

# Country Survey

## Overview of Mozambican Tax System

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RFF & Associados, in Lisbon, provide an insight into the tax system of the Southeastern African country of Mozambique.

### I. General Information

The Mozambican tax system is 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, derived from the 2002 tax reform, which has completely changed the previously effective pre-independence system. The 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

The 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 1.5% and the *taxa de facilidade permanente de cedência* set at 8.25%.

#### 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 that 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 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 Zonas Económicas de Desenvolvimento Acelerado* (GAZEDA)).

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### **Tax Year**

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

### **Double Taxation Agreements**

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

### **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.

## **II. Corporate Income Taxation**

### **Residency**

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 Mozambican-sourced income.

### **Taxable Profit**

Taxable profit is the sum of net profit of the accounting period plus any 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 December 31, 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**

If such dividends are paid in connection with a minimum participation of 20% held for at least two 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 are required to submit a tax return on an annual basis, on an official model, regarding the previous year income and other relevant information. The return must be submitted by the last working day of May of the year following the year to which the income relates.

#### *Payment*

Entities that carry on commercial, industrial or agricultural activities, as well as non-residents with a permanent establishment in Mozambique, pay income tax in accordance with the following:

- (i) Three provisional payments 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 provisional payments in July, August and October levied upon the amount equal to the difference between the value corresponding to 0.5% of the turnover, with a minimum of 30,000 metical (approximately 765 euros) and a maximum of 100,000 metical (approximately 2,500 euros), and the amount of the payments on account of the preceding year; and
- (iii) By 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 3,000 metical (approximately 80 euros) to 2,500 metical (approximately 65 euros) and interest may be charged on late payments. A prison sentence may be applied in case of tax fraud and money laundering.

### **Withholding Tax**

#### *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 two years.

#### 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 Mozambican financial institution.

#### 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.

### III. Personal Income Taxation

#### Residence

An individual is resident for tax purposes if in the year to which the income relates:

- (i) He/she is present in the country for more than 180 days, consecutive or alternate;
- (ii) He/she is established in the country for less than the latter period, but owns a house under conditions that establish the assumption that the person wants to occupy it as a permanent residence in Mozambique; and
- (iii) 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 Mozambican-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 the case of capital gains on securities:

- (i) 100% of its value is considered when securities are held for less than 12 months;
- (ii) 85% of its value is considered when securities are held between 12 and 24 months;
- (iii) 65% of its value is considered when securities are held between 24 and 60 months; and
- (iv) 55% of its value is considered when 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 June 30 of the preceding year.

#### Compliance Requirements

##### Filing Tax Returns

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

##### Payment

Personal income tax must be paid by May 31 of the following year, except (i) when the tax assessment is made by April 30, the payment is due by June 30; and (ii) when complying with mandatory self-assessment the tax is due by August 31, increased by any compensatory interest.

### Penalties

Penalties range from 3,000 metical (approximately 80 euros) to 2,500 metical (approximately 65 euros) and interest may be charged on late payments. A prison sentence may be applied in case of tax fraud.

## IV. 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 on the importation of goods.

### Taxable Entities

VAT is due by individuals and companies which, 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, while the export of goods and services is subject to a 0% rate (exemption with a right to deduction).

### Filing Tax Returns

Taxpayers must submit, by the last day of the subsequent month, a monthly tax return reporting all the goods sold and services provided in the preceding month, including the tax due or any existing credits and elements that may be useful for the tax assessment.

### Payment

VAT must be paid on a monthly basis, by the last day of the subsequent month.

## V. Taxation of Assets

### A. Transfer Tax (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 must 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 2,500 metical (approximately 65 euros) to 3,000 metical (approximately 80 euros) and interest may be charged on late payments. A prison sentence may be applied in case of tax fraud.

## VI. 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 others.

### Taxable Entities

The taxpayer is 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, must 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, by the 20th of the month following that in which the obligation arose.

### Penalties

Penalties range from 2,500 and 3,000 metical (65-80 euros) and interest may be charged on late payments. A prison sentence may be applied in case of tax fraud.

## VII. 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 December 31 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 others.

### Payment

Municipal real estate tax shall be paid in two equal installments due in January and June. The installments cannot be less than 200 metical (approximately 5 euros). If the tax due is equal to or lower than 400 metical (approximately 10 euros), it should be paid in a single payment during January.

## VIII. 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 favor of another person.

### Rates

Inheritance and donation tax rate is 2% for descendants, spouses, and ascendants, 5% for siblings and relatives 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 should report such event to the tax authorities. In case of an inter vivos transfer, the beneficiaries should 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.

## IX. 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 favorable 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 Havens"

Amounts paid or due to entities resident in a territory in which they are subject to a clearly more favorable 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 a 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 will 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 five 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 countries. This convention has granted Portuguese citizens residing in Mozambique and Mozambican citizens residing in Portugal the right to invalidity and retirement pensions, if applicable, as well as social protection in case of unemployment, work accidents and occupational diseases, among others.

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