

Tax Alert

17 March 2011

South Africa: The Gateway to Africa

Major reform for headquarter companies now complete



From 1 January 2011, foreign groups can establish headquarter companies ('HQ-Cos') in SA that will operate without any tax and exchange control barriers.

Tax reliefs for HQ-Cos now include

- No tax on capital gains realised on equity participations of 20% or more.
- No tax on dividend income from equity participations of 20% or more.
- No secondary tax on companies (currently 10%) or, in future, dividends tax, on dividend declarations to foreign shareholders.
- No tax on controlled foreign company income in SA based on look through principles.
- No limitations (i.e. thin cap rules) on the amount of debt funding that is raised for back-to-back loans to its foreign holdings.

To qualify for the HQ-Co tax benefits, certain shareholding and asset criteria should be met. Generally speaking, existing companies will not qualify

for the HQ-Co regime as it is a condition of the regime that there is uninterrupted compliance with most of conditions from a company's inception.

Other income (e.g. interest and management fees) will be subject to corporate income tax at a rate of 28%.

When the Minister of Finance presented the annual budget to Parliament on 23 February 2011, the Government reaffirmed its commitment to the HQ-Co regime. Current tax rules that could lead to double taxation, e.g. where non-treaty countries are involved, will be addressed.

Relief from exchange controls

To complement the tax proposals, there are significant relaxations from exchange controls for HQ-Cos.

HQ-Cos that meet certain shareholding and asset criteria may register for approval with the exchange control authorities to be treated as a 'non-resident'.

This means that HQ-Cos can *inter alia* freely borrow from abroad and invest such funds locally or offshore without restriction.

The registration as a HQ-Co is up front and remains valid for as long as the conditions for registration are met.

Why South Africa?

South Africa is a regional economic powerhouse with strong infrastructure and logistically well placed for multinationals to establish regional headquarter companies.

In December 2010, partly in recognition of its role as a gateway to the African continent, South Africa was invited to join the BRIC group of major emerging markets, providing new opportunities for trade and investment.

In addition to having an extensive network of tax treaties in Africa, South Africa now has a tax and exchange control regime that supports a group's business strategy for investing into Africa.

Your PwC international tax services team

PwC SA was at the forefront of lobbying for this initiative with National Treasury and has been heavily involved in developing the tax and exchange control provisions.

We have established over many years a sound and strong relationship with key decision makers / senior officials at National Treasury, the South African Revenue Service and the Financial Surveillance Department of the South African Reserve Bank. This ensures that we are able to speak to the right people at the right time and so smooth the way for foreign investors to access this new exiting investment regime.

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