes capital gains and supply of services and agriculture, livestock and fishing income; capital income, and other income deriving from gamble, lottery and bets and, finally, employment and self-employment income, including pensions and temporary and lifelong annuities.

Collective income – The collective income results from the aggregation of all the categories of income, even if exempted, obtained each year, after deductions and rebates defined in the Regulation of the Single Income Tax.

Capital gains – capital gains generated by onerous transmission of share capital or other securities are subject to a definitive withholding tax rate. For determining the taxable amount, the capital gains mandatorily aggregated are only considered in 50% of their value.

Deductions and rebates – There are specific deductions for each category of income, using as criterion the expenses and costs necessary to obtain income. Thus, health and education expenses, pensions, rents due for permanent housing, interest on debt regarding acquisition, construction and improving of real estate, insurance premium on illness and personal accident, as well as some life insurances and the annual invested amount on public debt and social welfare contributions or single social tax regarding the taxpayer or their dependents can be rebated from the aggregate collective income. The public donations may also be deducted to the global income after deductions.

Methods of income statement – The declarative and estimation methods are both applied to personal taxation. In the declarative method, the taxable income is determined by the income statement of the taxpayer, or in case of substitute taxpayer, by the entity legally bound to it.

In the estimation method, is the Head of the Tax Office who calculates the turnover, the income and the costs of previous year, establishing the taxable profit through a scale of minimums.

Tax rates – Taxpayers subject to the estimation method are subject to a 15% tax rate and taxpayers subject to the declarative method are subject to progressive rates with a maximum tax rate of 35%.

Social security – The dependent employee is subject to social security contribution rate of 8%. The independent employee is subject to a social security contribution rate around 11% in a strict scheme or around 19.5% in a broader scheme. The social security contributions should be paid until the 15th day of the following month.

COMPLIANCE REQUIREMENTS

Income statement – The taxpayers subject to the declarative method shall submit the tax return (model 111 and 112), on annual basis, in triplicated, until 31st of March, in the local Tax Office of the household and also attach the documents proving the rebates provided by the Regulation of Single Income Tax. By their turn, the taxpayers subject to the

estimation method shall submit, on annual basis, until 31st of March, a tax return model 1 A regarding the set of activities exercised in the previous year.

Payment – In respect to the taxpayers subject to the declarative method, the Single Income Tax assessment is made by the Tax Office where the income tax return model 1 should be submitted. In the case of taxpayers subject to the estimation method, the Single Income Tax assessment is made in the Tax Office where income tax return model IA should be submitted.

Penalties- Administrative penalties may range from 100\$CVE to 50.000\$CVE and interest may be charged on late payments. Tax crimes are subject to administrative fine of 1000 days and a jail penalty for non-compliance with penalty fine. For tax crimes the fine is fixed between a minimum of 10 and a maximum of 1000 days, ranging from 1000\$ CVE to 100.000\$ CVE.

THE SINGLE INCOME TAXATION – COMPANIES AND OTHER ENTITIES

Residence – A company will be deemed as a tax resident in Cape Verde if its head office or effective management is located in Cape Verde. In this case, Single Income

Tax will be levied on worldwide income. The non-resident companies in Cape Verde are only subject to tax on income obtained in Cape Verde.

Basis – Single Income Tax is due on profit generated by companies or equivalent entities and on profit generated by individual business companies that operate in the commercial, industrial, agriculture and fishing activities and supply of services. The profit is attributable to a permanent establishment located in Cape Verde and in case of nonresident companies without a permanent establishment to income obtained in the Cape Verde territory and, finally, to capital income.

Taxable Profit – The taxable profit corresponds to the net account balance elaborated according to accounting principles and consists in the difference between the profits and gains undertaken in the previous period to which the tax year reports and to the expenses and losses allocated in that same period, eventually corrected in accordance with the Regulation of the Single Income Tax.

Taxable amount – In the verification method, the taxable amount is computed by the head of Tax Office where the income tax return should be submitted

and according to the declared amounts. Being the taxable amount computed by the estimation method, no deductions based on reserves or tax losses will be considered. For resident companies in Cape Verde, the taxable amount is attained by deducting tax losses and tax benefits to the business profit. For nonresident companies with permanent establishment in Cape Verde, the taxable amount is determined by deducting the taxable profit attributable to the establishment, through the estimation method or, in case of non-submission of the tax return, by the estimative method. In respect to the nonresident companies that obtain commercial, industrial, agricultural or fishing income, or income derived from rendering services in Cape Verde their taxable amount correspond to the declared turnover and is determined by the estimation method.

Tax Losses – Tax losses computed for an accounting year may be deducted from taxable profits in the following three accounting years.

Tax rates – The taxpayers subject to the verification method are subject to a tax rate of 25% and taxpayer subject to the estimation method are subject to a tax rate of 15%. The financial, monetary and

non-monetary institutions are subject to a 25% tax rate.

Social Security - The Employer is subject to social security contributions at a rate of 15%. The payment shall be done until the 15th day of the following month.

COMPLIANCE REQUIREMENTS

Filing tax returns – Companies shall submit a tax return (1 B Model), on an annual basis, in triplicate, from March to May before the tax office where they have their head office or their tax residence. If the Company is a legal person with tax residence or registered office outside Cape Verde, the 1B model tax return shall be submitted before the tax office where its principal establishment is located or, in the absence of commercial and industrial installations, where the company has its permanent representation.

Payment- Single Income Tax assessment shall be done by the taxpayer through the submission of the 1B model of tax return. The taxpayer shall pay 50% on the declared profit, via GP010. In other cases, the Single Income Tax assessment is done by the Tax office.

Tax penalties - Penalties range from 200\$ CVE to 100.000\$ CVE and interest may be charged on late payments. Tax criminal offenses may lead to a fine up to 1000 days or to prison sentence in case of non-payment. For criminal tax offenses, the fine is defined in days, and may range from 10 day to a maximum of 1000 days. The daily fine may range from 5.000\$ CVE to 500.000\$ CVE.

3. CONSUMPTION TAXATION

VALUE ADDED TAX - VAT

Basis – Value Added Tax (VAT) is levied on the onerous supply of goods and provision of services in the Cape Verdean territory, and also, on the importations of goods.

Taxable entities - VAT is due by individuals and companies, residents or non-residents that, on a regular basis, undertake production, trade and services activities.

Tax Rates - The standard rate of VAT is 15%.

Exemptions - Exemptions are allowed for medical services and services related to education and social support, as well as, professional training, banking and financial operations, insurance and

reinsurance operations and, finally, on the importation of certain goods.

Filing tax return – the tax payer shall submit, on a monthly basis, a tax return reporting the operations rendered during the preceding month, the due tax or the tax credit and the components used for the calculation of tax. This tax return shall be submitted until the last day of the subsequent month of the operations.

Payment- VAT shall be paid on a monthly basis, until the last day of the subsequent month in which the operations were undertaken. Taxpayers subject to the simplified system of taxation shall on an annual quarterly basis within the following deadlines: 1st quarter until 30 of April; 2nd quarter until 31 of July; 3rd quarter until 31 of October; and 4th quarter until 31 of January of the following year.

4. TAXATION OF ASSETS

SINGLE ASSET TAX

Basis - Single Asset Tax is a municipal tax is levied upon the tax value of real estate located in the respective municipality and is applied in accordance with rural and urban categories of the real estate, the value of the gratuitous transfers or the

onerous transfers of real estate. The Single Asset Tax is also levied upon the tax value of the corporate operations subject to public deed such as, modification of corporation bylaws, transfers of quotas and others with similar nature and also upon the value of the use and fruition of motor vehicles subject to registration and, finally, levied on capital gains generated by the appreciation of the building land, transfer of real estate and other immovable assets.

Taxable entities - Single Asset Tax is levied on the owners of the real estate. The payment must be done until 31 of December of the year in which the act took place. In case of usufruct, the Single Asset Tax is levied on the usufructuary and in case of conditional property by whoever has the right of use and fruition. In respect to gratuitous or onerous transfers, the tax payer is the purchaser of the goods. With regards to capital gains, the Single Asset Tax is levied by the taxable entities to whom the assets are transferred. In respect to corporate operations, the Single Asset Tax is levied by the shareholder or the company itself, depending on the operation.

Tax Rates - Single Asset Tax rate is 1,5%.

Reporting obligations - The tax payer shall submit, before his/her the local tax office, during the month of July, an official model of the tax return reporting his/her taxable assets.

Payment - Single Asset Tax shall be paid during the month of April. It can be paid in two equal instalments whenever the amount of the collected tax exceeds 5.000\$. In this case the payment is due in April and in September.

Tax penalties - In respect to individuals, tax offenses may range to a fine from a 100\$ CVE to 50.000\$ CVE and interest may be charged on late payments. Tax crimes may lead to a fine up to 1000 days or, in the event of non-payment, to prison sentence. Moreover, the fine is fixed between a minimum of 10 and a maximum of 1000 days, ranging from 1000\$ CVE to 100.000\$ CVE.

In respect to companies and other similar entities, tax offenses may range to a fine from a 200\$ CVE to 100.000\$ CVE and interest may be charged on late payments. Moreover, the fine is fixed between a minimum of 10 and a maximum of 1000 days, ranging from 5000\$ CVE to 500.000\$ CVE.

5. STAMP DUTY

Basis – Stamp duty is levied on multiple realities, such as, financial transactions, corporate operations and legal acts.

Taxable entities – Stamp Duty is due, namely, by notaries, registrars, credit and guarantees, institutions of credit, insurance companies as well as entities that intermediate credit and insurance operations located in Cape Verde.

Tax Rates – There are several Stamp Duty rates. A 15% rate is the maximum Stamp Duty rate.

In certain cases, the Stamp Duty is assessed in accordance with pre-defined amounts.

Reporting obligations - Taxpayer shall submit, on an annual basis, a tax return containing a detailed list of the Stamp Duty duly assessed and charged. The tax return shall be submitted through an official model and shall include the taxable value of the acts, operations and transactions and the value of assessed and paid tax.

Payment - Stamp duty is paid by the taxpayer until the 15th of the month following that in which the obligation arose. The payment is done through an

official application form, paper or electronic, before any tax office or any other authorized entity.

Tax penalties - In respect to individuals, tax offenses may range to a fine from a 100\$ CVE to 50.000\$ CVE and interest may be charged on late payments. Tax crimes may lead to a fine up to 1000 days or, in the event of non-payment, to prison sentence. Moreover, the fine is fixed between a minimum of 10 and a maximum of 1000 days, ranging from 1000\$ CVE to 100.000\$ CVE.

In respect to companies and other similar entities, tax offenses may range to a fine from a 200\$ CVE to 100.000\$ CVE and interest may be charged on late payments. Moreover, the fine is fixed between a minimum of 10 and a maximum of 1000 days, ranging from 5000\$ CVE to 500.000\$ CVE.

6. OTHER ASPECTS

Social Security Conventions – Cape Verde signed conventions on Social Security with Portugal, Netherlands and Spain. On these conventions it was agreed that social protection of migrant workers and their families would be equally and mutually strengthened between Cape Verde and the aforementioned countries.

These conventions has granted to the citizens of the contracting countries the right, if applicable, invalidity and retirement pensions, as well as social protection in case of unemployment, work-related accidents and occupational diseases, amongst other.

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