

At a glance... MOZAMBICAN TAX SYSTEM



TAX & BUSINESS

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General Information

Mozambican tax system – The Mozambican tax system is, nowadays, a modern tax system with a tripartite structure which compares to the most modern tax systems where the income, consumption and assets are taxed separately. However, the current structure is relatively recent, deriving from the 2002 tax reform, which has completely changed the pre-independence system which was previously effective. The new Mozambican tax system includes solutions customized to the new economic reality, including the application of differentiated rules according to the profile of the taxpayer, as well as the inclusion of international tax elements.

Official Currency – Metical (new family) - MZN/MT.

Business entities – Main business entities in Mozambique are joint stock companies (*sociedades anónimas*) or limited liability companies (*sociedades por quotas*). It is also possible for a business to incorporate through a single person company (*sociedade unipessoal*). Additionally, foreign companies typically operate in Mozambique, through subsidiaries, branches, representation offices and consortium agreements (partnerships).

Interest rates – The interest rates of reference in Mozambique are the *taxa de facilidade permanente de depósito* set at 1.75% and the *taxa de facilidade permanente de cedência* set at 9.0%¹.

Accounting principles – The Mozambican accounting system is based on the French accounting Model. The financial institutions and certain foreign business entities (namely multinational enterprises) are governed by a system which follows the IFRS.

Tax incentives – Private investors in Mozambique may benefit from tax incentives provided certain requirements are met. Tax benefits are considered to be reduced tax rates, tax allowances, deductions to taxable income, accelerated reintegrations and amortizations, and also, tax credits. There are several exemptions and reductions on the Corporate Income Tax (*Imposto sobre o Rendimento das Pessoas Colectivas – IRPC*), namely for companies that invest in Special Economic Zones (*Zonas Económicas Especiais*) and Industrial Free Trade Zones (*Zonas Francas Industriais*). Tax benefits may also be granted, upon approval by the Investment Promotion Center (*Centro de Promoção de Investimento – CPI*) and the Special Economic Zones Office (*Gabinete das*

¹ The *taxa de facilidade permanente de depósito* and the *taxa de facilidade permanente de cedência* are both subject to the financial market variations.

Zonas Económicas de Desenvolvimento Acelerado).

Tax year – The tax year is the same as the civil year, although a company may adopt another accounting period, if so authorized.

Double taxation agreements – Mozambique has concluded Double Taxation Agreements (DTA) with the following countries: Portugal, Italy, Mauritius, United Arab Emirates, Special Administrative Region of Macau, South Africa, India, Vietnam and Botswana².

Rulings – Taxpayers are entitled to get advanced rulings and other information from the tax administration. The tax administration is obliged to provide such information on tax matters.

Corporate Income Taxation

Residence – A company will be deemed as a resident in Mozambique if its domicile, head office or effective management is located in Mozambique.

Basis – A resident company is taxed on its worldwide income. A non-resident company is subject to tax only on its Mozambique-sourced income.

Taxable profit – Taxable profit is the sum of net profit of the accounting period plus any

² These last two DTA's (with Vietnam and Botswana) are not effective yet.

positive or negative asset variations suffered in the same period and not reflected in the net profit.

Tax losses – Tax losses computed for an accounting period may be carried forward and set off against taxable income of one or more of the subsequent five accounting periods. The carry-back of losses is not permitted.

Rate – Corporate income is subject to a 32% tax rate. However, until 31 of December 2015, agriculture and breeding activities benefit from a reduced tax rate of 10%. Non-documented expenses, as well as confidential or illegal expenses are subject to an autonomous tax rate of 35%.

Dividend taxation – Dividends shall be included in the taxable basis for corporate income taxation purposes. If such dividends are paid in connection with a minimum participation of 25%, held for, at least, 2 years, such dividends are excluded from the taxable basis (participation exemption).

Capital gains taxation – capital gains are also included in the taxable basis for corporate income taxation purposes, being such gains taxed as business income.

Interest and royalties taxation – Interest and royalties are also included in the ordinary income of a company as ordinary business income.

Social security – The employer is subject to social security contributions at a rate of 4% over the salary of each employee.

Compliance requirements

Filing tax returns – Taxpayers shall submit, on an annual basis, a tax return, on official model, regarding the previous year income and other relevant information. The return shall be submitted until the last working day of May of the year following that to which the income relates.

Payment – Entities which carry on commercial, industrial or agricultural activities, as well as non-residents with a permanent establishment in Mozambique shall pay income tax in accordance with the following: (i) in three payments on account in May, July and September of the year to which the taxable income refers (or in the fifth, seventh or ninth month if the entities have adopted another fiscal year) with a total of 80% of the tax paid in the preceding year; (ii) three special payments on account in July, August and October levied upon the amount which will be equal to the difference between the value corresponding to 0.5% of the turnover, with a minimum of 30,000.00 MT (approximately € 800,00) and a maximum of 100,000.00 MT (approximately € 2600,00), and the amount of the payments on account of the preceding year; (iii) until the last day to submit the annual tax return, on the basis of the positive

difference between the tax assessed and the sums paid on account.

Penalties – Penalties range from MT 3.000,00 (approximately € 80,00) to MT 2.500.000 (approximately € 65.800,00) and interest may be charged on late payments. Prison sentence may be applied in case of tax fraud and money laundering.

Withholding tax

Taxation on dividends – Dividends paid to residents and non-residents are subject to a 20% withholding tax, although dividends paid in connection with shares listed on the Maputo stock exchange are subject to a 10% withholding tax. These tax rates may be reduced by the application of the relevant DTA, and are not applied in case of dividends paid to a Mozambican company that has held 25% or more of the shares in an associated company in Mozambique for at least 2 year.

Taxation on interest – Interest paid to residents and non-residents are subject to a 20% withholding tax unless (in the case of non-residents) the rate is reduced under a DTA. A 0% rate applies to interest paid to a registered Mozambique financial institution.

Taxation on royalties – Royalties paid to residents and non-residents are subject to a 20% withholding tax unless (in the case of non-residents) the rate is reduced under a DTA.

Other – Technical service fees paid to a non-resident are subject to a 20% withholding tax. The payments made to non-residents for telecommunications services, international transport services and the assembly and installation of related equipment are subject to a 10% withholding tax.

Personal Income Taxation

Residence – An individual is resident for tax purposes if, in the year to which the income relates, (i) he/she was present in the country for more than 180 days, consecutive or alternate; (ii) he/she was established in the country for less than the latter period, but owns a house in conditions which are able to establish the assumption that the person wants to occupy it as a permanent residence in Mozambique; (iii) and if he/she works abroad exercising functions of a public nature for the Republic of Mozambique.

Basis – A resident taxpayer is subject to tax on his worldwide income. A non-resident taxpayer is taxable only on Mozambique-sourced income.

Taxable income – The income of an individual is taxed under separate schedules depending on the type of income obtained. According to the Personal Income Tax Code, the following categories of income are subject to tax: employment income; business income; capital income and capital gains; real estate income; and other income.

Capital gains – Capital gains correspond to the (positive) balance calculated annually considering the capital gains and the capital losses. As a general rule, only 50% of the capital gain or capital loss shall be taken into account on the disposal of real estate or business assets. In case of capital gains on securities: (i) only 75% of its value is considered when such securities are held for less than 12 months; (ii) only 60% of its value is considered when such securities are held for a period between 12 and 24 months; (iii) only 40% of its value is considered when such securities are held for a period between 24 and 60 months; and, finally, (iv) only 30% of its value is considered when such securities are held for more than 60 months.

Deductions – There are specific deductions for each income schedule, and global deductions to taxable income such as education and health expenses, amongst other.

Rates – Personal income is taxable under progressive rates up to a maximum of 32%. The tax rates are distributed in accordance with the following table:

Annual Taxable Income (MT/MZN)	Rates	Deductible Allowance
Up to 42.000	10%	-
From 42.001 to 168.000	15%	2.100
From 168.001 to 504.000	20%	10.500
From 504.001 to 1.512.000	25%	35.700
Over 1.512.000	32%	141.540

Social Security – The employee is subject to the payment of a Social Security contribution at a 3% rate.

Other taxes – In certain conditions, national or foreign people aged between 18 and 60, residents in Mozambique, are subject to a personal local tax – *Imposto Pessoal Autárquico*. This tax is levied at a rate between 1% and 4% on the highest national minimum wage, determined on 30 June of the preceding year.

Compliance requirements

Filing tax returns – Taxpayers shall submit, on an annual basis, a tax return, on official model, regarding the previous year income and other relevant information. The return shall be submitted (i) between January and 31 of March of the following year, when the taxpayer has only received first category income; or (ii) from January to 30 of April for all other categories.

Payment – The personal income tax shall be paid until 31 of May of the following year, except (i) when the tax assessment is made until 30 of May, the payment is due until 30 of June; (ii) when complying with mandatory self-assessment the tax is due until 31 of August, increased by any compensatory interest.

Penalties – Penalties range from MT 3.000 (approximately € 80,00) to MT 2.500.000 (approximately € 65.800,00) and interest may be charged on late payments. Prison sentence may be applied in case of tax fraud.

Value Added Tax

Basis – Value added tax (VAT) (*Imposto sobre o valor acrescentado*) is levied on the supply of goods and provision of services rendered for remuneration in the Mozambican territory, and also, on the importation of goods.

Taxable entities – VAT is due by individuals and companies that, on a regular basis, undertake production, trade and services activities. However, the economic burden of this tax rests ultimately with the consumer.

Rate – The standard rate of VAT is 17%. In any case, banking services and certain health and education services are exempt, whilst the export of goods and services is subject to a 0% rate (exemption with a right to deduction).

Filing tax returns – Taxpayers shall submit, until the last day of the subsequent month, a monthly tax return reporting all the goods sold and services provided during the preceding month, including the tax due or any existing credits and elements that may be useful for the tax assessment.

Payment – VAT shall be paid on a monthly basis, until the last day of the subsequent month.

Taxation of Assets

Sisa

Basis – Sisa is levied on onerous transfers of real estate (immovable property), or parts thereof. Immovable property includes all the urban real estate located in Mozambique.

Taxable entities – Sisa is due by the individual or a company, to whom the real estate is transferred.

Rate – Sisa is levied at a 2% tax rate on the reported amount of the transfer, or the tax value of the real estate, whichever is higher, unless the tax value is not in accordance with normal market price. If the buyer or shareholder buyer is a resident in a “tax haven” a 10% tax rate is applicable, with exclusion of any reduction or exemption.

Payment – Sisa shall be paid on the day of assessment or on the following working day (if not, the assessment is ineffective). If the transfer is made under a contract executed in another country, the payment shall be made within the following 90 days.

Penalties – Penalties range from MT 3.000 (approximately € 80,00) to MT 2.500.000 (approximately € 65.800,00) and interest may be charged on late payments. Prison sentence may be applied in case of tax fraud.

Stamp Duty

Basis – Stamp Duty is levied on multiple realities, such as documents, contracts, books, papers, actions and obligations, construction licenses, credit cards, bank cheques, guarantees, gamble, other licenses, registry and notary acts, brands and patents, financial and custom related operations, insurances, debt securities and fund transfers, amongst other.

Taxable entities – The taxpayer shall be any entity with economic interest in the realities subject to tax. According to the Mozambican law there is no difference between the taxable person and the taxpayer.

Rates – There are several Stamp Duty rates. A 10% tax rate is the maximum Stamp Duty rate (a 50% rate is applied to acts and documents related to gambling activities). In certain situations, the Stamp Duty assessment is based on fixed and predetermined amounts.

Reporting obligations – Taxpayers, or their legal representative, shall submit, each year, a detailed list of the Stamp Duty assessed. This submission has to be done in the official model which is part, as an annex, of the annual tax and accountability information return envisaged in the Personal Income Tax Code and in the Corporate Income Tax Code.

Payment – Stamp Duty is paid by the taxpayer, in the tax offices or in any other authorized

entity, until the 20th of the month following that in which the tax obligation arose.

Penalties – Penalties range from MT 3.000 to MT 2.500.000 and interest may be charged on late payments. Prison sentence may be applied in case of tax fraud.

Municipal Real Estate Tax

Basis – Municipal real estate tax is levied upon the tax value of urban real estate located in the respective municipality, or in its absence, upon the value declared by the real estate owner(s).

Taxable entities – Municipal real estate tax is levied on the owners of the real estate on 31 of December of the preceding year. Individuals who are registered as the owners for tax purposes or individuals in possession of the real estate are deemed to be the relevant taxpayer.

Rates – Municipal real estate tax rates are as follows: (i) 0.4% for real estate with residential purposes; and (ii) 0,7% for real estate with commercial, industrial or independent professional activities, amongst other purposes.

Payment – Municipal real estate tax shall be paid in two equal instalments due in January and June. The instalments cannot be less than MT 200 (approximately € 5). If the tax due is equal to or lower than MT 400 (approximately € 10), it should be paid in a single payment during the month of January.

Inheritance and Donation Tax

Basis – Inheritance and donation tax is levied on the free transfer of movable and immovable assets, regardless of the transfer title.

Taxable entities – Inheritance and donation tax is levied on the person that has acquired the movable or immovable assets, even if there is a right of usufruct, use or habitation in favour of another person.

Rates – Inheritance and donation tax rate is 2% for descendants, spouses, and ascendants, 5% for siblings and relative in a direct line and up to the third degree, and 10% for other people.

Reporting obligations – In the event of death or presumed death, the representative of the beneficiaries or the beneficiaries shall report such event to the tax authorities. In case of a *inter vivos* transfer, the beneficiaries shall report such event to the tax authorities. In both cases the report is done through an official model which has to contain the value of the transferred asset and the acquisition title.

Other relevant aspects

International Fiscal Transparency – Mozambican-resident shareholders are directly liable for tax, in proportion to the share participation and the profit distribution, on the profits obtained by a foreign company which is subject to a clearly more favourable tax regime

if the shareholder holds, direct or indirectly, at least 25% of the share capital, or if the shareholder holds, at least 10% of the share capital, when the non-resident company is held directly or indirectly, in more than 50%, by resident shareholders.

Payments to “tax heavens” – Amounts paid or due to entities resident in a territory in which they are subject to a clearly more favourable tax regime, are not deductible in the assessment of the taxable income, unless the taxable person can prove that such expenses correspond to real operations in circumstances that are not abnormal and that the amount involved is also not excessive.

Foreign tax credit – Mozambique applies the ordinary foreign tax credit as an unilateral method for the avoidance of double taxation of income obtained abroad by resident companies and permanent establishments of non-resident companies. The tax credit shall be the lowest value between: (i) the tax paid abroad on corporate income; and (ii) part of the income tax, as computed before the deductions are given, which is attributable to the income that may be taxed in Mozambique. Unused credits may be carried forward for the following 5 years.

Social Security Convention between Portugal and Mozambique – Mozambique and Portugal have recently concluded a social security convention. This convention has established equal and reciprocal social protection to emigrant employees and their families in both



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countries. This convention has granted Portuguese citizens residing in Mozambique and Mozambican citizens residing in Portugal the right to, if applicable, invalidity and retirement pensions, as well as social protection in case of unemployment, work accidents and occupational diseases, amongst other.

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