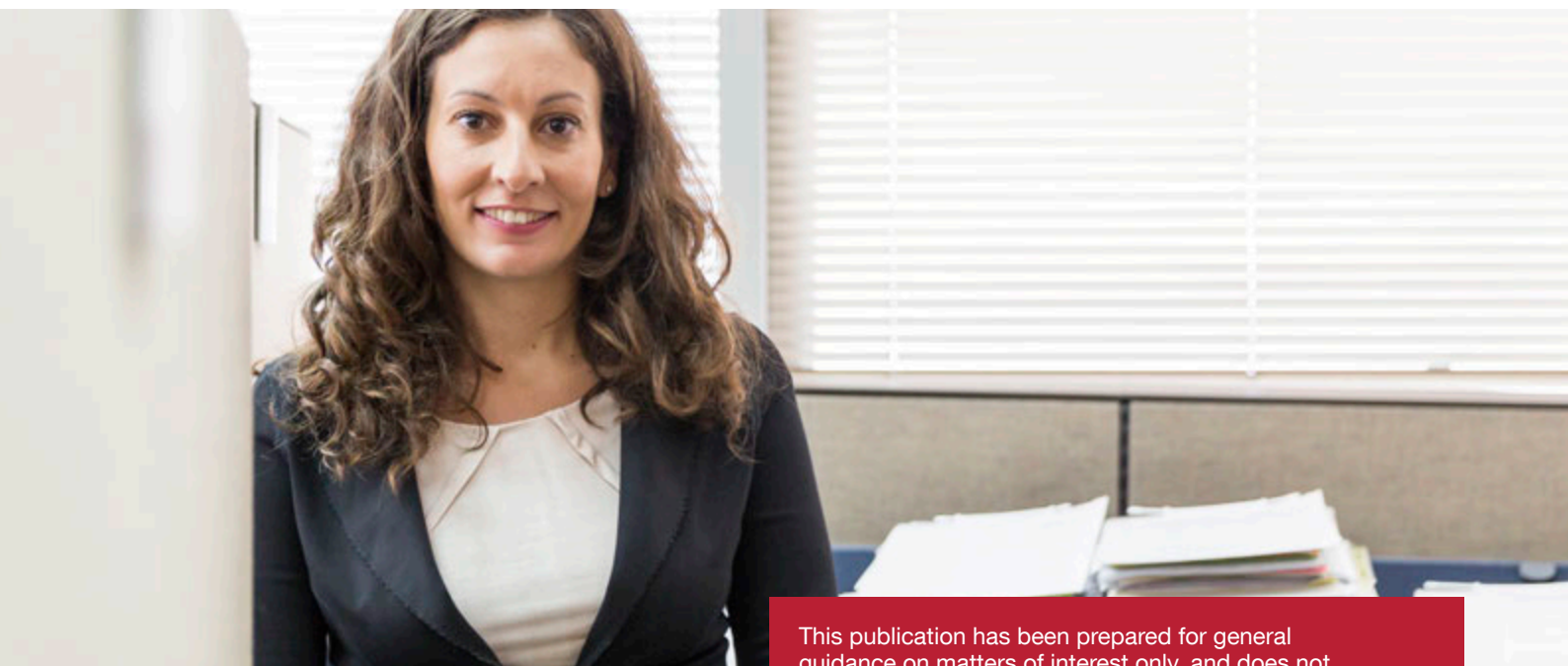


3rd edition
Africa Tax Survey
October 2016

Africa: Minimising risk, optimising reward



www.pwc.co.za/tax



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Foreword



Welcome to the third edition of our Africa Tax Survey.

Investment interest in Africa remains high despite the current global economic challenges. While a significant portion of this is attributable to foreign direct investment, the level of intra-Africa investment continues to grow rapidly. Given this development, there is an ever-growing need for guidance and the adoption of best practice in terms of tax and regulation. This survey provides an overview of experiences, best practices and analyses of the realities of doing business in Africa.

The most significant findings confirm that doing business on the African continent is still somewhat arduous. Particular challenges relate to obtaining certainty around the application of legislation and dealing with the tax authorities. Another interesting conclusion is that tax is still considered to be one of the primary constraints on doing business in Africa. This is a unique obstacle, since decision-making should ideally be informed by business considerations, with tax matters being a mere formality. The demanding tax environment is probably one of the reasons for the relatively high appetite for tax planning.

The success of this survey is directly attributable to the enthusiastic input of the participants and we thank each of them for taking the time to make a valuable contribution.

We trust you will find the results of the survey informative and useful. We welcome any feedback and comments you would like to share with us.



Paul de Chalain
Tax Leader, PwC Africa

About the survey

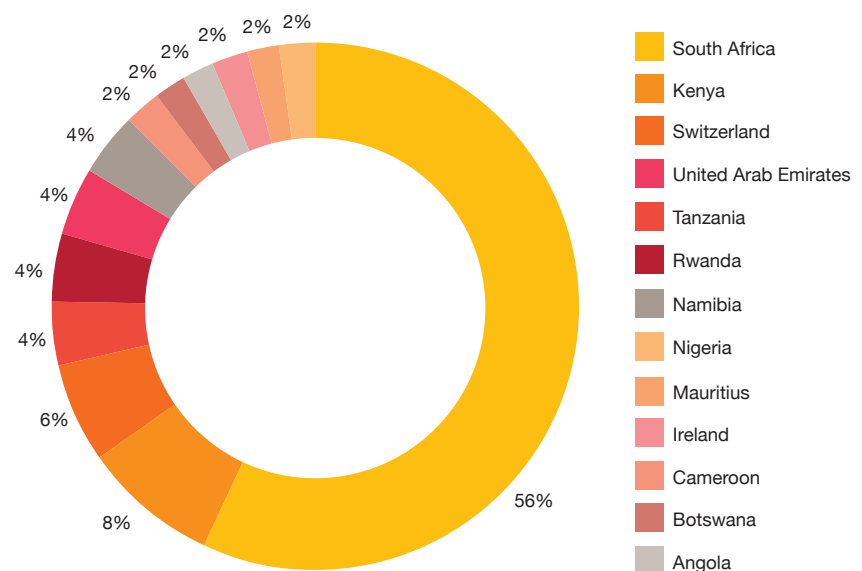
This survey was initiated by PwC's Africa Coordination Centre, which assists clients in setting up and managing their operations in Africa. Given our extensive practical experience in helping clients do business in Africa, this report provides discussions of feedback received from survey participants as well as additional analyses based on our extensive knowledge and understanding.

Methodology

Invitations to participate in an anonymous online survey were sent to international tax clients in various industries with operations in Africa. A total of 48 respondents completed the survey, which was made up of questions about tax, business and regulatory challenges facing companies operating in Africa. Since not all questions were relevant to all respondents, the response rate differed, as indicated. A breakdown of respondents by location is shown in Figure 1.

Most respondents' companies have been operating on the African continent for more than five years, while over half (58%) have been active there for more than ten years. Given this high level of on-the-ground experience, we are confident that respondents' feedback represents a genuine understanding and appreciation of the real challenges of doing business in Africa.

Fig. 1 Survey respondents by country (%)



Base: 48

A note on percentages

Not all figures add up to 100% due to rounding of percentages and the fact that not all respondents answered all questions.

Few, if any, of the companies surveyed do business in every African country, so all responses should be interpreted in the context of the universe of countries they are active in. In addition, some countries are attracting more foreign investment than others – and it stands to reason that

countries in which companies do more business are likely to cause them more problems.



Executive summary

The Africa rising story has been told many a time. This adage is currently being tested as multinational enterprises (MNEs) continue to do business on the African continent – and indeed not without incident. This Africa tax survey touches on the more pertinent challenges that are being faced by the players on the continent. As the gross domestic product (GDP) in several African economies takes a downturn, arising from shocks in the world commodity prices and volatility in currencies, creating shareholder value has become significantly more challenging for MNEs in Africa.

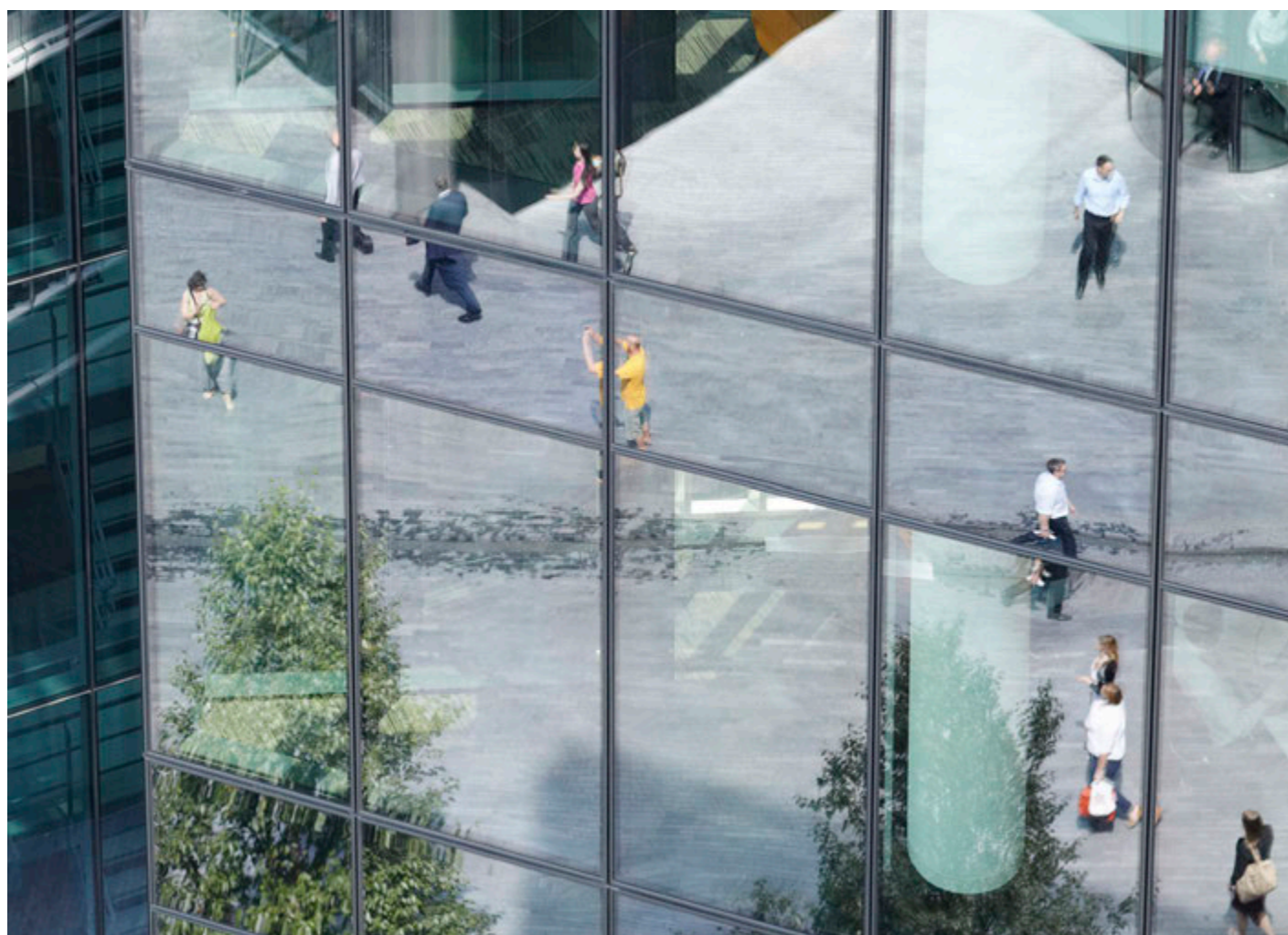
This tax survey highlights those tax areas that any potential investor should be mindful of when seeking to earn a return on their African investment. As you will note from this publication, the challenges vary across the African countries. Where appropriate, we have made comparisons with the previous tax surveys carried out in 2007 and 2013 to illustrate the significant developments that have occurred over the years.

Our key findings are summarised below:

- Nigeria, Angola and South Africa, in that order, were identified as the countries that pose the greatest tax challenges in Africa. Nigeria and Angola also double as the most problematic from general business and regulatory perspectives, with the addition of the Democratic Republic of Congo (DRC).
- Tax remains the second most significant threat to business growth in Africa, after political instability, as was the case in our 2013 tax survey.
- There has been a slight improvement in the degree of certainty when it comes to the practical application of tax and regulatory legislation as compared with the 2013 tax survey. Overall, however, most of the African jurisdictions remain subject to uncertainty.
- Like in the 2013 tax survey, transfer pricing (TP) comes top on the agenda as a tax risk area in several African countries, followed by withholding taxes and indirect taxes. Over the years we have continued to see the tax authorities carry out TP audits and also upskill their staff in this area of taxation to enhance their revenue collections.
- This year, there has been a significant increase in the incidence of tax audits when compared to the 2013 survey. It appeared that companies are becoming more proactive when conducting their business and also reviewing their current tax environment in readiness for scrutiny from the tax authorities.
- Compared with the previous surveys, an increased number of respondents indicated that there are plans in place in their companies to implement an effective and robust tax strategy. The appetite for tax planning has increased, although most respondents indicated that they are cautious of the commercial substance of their transactions.
- Compliance risk with regard to fulfilling tax obligations is the biggest area of concern this year compared to the 2013 survey. In that survey, financial risk, and in particular inappropriate financial statement disclosures, was a major concern. This could be informed by the increased aggressiveness of the tax authorities.
- About two-thirds (67%) of respondents admitted that considerations related to the base erosion and profit shifting (BEPS) project of the Organisation for Economic Cooperation and Development (OECD) have had an influence on their investment decisions. This is up from 45% in the 2013 survey.
- ‘Understanding a client’s business is very critical’ – For the third successive time, respondents have ranked this parameter as the most important for tax advisors to improve on.

Practical insights for tax survival in Africa

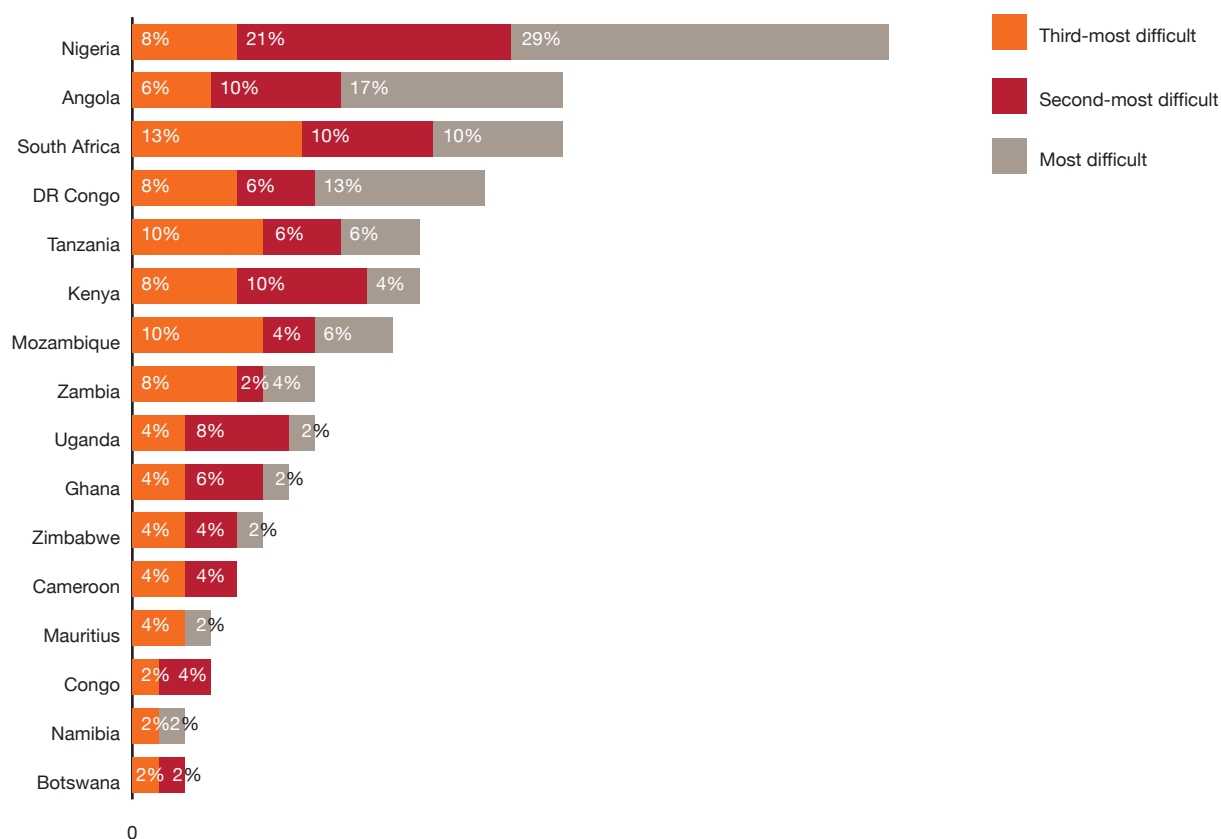
1. **Understand local rules on exchange controls and the repatriation of profits** before making investment decisions to ensure ease of cash flow and to avoid having funds trapped.
2. **Ensure continuing tax compliance** by submitting returns and paying taxes on time. Retain all records to support the submission of returns and payment of taxes for both the company and its employees.
3. **Monitor in-country tax and regulatory changes** relevant to your business. Use reliable advisors, if necessary, to keep you up to date with legislative changes and local practice.
4. **Engage with senior tax officials** when liaising with the tax authorities for tax audits, assessments and other negotiations whilst ensuring that details of agreements reached are documented.
5. **Do not conclude tax settlements outside set formal procedures.** Ensure you receive appropriate supporting documentation for taxes paid and any agreements reached with regulatory authorities.
6. Ensure that your company holding structures as well as your operating and exit strategies provide **sufficient flexibility, substance and tax efficiencies, including access to tax treaties.**
7. **Keep tight control over the cash taxes** deducted at source in the form of withholding tax. Where the tax is not legally due, strive to avoid paying it as it is often difficult to get refunds.
8. **Be aware of the impact of the OECD's BEPS** on your business when making investment decisions.
9. Ensure your profits are allocated to the appropriate entities and all relevant **transfer pricing policies are duly supported by appropriate documentation.** Tax authorities are increasing their focus on transfer pricing.
10. **Have an up-to-date overall transfer pricing policy** which is localised across relevant jurisdictions if you are a group company.



Most challenging territories and tax areas

Fig. 2 Countries posing the greatest tax challenges

Q: Please rank the three African countries that present the most difficult tax challenges for your company.



Base: 48

Together, Nigeria, Angola and South Africa were identified by the majority of respondents as the countries that pose the greatest tax challenges. Nigeria tops the list, with half of respondents identifying it as presenting significant difficulties from a tax perspective. Respondents' comments indicated that regular and detailed tax authority audits and frequently changing legislation were among the most significant issues that companies are facing in Africa.

Angola and the DR Congo were identified by 17% and 13% of respondents respectively as being difficult countries from a tax perspective. South Africa was ranked as the third-most-difficult tax jurisdiction, with no fewer than 33% of respondents identifying it as such. These results were similar to those of the 2013 survey.

Overall, it would appear that since the 2013 survey Mozambique has become less challenging tax-wise. Respondents' comments do, however, suggest that the language barrier in Mozambique still makes it a challenging place in terms of communicating with the tax authorities.

Nigeria, considered the most difficult place to do business in by 15% of respondents to our 2013 survey, climbed to 29% in this year's survey. Overall as well, this time round Nigeria is considered by 58% of respondents to be one of the more difficult countries to do business in from a tax perspective, as compared to 38% in the 2013 survey.

As one of Africa's largest economies, Nigeria continues to generate a lot of investment traffic given its vast natural resources, huge population and potential market size. Heavily dependent on oil revenues, the country's financial fortunes have taken a dip in light of the recent decline in commodity prices globally. Government is seeking to diversify the economy by encouraging local manufacturing and less dependence on the importation of consumer goods. This has placed a lot of pressure on the domestic currency and intensified the need to increase tax revenues.

Further, branch operations are not permissible in Nigeria and a number of the current tax and regulatory provisions, established during the colonial era and not on a par with current realities, are often a deterrent to business. Examples of this include the commencement rule provisions and the absence of clear guidance on corporate restructuring. The fact that there are three tiers of government in Nigeria with varying taxing powers tends to create a multiplicity of taxes with associated hurdles.

Respondents' feedback highlights the following challenges they have experienced in Nigeria:

- Withholding taxes are highly punitive and usually not recoverable from corporate tax payable where there is relatively low taxable income generated.

- Obtaining withholding tax certificates from local customers is a costly additional administrative burden. These are also not always supplied by customers and tend to get written off.
- Value added tax (VAT) in Nigeria is not a VAT system in the true sense, so it becomes an additional cost.
- VAT refunds require a lot of work and, naturally, a full tax audit, which can often be extremely time consuming and onerous.
- Revenue authorities issue assessments that are arbitrary and based on assumptions, requiring continuous defending.

"South Africa has lots of tax requirements and it will be a nightmare for people with little tax knowledge to deal with all the complex rules and procedures."

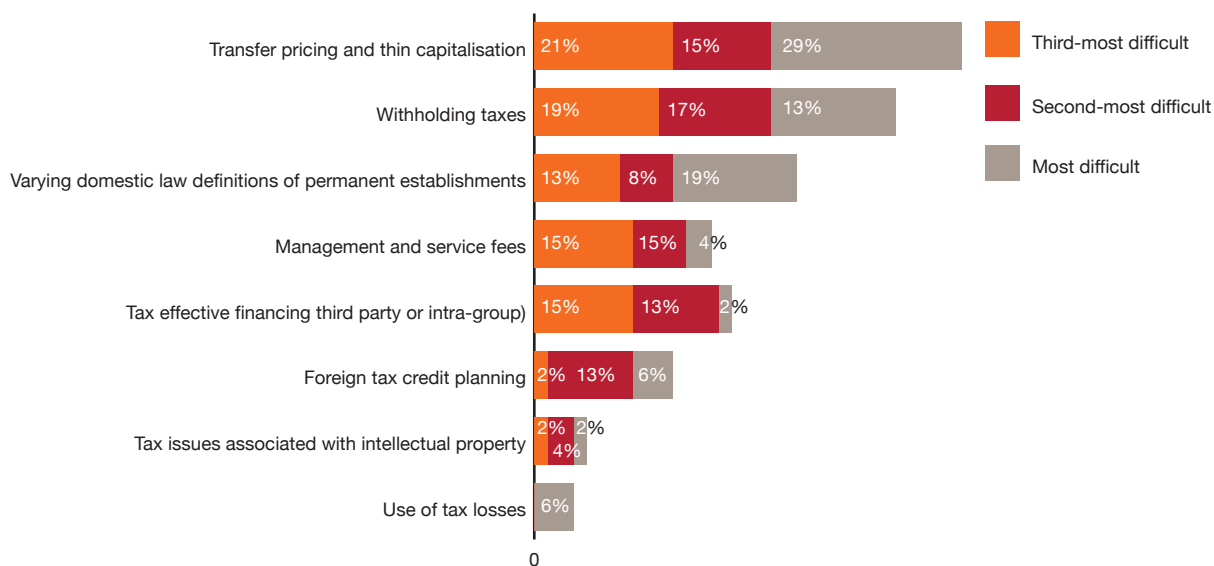
"The DRC has aggressive tax authorities who often misinterpret the law to their own advantage."

"In Kenya, tax laws come into force before the instructions on their implementation have been defined."



Fig. 3 Areas of corporate tax that present the greatest challenges

Q: Please rank the three areas of corporate taxes that present the most difficult challenges for your company with respect to your operations in Africa.



Base: 48

In line with the high risk that respondents associated with different tax types, transfer pricing, thin capitalisation and withholding taxes were ranked as the most challenging tax areas in Africa. Transfer pricing and thin capitalisation are problematic for the majority of respondents, while over 50% of them put withholding taxes at the top of their list of challenges.

Since the 2013 tax survey, transfer pricing has overtaken withholding taxes as being the biggest tax area of concern for most multinational companies in Africa. This

development is, however, not surprising. With the increasing focus on transfer pricing globally and legislation in Africa coming up to speed with global standards, transfer pricing features as a key challenge for companies across Africa.

Yet a lot of improvement is still required in this respect. For instance, some African countries impose transfer pricing on domestic transactions, which is not necessarily in line with best practice. Nonetheless, multinational companies should continue to ensure that their

transfer pricing methodologies reflect the arm's-length principle, resulting in fair remuneration for the jurisdiction where value is being created. This will give them greater certainty on their tax position.

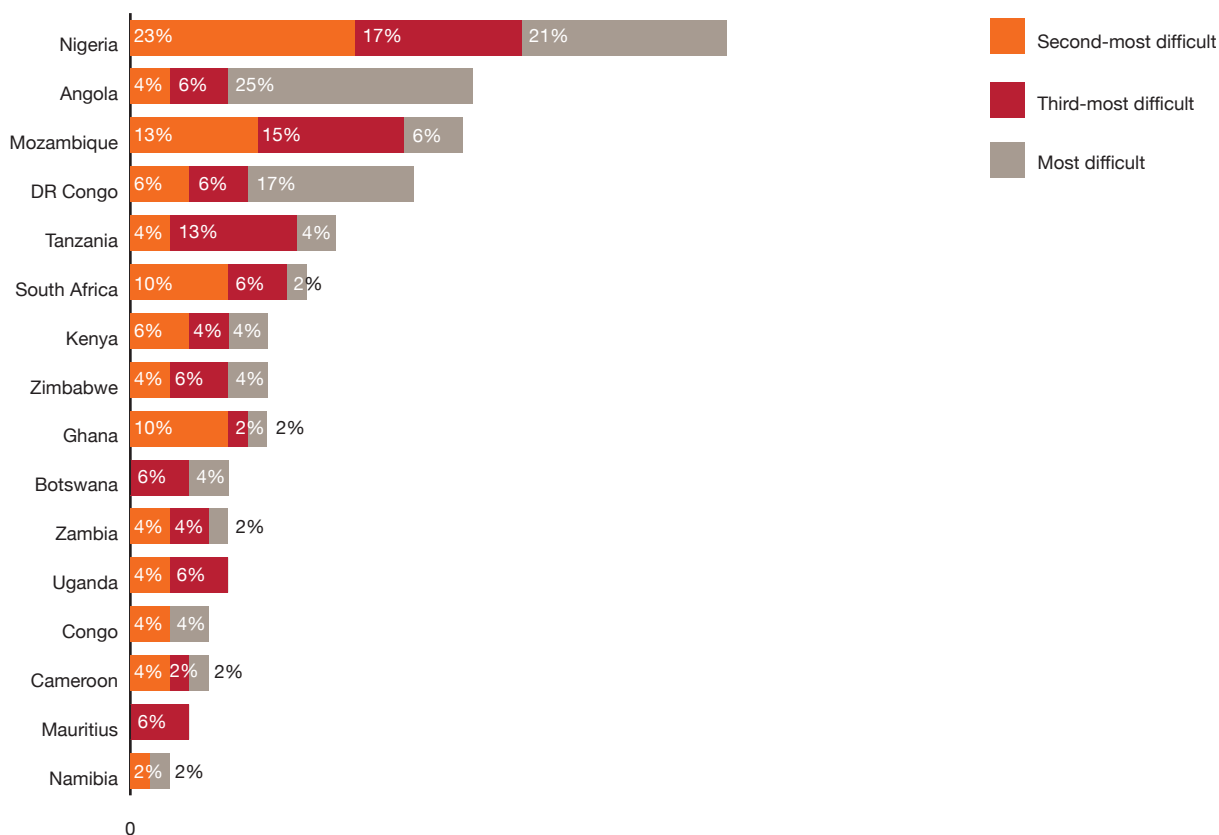
The least challenging tax issues, judging from respondents' views, include the use of tax losses and tax issues associated with intellectual property.



Business and regulation: Most challenging territories and areas

Fig. 4 Countries that present the most difficult business and regulatory challenges

Q: Please rank the three African countries that present the most difficult business and regulatory challenges for your company.



Base: 48

Angola presents the greatest business and regulatory challenges (25%), followed by Nigeria (21%) and the DRC (17%). However, Nigeria is regarded as the most difficult overall in terms of business and

regulatory challenges, having received a ranking of 60%, which is 25% higher than the second-most-difficult country overall.

In this survey, political risk and exchange controls were identified by the respondents as the top two business and regulatory challenges. Furthermore, the lack of clarity and the apparent delay in the issuance of the fiscal and monetary policy directions of the newly installed government in Nigeria may have contributed to exacerbating the situation in the country. Businesses do not like uncertainties and this development in Nigeria did not have a positive impact on the economy.

Also, restrictions issued recently by the Central Bank of Nigeria with regard to the importation of specific goods and services could have contributed to the country's being perceived as posing a challenging business environment. This move by the Central Bank, which was informed by the plunge in oil prices, has increased the pressure on the local currency, creating a far-reaching impact on the economy. This is also underscored by the fact that the issue of exchange controls tops the list of challenges when doing business in Africa.

Indeed, in practice we have encountered numerous instances of clients investing in countries such as Angola, Nigeria and the DRC, only to experience tremendous difficulty in repatriating their profits out of these countries.

Interestingly, though, in spite of the above challenges the majority of respondents look at Nigeria as the most likely destination for future investment. With the new government now fast asserting its economic policies and some guidance on the application thereof becoming apparent, investors will be looking to see how things pan out despite the downturn in oil prices.

In our 2013 survey, South Africa was ranked at 33% in terms of presenting the greatest business and regulatory challenges. In spite of the tough economic times in South Africa, including slowing growth and rising labour unrests, the country's overall business and regulatory ranking has dropped to 19% this year.

Exchange controls remain a thorny issue in South Africa, and the recent immigration laws with regard to visa applications and work permits have made South Africa a challenging country to do business in. The process for renewing expatriate work permits has been made more rigorous and could well have contributed to the difficulties experienced by foreign investors when doing business in South Africa.

Ever since our initial survey in 2007, Angola, Nigeria and the DRC are the countries that have continuously been identified as the most challenging from a business and regulatory perspective, with the three trading places over the years. A common feature of all these countries is that they are heavily dependent on commodities. With the current pressure being experienced in commodities market prices, the difficulties being experienced can be expected to continue.



“Difficulty with getting things approved by NOTAP. Nigeria will not let you insure with insurance outside of Nigeria. Nigeria and Angola – can’t get dollars out of the country so suppliers or creditors can’t be paid timeously.”

“Our business stays clear of Angola due to it being extremely difficult, and costly, to conduct business in that country. Exchange regulations make it very difficult to collect payments. DRC also very difficult to collect payments.”

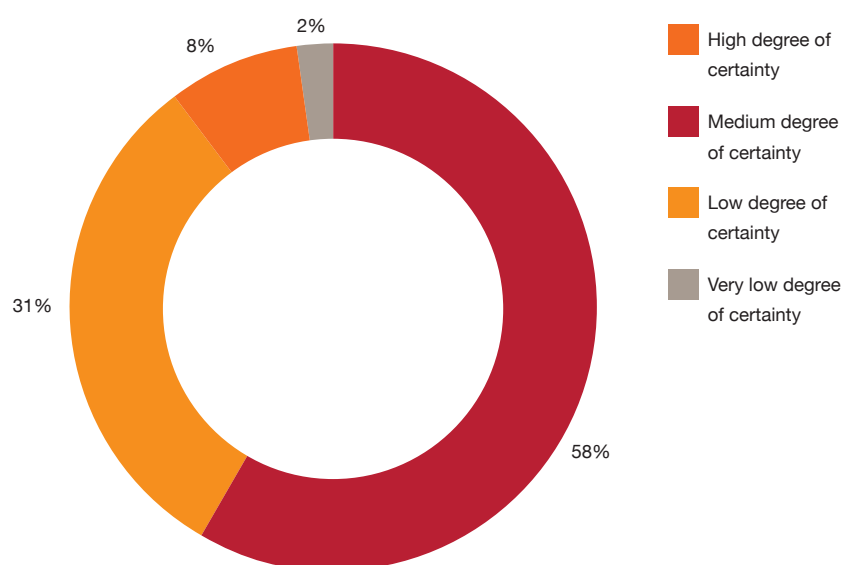
“Ensuring contracts are appropriately registered to ensure that funds can be repatriated/recovered.”



Realities of applying taxation and regulatory legislation

Fig. 5 Certainty over practical application of taxation and regulatory legislation

Q: What level of certainty do you have on the practical application of the taxation and regulatory legislation to your business operations across Africa?



Base: 48

“Changes to legislation are not communicated timeously.”

“Tax audit findings always a surprise. Tax refund situations to be avoided [as it is generally difficult to access].”

The vast majority of respondents (92%) say they only have a low or medium degree of certainty about the practical application of tax and regulatory legislation to their business operations across Africa. A mere 8% said they enjoyed a relatively high degree of certainty.

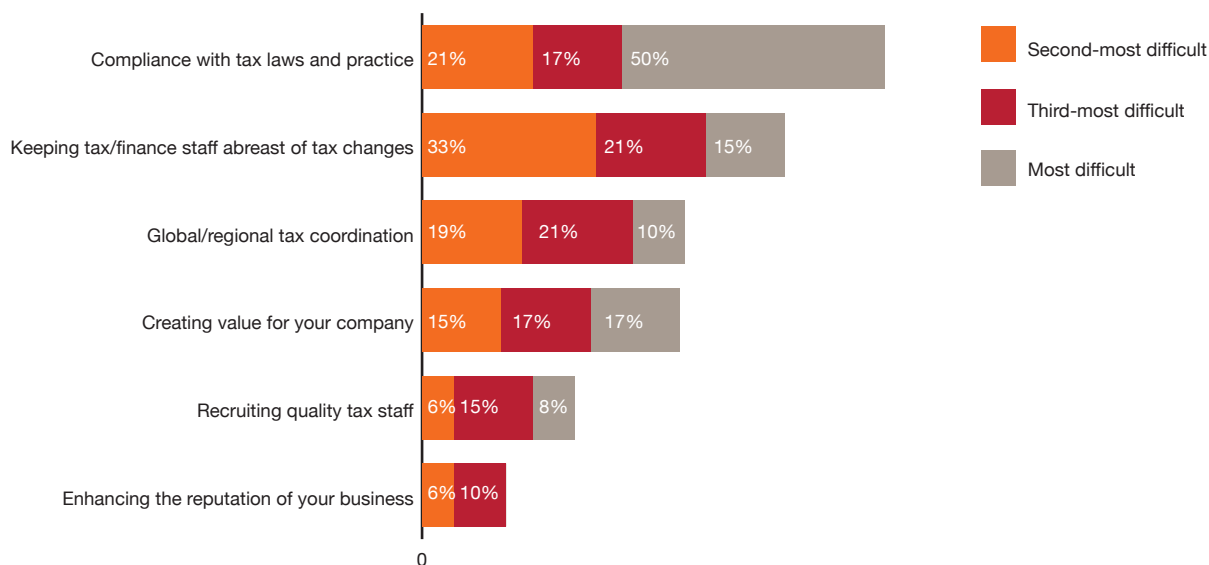
This question touches on a very important issue that we encounter when assisting clients to do business in Africa. Often, legislation is not clear and the lack of interpretation guidance and case law makes it very difficult to consider the application of certain legislation in a specific situation. Further, legislation changes frequently and the public is sometimes unaware of such changes.

In our 2013 tax survey, respondents suggested that business advisors give differing opinions due to legislation being ambiguous, and the same sentiments were shared by respondents in the 2015 survey. Another reason attributed to the uncertainty is the high frequency of legislative changes.

Respondents suggest that authorities are not always competent or cooperative, and tax officers within the authorities are not always informed of legislative changes being implemented. In dealing with these kinds of challenges, we often find that obtaining guidance from the highest levels in each tax administration yields the best results. However, the challenge of getting certainty on tax outcomes persists.

Fig. 6 Challenges facing tax functions

Q: Please rank the three most important challenges facing your tax function with regard to your African operations.



Base: 48

Compliance with tax laws and practice is by far the biggest challenge facing the tax functions of companies doing business in Africa, with 50% of respondents recognising it as their most significant challenge and 88% including it among their top three challenges.

Compliance was also seen as the biggest challenge in our 2013 survey, but the proportion of respondents recognising it as such has reduced marginally, given that last time 95% of respondents included this among their top three challenges.

Keeping the relevant staff abreast of tax changes also stood out as a major concern, featuring among the top three challenges for 69% of respondents. This perhaps highlights the fact that access to changes in tax legislation is still a challenge for taxpayers. This ought not to be so.

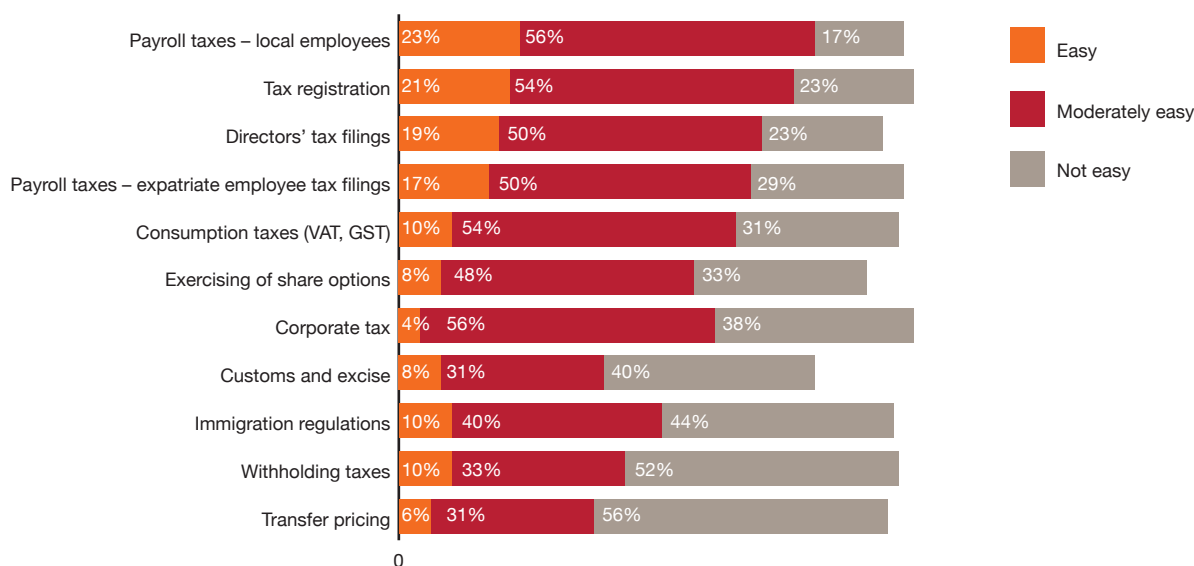
Respondents' comments suggest that where multinationals take a centralised approach to controlling the tax function for multiple African jurisdictions, it is more important for the regional controller to be aware of tax changes and keep the rest of the group informed. However, as suggested in previous parts of this publication, legislation in Africa is not always clear and there are frequent changes that are not always publicised. As such, the regional controllers may not always be aware of current legislation.

Having a coordinated approach to tax strategy and compliance on the African continent is certainly recommended. It helps to ensure that lessons learned from a particular jurisdiction can be applied to another. Efficiencies are achieved when multinational companies work with tax advisers with a well-established and integrated network to ease the challenges of dealing with multiple jurisdictions.



Fig. 7 Tax and regulatory compliance

Q: What has been your company's experience in relation to tax and regulatory compliance in the African countries where you operate?



Base: 48

In line with the tax areas that companies find most challenging, transfer pricing and withholding tax appeared to pose considerable compliance difficulties for most respondents. Over half of the respondents found these areas to be the most difficult in terms of regulatory compliance.

Immigration regulations and customs and excise obligations also appeared to be challenging from a compliance perspective,

with over 40% of respondents indicating these are not easy.

It is, however, encouraging to note payroll taxes for local nationals seem to be the least difficult to comply with, based on the options provided to respondents. However, tax compliance for expatriates is still an area of concern as the individuals concerned still generally have obligations to meet in both their home and host jurisdictions.

Compared to 2013, the general attitude to compliance with respect to 'exercising of share options' seems to have worsened. In Africa, very few countries have specific legislation to address the issue and where they do, it is generally with limited practical application. This perhaps is a key reason why respondents struggle with understanding how to achieve easy compliance.

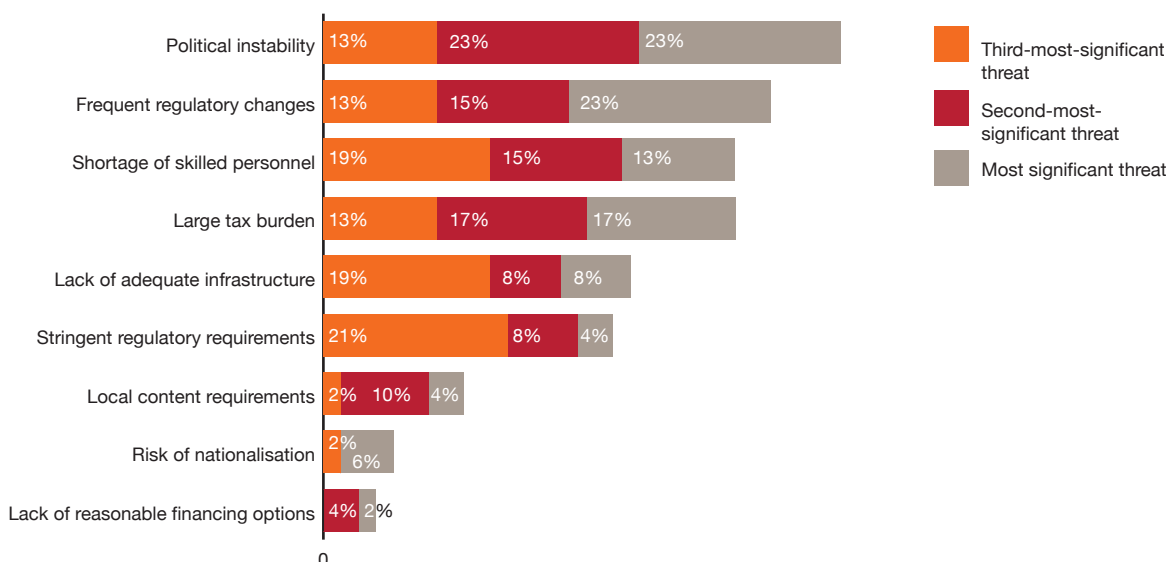




Threats to business growth

Fig. 8 Greatest threats to business growth

Q: What is the top business threat to growth across Africa?



Base: 48

Political instability remains the most significant threat to business growth in Africa, though this time the ranking has reduced from 33% to 23% of respondents identifying it as an issue. Interestingly, frequent regulatory challenges and political instability were ranked the same by the respondents.

The other two threats identified, in descending order, are the huge tax burden (17%) and a shortage of skilled personnel (13%). Much as tax is a consequence of doing business, we continue to see it as a major concern and one that in most cases is a hindrance to business growth in Africa's fledgling economies. This probably explains why it still ranks high as one of the most significant threats to business growth on the continent.

The tax burden issue is mostly prevalent in jurisdictions that have central and federal government tax obligations. Also, cross-border transactions have proved to be very challenging, especially with regard to the application of tax treaties, where we continue to see total disregard of tax treaties in force in some jurisdictions. The pressure to increase tax revenue has resulted in the withdrawal of several tax exemptions, especially in East and West Africa, which has also contributed to the increase in the tax burden. In our view, the introduction of capital gains taxes in some jurisdictions could also have contributed to the tax burden ranking.

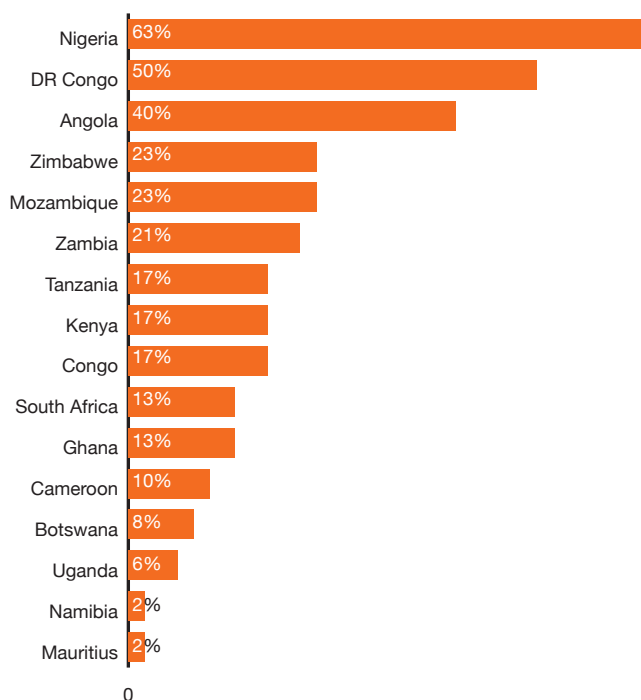
The third top-most threat of skilled personnel remains a problem for business growth in Africa, especially for industries that require relatively skilled human resources, like the oil and gas industry. This challenge is likely in our view to continue, as upskilling may take some time and immigration rules continue to be extremely challenging.



Tax risk areas

Fig. 9 Countries posing the greatest risk of tax and regulatory uncertainty

Q: Which countries pose the biggest risk of uncertainty in the application of taxation and regulatory laws in Africa?



Base: 48

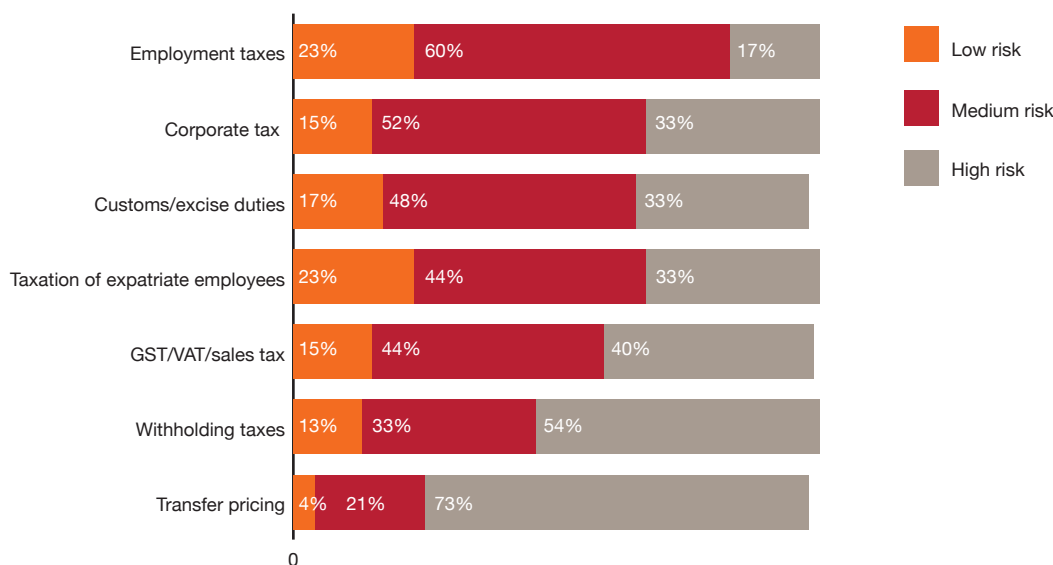
Perhaps not surprisingly, many of the same countries – specifically Nigeria, the DRC and Angola – considered ‘difficult’ in earlier questions were also identified as presenting the highest levels of uncertainty regarding the application of taxation and regulatory laws.

The exchange control rules in Angola and Nigeria have become more stringent due, primarily, to the pressure on the domestic currencies in the two countries as a result of falling oil prices. This is a major reason cited by respondents as influencing their decisions.

Angola and the DRC also featured among the highest in the 2013 tax survey, along with Mozambique at the time, which seems to pose less risk of uncertainty this time round.

Fig. 10 Degree of risk associated with different areas of taxation

Q: What degree of risk do you associate with each of the following areas of taxation?



Base: 48



Transfer pricing (TP) has become an apparent risk for most African countries, with 73% of respondents ranking it as a high-risk area in terms of taxation. This trend steadily increased from 30% in 2007 to 55% in 2013, to become the top-most area of concern in the latest survey. This indicates that transfer pricing is very much on the radar of tax authorities in Africa's vibrant economies. Transfer pricing disputes have been common in Kenya, Nigeria, South Africa and Uganda. Considering the high revenue contribution of most MNEs (70% of the total tax base in Rwanda and 80% in Nigeria, while one MNE pays 20% of the total tax base in Burundi), transfer pricing is a tax area that needs to be adequately addressed.

One of the developments that we have seen happening since our last survey in 2013 has been increased cooperation among the revenue authorities, especially those who are members of the Africa Tax Administration Forum. Also, there is a higher appetite for amending tax laws, as witnessed by the following:

- Gabon amended some of its tax law provisions to the effect that transfer pricing rules only affect companies involved in transactions with group companies outside the Central African Economic and Monetary region.
- Guinea (Conakry) introduced a transfer pricing documentation requirement for intercompany transactions for Guinean companies based on their turnover and control.
- Tanzania published a set of TP regulations.

- Withholding taxes, the major risk area in our last survey, have traded places with TP this year, dropping back to rank second. 54% of the respondents in this year's survey find withholding tax to be an area of concern. In practice, we see that the major risk areas lie in:

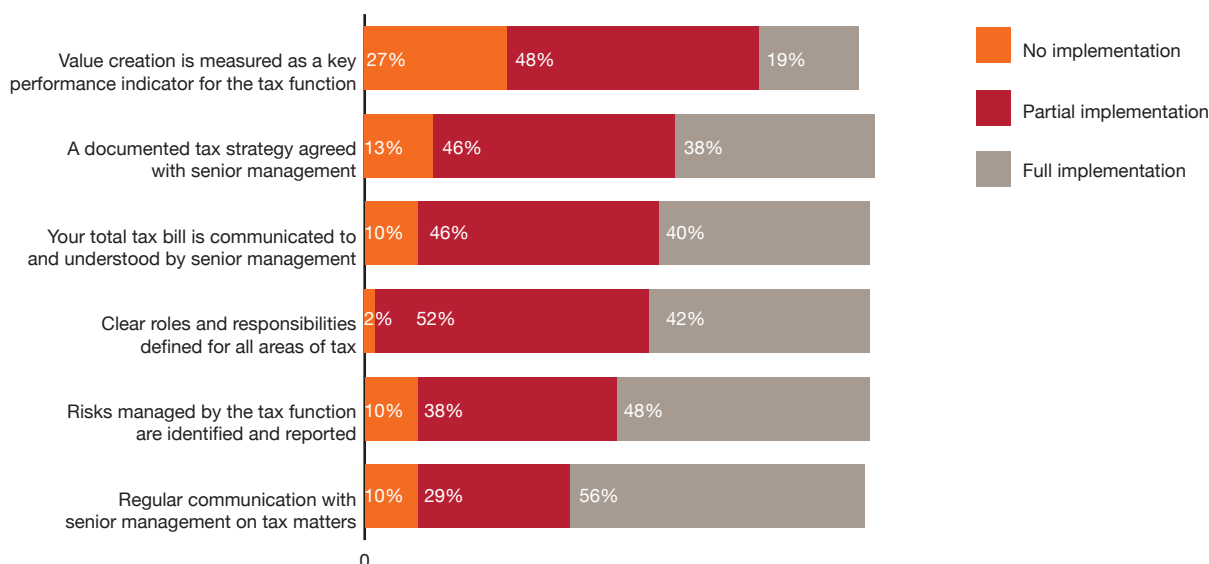
- Recovery of foreign and domestic taxes in instances where tax has been withheld in-country;
- Imposing of withholding tax on transactions that would ordinarily not have been subject to withholding tax, especially under double taxation agreements; and
- Inappropriate contract pricing that does not take withholding tax into consideration, in which case the profit margins are reduced.

The third-ranking area of concern relates to indirect taxes. In this respect we see VAT as one of the major areas of concern in practice. In particular, the VAT refund process takes unnecessarily long in most jurisdictions. However, we are seeing some improvements being made; for example, the Ghana Revenue Authority (GRA) has introduced a General Refund Account in which an amount of not more than 4% of tax collected has been set aside for the payment of VAT refunds.

Tax strategy and tax planning

Fig. 11 Level of implementation of tax strategy and planning

Q: Please indicate the extent to which the following have been implemented in your company with regard to your African operations.



Base: 48

Tax discussions are increasingly topical in boardroom meetings. In order to find out what companies are discussing and planning with regard to tax, we asked the respondents questions about their tax strategy in Africa.

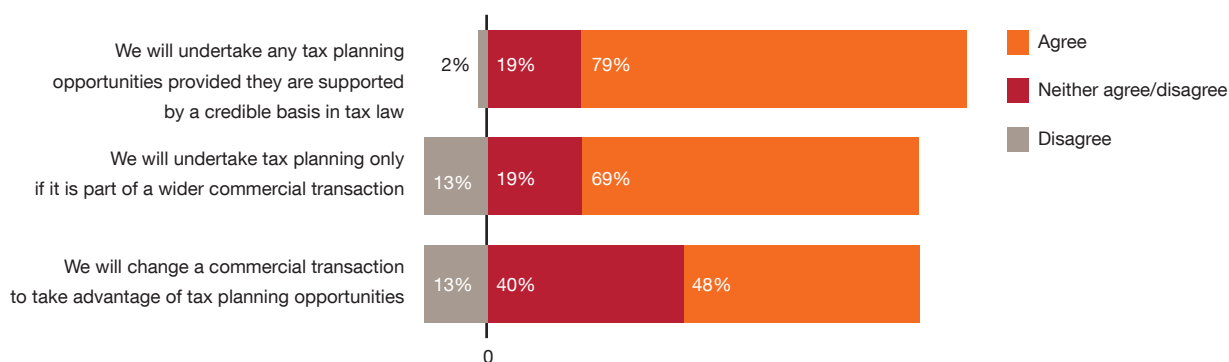
56% of the respondents' companies have measures in place for "regular communication with senior management on tax matters". Interestingly, in spite of this communication, 27% of the respondents were of the view that "value creation is not measured as a key performance indicator for the tax function". This might suggest that tax is recognised as a key strategic function; however, companies are still struggling to assess the value of the tax function.

The number of companies with a documented tax strategy has increased from 21% in 2013 to 38% in this year's survey. This suggests that tax strategy is increasingly becoming an important aspect to companies across Africa. This is also underscored by the fact that only 2% of respondents were of the view that "clear roles and responsibilities are not defined for all areas of tax". There has been a tremendous improvement in this parameter on the 2013 survey, when 21% of respondents reported that the tax role is not clearly defined in their companies.

Overall, there has been a steady improvement in companies' tax strategies from 2007 to 2015. According to the respondents, companies are communicating their tax bill to senior management, and risks managed by the tax function are identified and reported. This shows that companies are continuously aligning their tax function with their business strategy.

Fig. 12 Tax planning practices

Q: Please choose the most appropriate answer to the following questions regarding tax planning in your company.



Base: 48

There has been an increase in appetite for tax planning opportunities from 44% of respondents who were willing in 2013 to undertake tax planning opportunities provided it is within the ambit of the law, to 79% this year. Similarly, the number of respondents that are willing to take up tax planning as part of a wider commercial transaction has increased from 26% in 2013 to 69% this year. The willingness to

take up tax planning opportunities may be informed by the need for companies to cut back on their cost structure as the competition in different African markets intensifies.

Though the “tax tail should not wag the investment dog”, 48% of respondents were willing to change their commercial transactions to take advantage of available

tax planning opportunities. However, 40% of respondents neither agreed nor disagreed with the statement that they would change their commercial strategy to meet their tax planning opportunities. With the BEPS action plans taking more shape, it is predicted that the appetite for tax planning may be significantly impacted in the foreseeable future.

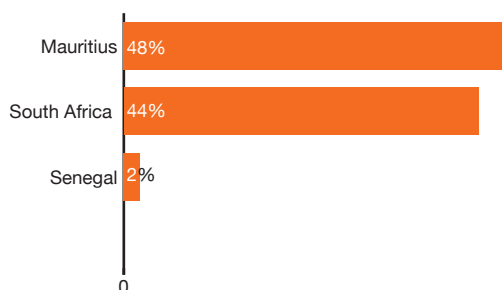
“We will only enter into commercial transactions where the associated approach to taxation is justifiable under any reasonable interpretation of the underlying facts as well as compliant in law and regulation.”

“Our obligation is to pay the amount of tax legally due in any territory, in accordance with rules set by governments.”

“We endeavour to manage all taxes within the group in order to provide a sustainable and competitive outcome.”

Fig. 13 Location of holding companies

Q: What country are you likely to use as a holding company jurisdiction for your operations in Africa?



Base: 48

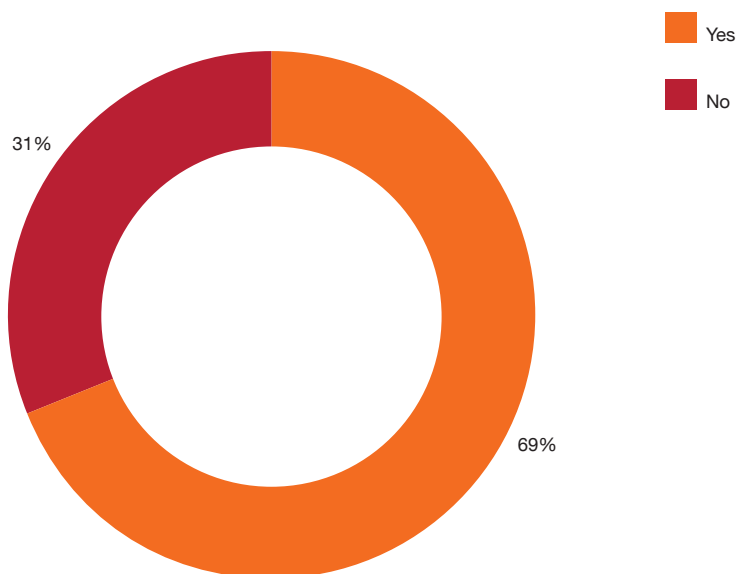
Mauritius and South Africa seem to be more or less head to head in terms of being preferred as a holding company location for the Africa region. Senegal was also a choice for the minority, and is probably better suited to companies that have the majority of their African operations in the Francophone region.

It is interesting to note that since the last survey in 2013, more respondents are willing to use South Africa as a holding company location. This may be attributed to the South African headquarter company regime not being as new anymore and hence gaining momentum. The regime provides for the repatriation of dividends, interest and royalties without withholding tax where certain conditions are met.

Senegal, whilst not as popular for use as a hub as Mauritius and South Africa are, is growing in popularity as a hub for investments into Francophone countries, while Kenya is becoming a hub for East Africa. Outside of Africa, the main holding locations are Dubai, the Netherlands, the UK and France, since they each have extensive tax treaties with African countries.

Fig. 14 Importance of local tax environment to investment decisions

Q: Is the total tax contribution in African countries a consideration for which countries you choose to invest into?



Base: 48

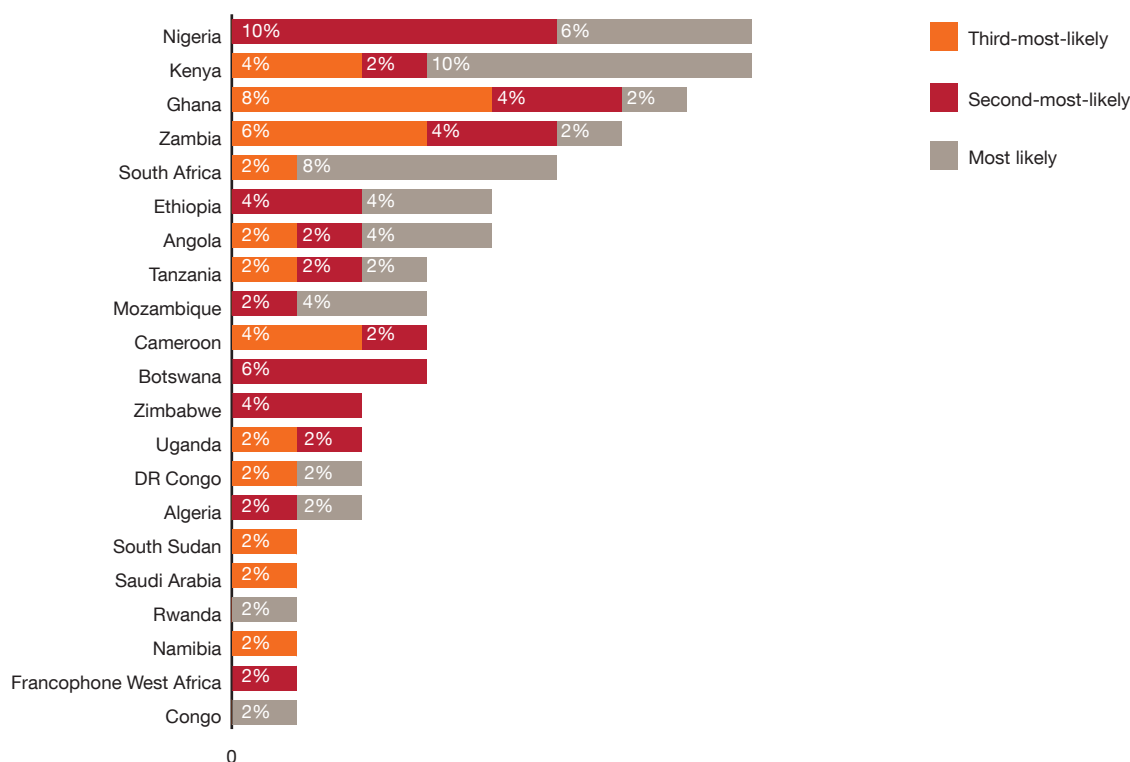
To 69% of respondents, tax is a key consideration when investing in Africa, whereas for 31% it is not. The number of respondents who consider tax to be an area of concern when investing into Africa has generally increased when compared to 2013 (58%). This could largely be due to the increased scrutiny and punitive penalty measures that African tax authorities

have instituted over the years. We see an increasing number of tax disputes, especially with regard to international tax matters, where transfer pricing has continued to attract a lot of attention. This trend is likely to continue, especially with the BEPS developments continuing to indirectly shape tax policy and reforms in Africa.



Fig. 15 Countries considered for expansion in the short term

Q: List the top three countries that your company is likely to expand its operations into over the next 12 to 24 months.



Base: 48



In 2014, Nigeria's economy overtook that of South Africa as Africa's largest with a gross domestic product of over \$500bn, and it has continued to attract a lot of interest from investors. A lot has changed between then and now. Notwithstanding, the respondents seem to resonate with this attraction as, overall, Nigeria was ranked first (16%), Kenya second (12%) and South Africa third (8%) among top potential markets for expansion into over the next year or two.

In spite of the above, Nigeria presents numerous challenges to doing business, as reported earlier. However, despite these challenges, including the recent slump in the price of oil, investors are still interested in this market as there is a burgeoning upcoming middle class in the country. Nigeria's population of over 170 million is likely to continue attracting investors, especially in the retail and automotive spaces. Also, a large services and agricultural sector is developing which will further diversify the Nigerian economy, thereby creating further opportunities for investors in this market.

We are seeing Kenya attracting investors too, especially those who are considering venturing into East Africa. Kenya is being used as a business hub for multinationals with interests in East Africa. The recent enactment of the Special Economic Zones Act is likely to continue attracting investors to Kenya as the country positions itself as a hub for the East Africa region. Furthermore, double taxation agreements recently concluded with countries like Mauritius, the Netherlands and South Africa will likely provide greater flexibility for investment structuring in the country.

South Africa has remained attractive to investors because of its economic stability and well developed infrastructure compared to most other African countries. We see South Africa also attracting more multinationals, especially those making their first foray into Africa.

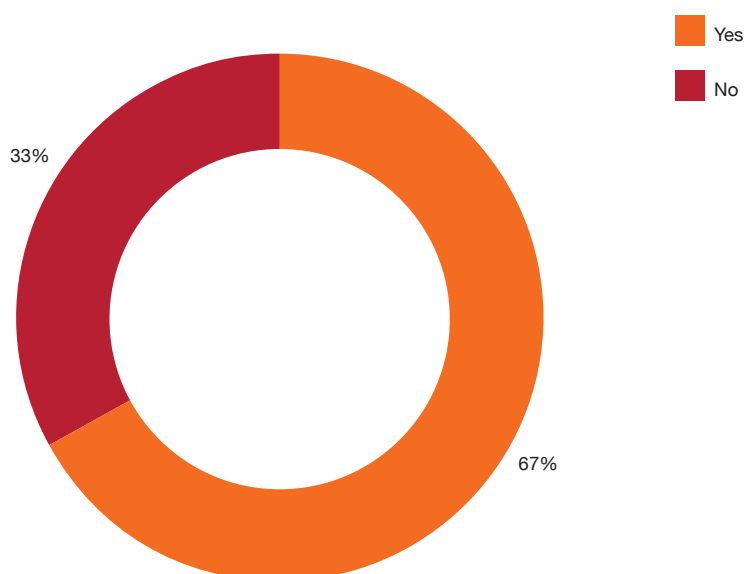
Other top upcoming markets that investors earmarked included Angola, Botswana, Ghana, Ethiopia and Mozambique.

A man with a shaved head and a mustache, wearing a blue and white striped shirt under a dark vest, stands in a wine cellar. In the background, several wooden wine barrels are stacked against a stone wall.

Base erosion and profit shifting (BEPS)

Fig. 16 Impact of BEPS concerns on investment decisions

Q: Are the recent discussions around base erosion and profit shifting tax concerns relevant for your investment decisions?



Base: 48

In our 2013 survey, the majority of respondents (55%) reported that BEPS did not affect their investment decisions. The balance (45%) reported that they had considered BEPS in making investment decisions. In this year's survey, 67% of respondents indicated that BEPS is an area of concern when making investment decisions, whereas 33% of respondents did not view BEPS as a concerning factor.

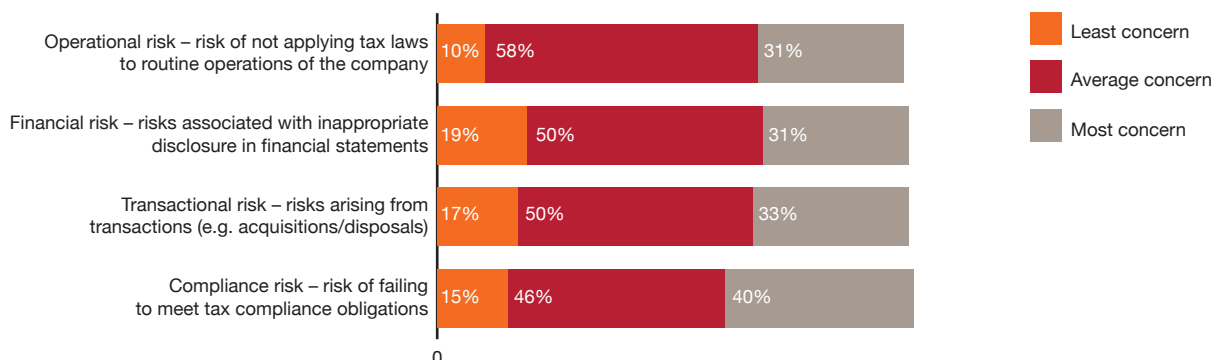
There have been several BEPS developments since July 2013, when the OECD published the 15-point BEPS action plan. Related discussions and consultations resulted in a final BEPS paper, which was published in October 2015. This paper sets out how all the action plans will impact the international tax space. Overall, the BEPS discussion has become a common feature of many boardroom meetings, and the majority of this year's respondents find it worthy of consideration when making their investment decisions.



Managing risk and internal controls

Fig. 17 Managing risk and internal controls

Q: Please rank the following risks in order of concern and indicate your degree of comfort that controls are in place in your company to address each category of risk (with regard to your operations in Africa).



Base: 48

Compliance risk as it relates to failing to meet tax compliance obligations was ranked highest as the area of most concern (40%) compared to all other risk types ranked by the respondents. Transactional risk was ranked second (33%), whereas financial and operational risks were ranked as the areas of least concern (31%).

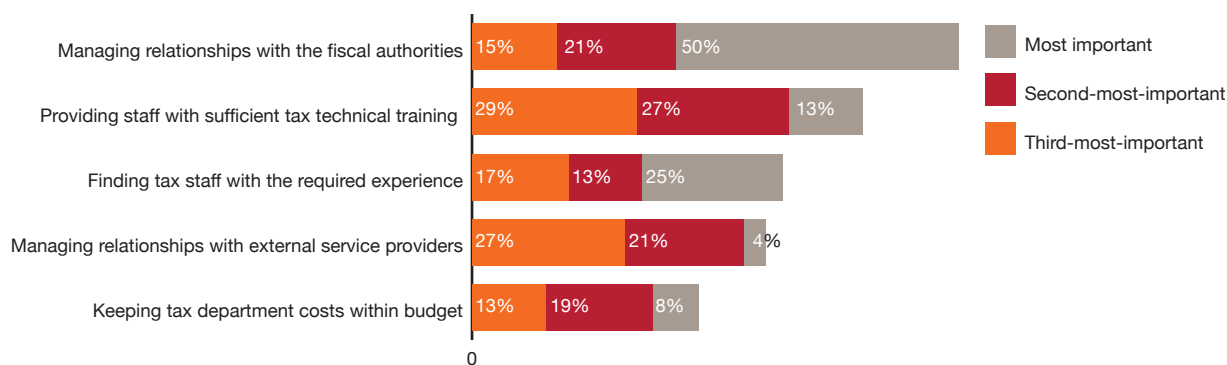
However, in the 2013 survey, financial risk was ranked higher among risk types of most concern to respondents. Our 2007 survey ranked compliance risk as the highest.

The measurement of compliance risk as an area of concern is likely to be informed by the punitive measures that are taken in several African countries against companies that find themselves in contravention of the tax law. For example, in Zambia the penalty for late payment of VAT is 0.5% of the tax due for each day that it remains unpaid. Interest is also charged for each month that a payment remains overdue. In South Africa, an additional penalty of up to 200% may be imposed for evasion of tax, while it also attracts criminal prosecution. In Nigeria, a penalty of 5% may be imposed as well as interest of up to 21% per annum.

The onerous compliance burden in most of the African countries may also have contributed to respondents' sentiments. According to the PwC publication, *Paying Taxes 2016*, on average it takes 313 hours in Africa for a company to comply with its tax filing obligations, whereas the world average is 261 hours. The individual country statistics are even worse: in Nigeria it takes 908 hours to comply; in Cameroon, 630 hours; in Ethiopia, 306 hours; and in Angola, 282 hours. However, we are seeing positive tax reforms being introduced in most African countries at present, and hopefully this trend will continue in future.

Fig. 18 Tax management challenges

Q: Please rank by level of importance each of the following challenges in your company.



Base: 48

Managing relationships with fiscal authorities stood out as the most significant challenge that companies are facing, with 86% of respondents categorising this as being highly challenging. This was also the case in the previous tax survey. However, it appears to be even more of a challenge now. This can be attributed to the fact that

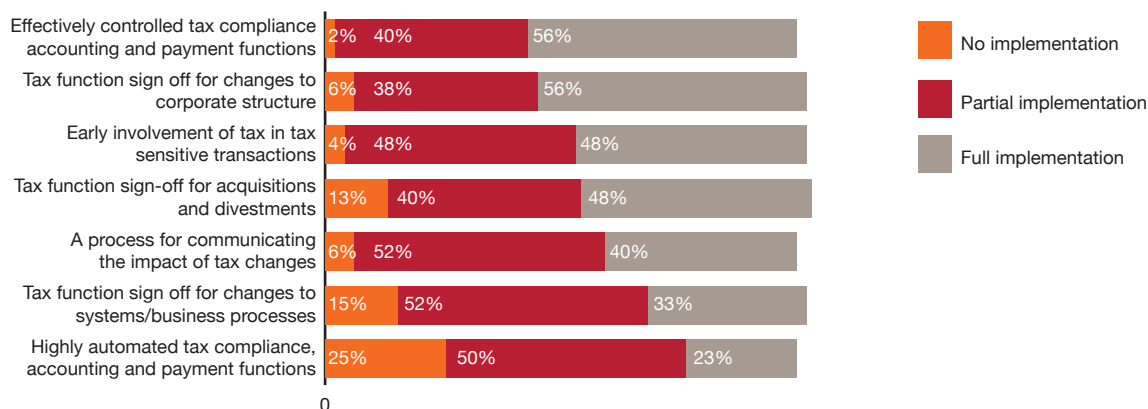
companies face repeated tax audits and a lack of legislative guidance from the tax authorities, as highlighted earlier in this publication.

The second-most-important tax challenge is finding tax staff with the necessary experience. This was also reflected in the

2013 tax survey. This shows that to find qualified people and then retain them is still proving to be difficult. The situation becomes even worse when a company is expanding quickly, when the pressure to have the right people in place to handle tax matters increases considerably.

Fig. 19 Tax compliance and advisory

Q: Please indicate the extent to which the following have been implemented in your company.



Base: 48

We asked respondents a range of questions to assess whether they have an adequate tax strategy in place and whether it has been properly implemented throughout their organisation. 56% of respondents have fully implemented effectively controlled tax compliance, accounting and payment functions and tax function sign-off for changes to their corporate structure.

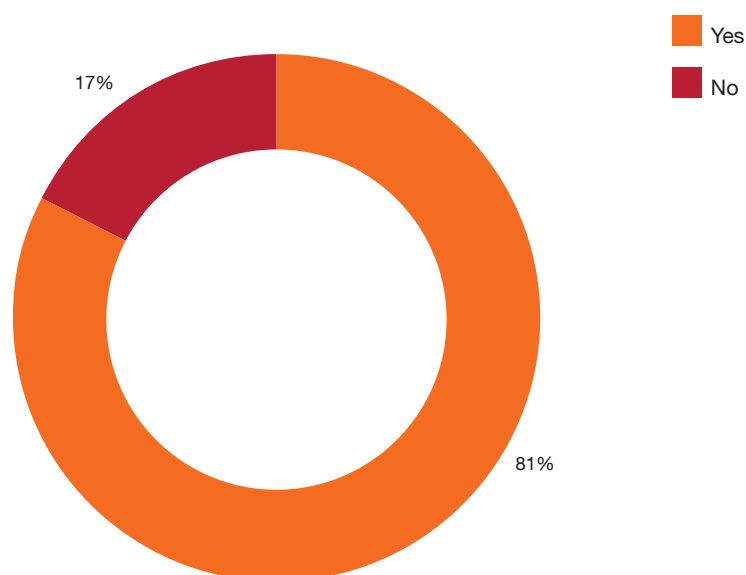
With companies increasingly expanding across the continent, it is encouraging to note high levels of full implementation of tax function sign-off for changes to corporate structures. This is supported by a relatively high number of respondents (48%) involving the tax function on tax-sensitive transactions at an early stage, and full implementation of tax function sign-off for acquisitions and divestments. This is certainly an interesting development and highlights the importance of tax in investment decisions.

At the same time, 25% of respondents do not have highly automated tax compliance, accounting and payment functions. This result might suggest that companies do not feel it is necessary to have automated functions for tax compliance, or perhaps that they do not yet deem it necessary to have such functions in view of the frequent legislative changes.

Tax audits

Fig. 20 Prevalence of tax audits

Q: Has your company been subject to a tax audit recently in any of the jurisdictions you operate in across Africa?



Base: 48

Over 80% of companies responding had been subjected to tax audits in Africa. This is a huge increase from the 2013 survey, in which only 28% of respondents had been subject to tax audits shortly before the survey. The increasing number of audits has already been highlighted earlier in this publication as being one of respondents' main concerns, especially in terms of audits being quite frequent and authorities being aggressive and sometimes slow to respond to appeals.

The ambiguity of legislation in many African countries further contributes to lengthening the audit process. The increasing number and frequency of tax audits may be a nuisance for companies, but for some countries, they are also an essential part of growing their level of tax sophistication and increased tax collection.

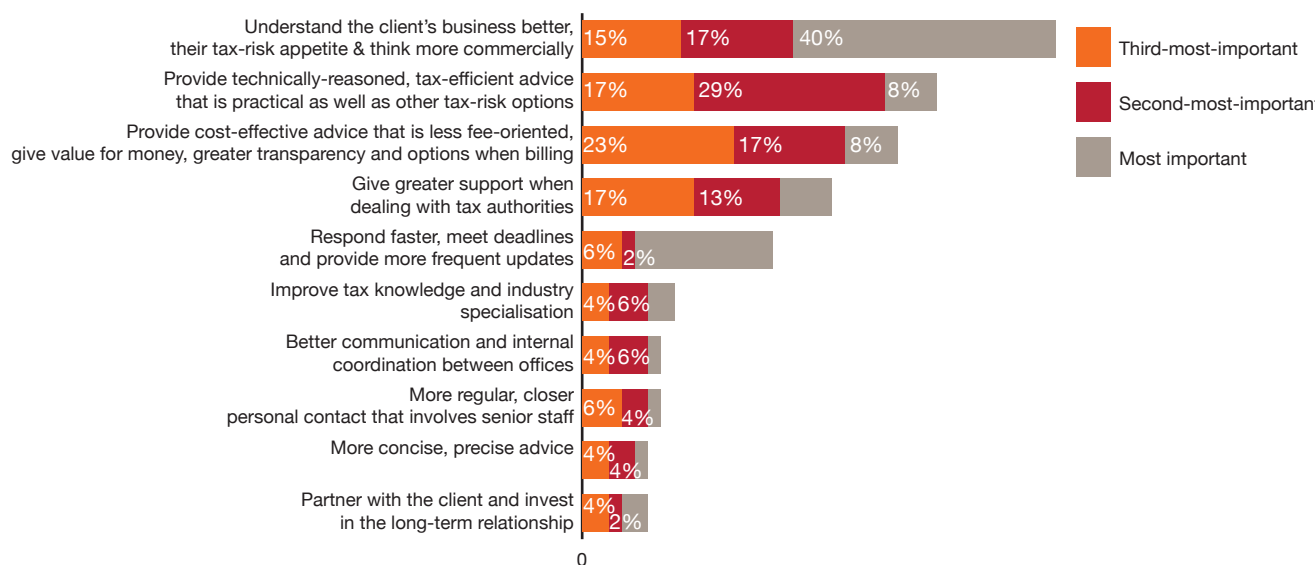
“The tax authorities have limited understanding of our business and the tax legislation.”

“The main concern is the scope of the audits undertaken (these audits span a number of years and cover a wide range of transactions) and the amount of resources, including senior management time, that has to be dedicated to the audit.”

Working with tax advisors

Fig. 21 Ways in which tax advisors could improve their services

Q: Please rank the three ways in which advisors could improve the tax services they render to you.



Base: 48

We asked respondents to give us feedback on ways in which tax advisors could improve the service they provide to clients doing business in Africa. While some said that all factors are important, what stood out is that 40% believe it is most important for advisors to prioritise understanding their clients' businesses and tax risk appetites better as well as being more commercially minded. This is certainly an increase from the 2013 survey, where only 35% of respondents expressed this sentiment. It is evident from the responses as well as comments on the survey that advisors need to put more effort into knowing their clients and their businesses to enable them to provide relevant advice.

The second improvement that respondents requested was that advisors should respond faster, meet deadlines and provide more frequent tax updates. From our experience, clients value the ability of their advisers to provide clear advice in a timely manner to enable decision-making. Certainly, there is little benefit in providing the required advice after a client has had to take a decision.

The ability to provide well-reasoned and technically sound advice of practical relevance is still highly valued by clients. Advice also needs to be provided in a cost-efficient manner, at the right time and price.



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Afritax

Afritax is PwC's quarterly newsletter that gives a snapshot of the most significant recent tax and regulatory changes on the African continent.

Please go to the link below to access *AfriTax*:
<http://www.pwc.co.za/en/publications/afritax-news.jhtml>

The Africa Coordination Centre

Doing business on the African continent can be challenging and sometimes intimidating. In response, PwC has established the Africa Coordination Centre (ACC) in Johannesburg, comprising a team of specialists focused on Africa.

The ACC provides information and services relating to tax, mobility and other business matters to clients as well as PwC offices globally.

What the ACC does...



Act as a **single point of contact** for Africa tax-related matters



Provide **central coordination** and **oversight** of pan-Africa tax and mobility projects



Support your business as you expand in Africa



Deliver **technology**-enabled **international mobility** solutions



Compliance **services outsourcing** (e.g. tax, immigration, payroll, etc.)



Facilitate **direct access to PwC specialists** across Africa



Access to PwC Africa's wide range of **thought leadership** information



Organise Doing Business in Africa **events**



Provide **clear** and **prompt** responses to questions on business activities in Africa

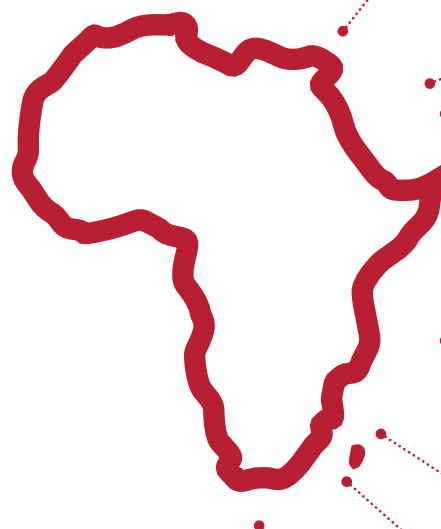


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