

Doing business in Africa

Focus on Mozambique

October 2019



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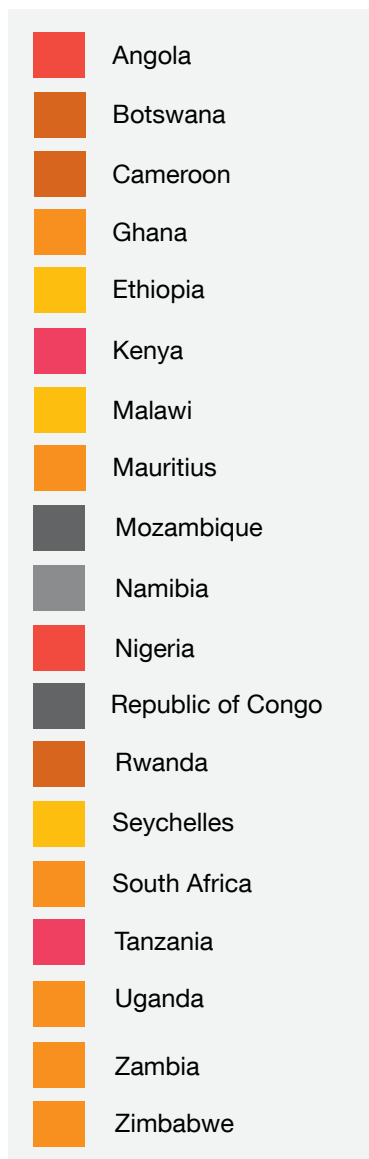
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Doing business seminars –
a PwC Africa Desk initiative

1



Seminars so far



The PwC presence in Africa

In Africa

- Member firms in **34** countries with over **9,000** professional staff.
- We have the largest footprint of professional services on the African continent.
- All our African firms are locally owned.
- Provide a range of professional business advisory services to the public and private sectors throughout the continent.
- Committed to the development and prosperity of the African people and economies.



The Africa Coordination Centre (ACC)

- The ACC acts as a one-stop shop for clients engaging in cross-border transactions across Africa, ensuring the smooth delivery of tax services.
- The Centre is staffed by analysts with multi-country experience, who speak 3+ languages fluently, including English, French and Portuguese.

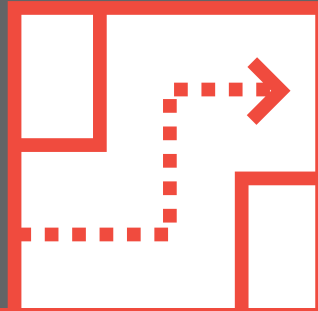


How the Africa Desk can support you



Managing cross-border engagements with one single point of contact

Central contact for quick technical guidance



Identification of right subject matter experts and oversight of high-quality advice

Guidance on business practices and experiences when dealing with other African countries



Proactive regular updates on new developments in engaged countries

Coordinating thought leadership pieces and proposals including multiple territories

Thought leadership – Afritax Newsletter

AfriTax Stay informed

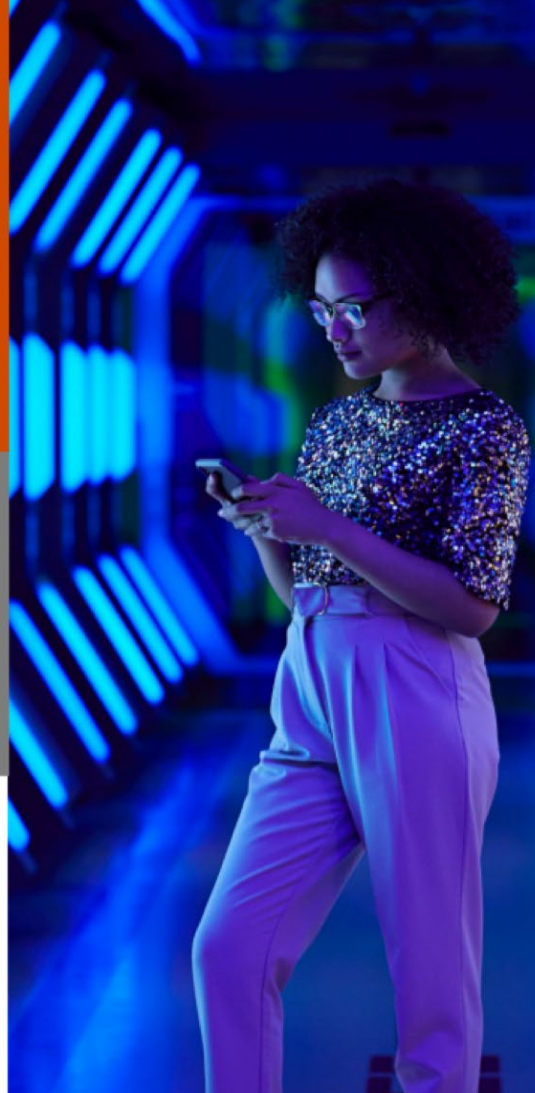
Issue 40 – Quarter ended 31 March 2019

www.pwc.co.za/afritax

Greetings

At the PwC Africa Desk in Johannesburg, we are committed to helping our clients to access, and keep up with, the diverse obligations incurred by their African operations. **Afritax**, our quarterly newsletter, provides a snapshot of the most significant recent tax and regulatory changes in Africa which have happened in the previous quarter.

We trust you will find this publication useful, and look forward to receiving your comments.



Why this seminar?

2



Mozambique

- Natural gas discoveries and the recent launching of two natural gas projects have positioned Mozambique as a development hub in the near future
- Expected investment spend over the next five years is estimated at \$55bn
- This seminar provides valuable insight on the opportunities available, entry strategies, and what every investor and service provider can expect.



Focus on Mozambique

3

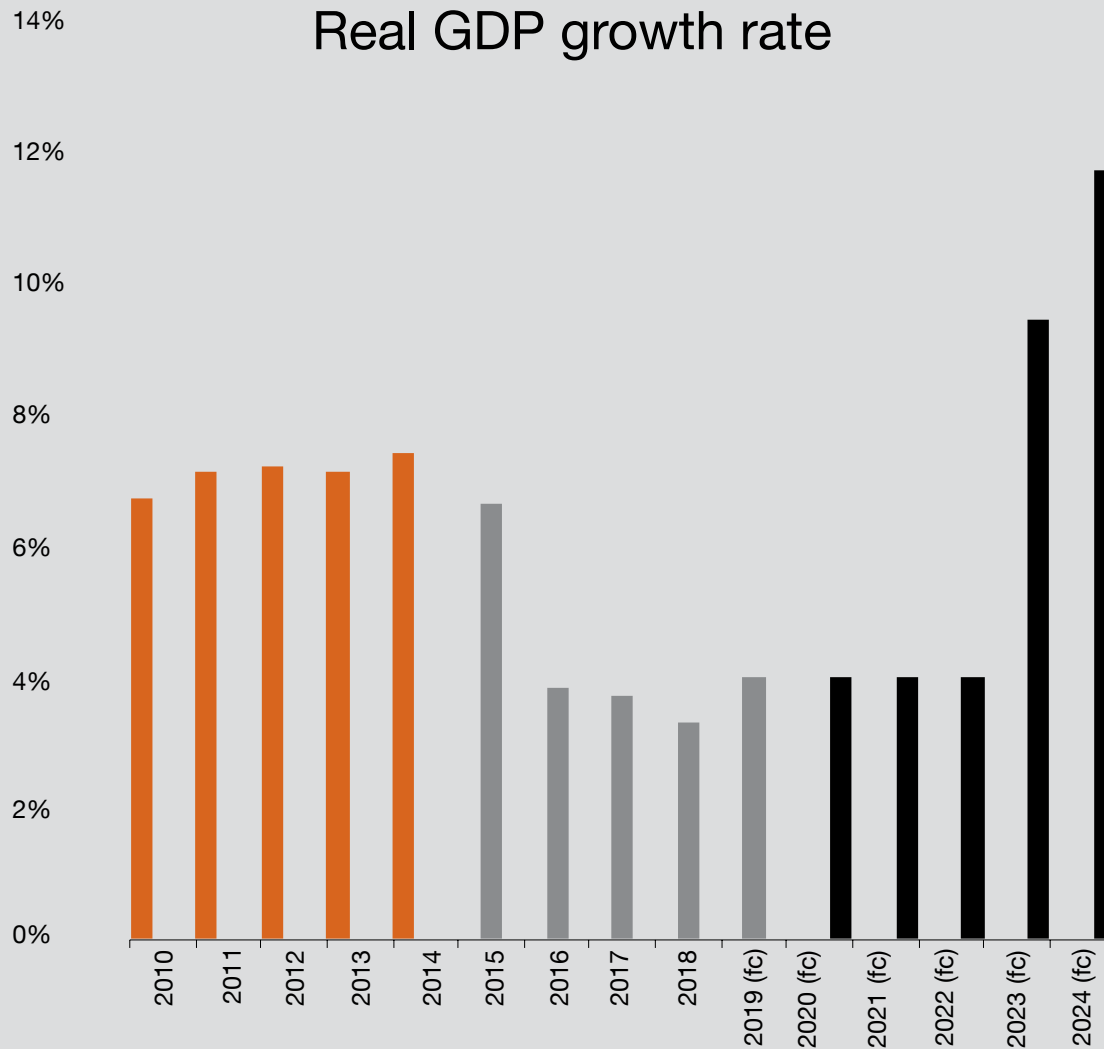


Country context

3.1



Country context



- Rapid increase in FDI
- Rapid growth of the mining sector
- Exploration and discovery of vast natural gas reserves

- Fall of commodity prices in the international markets
- Hidden debt scandal
- Internal military conflicts and insurgence of terrorist attacks
- Decline in FDI
- Climate change – droughts and cyclone Idai and Kenneth

Oil and gas – the game changer!

Country context

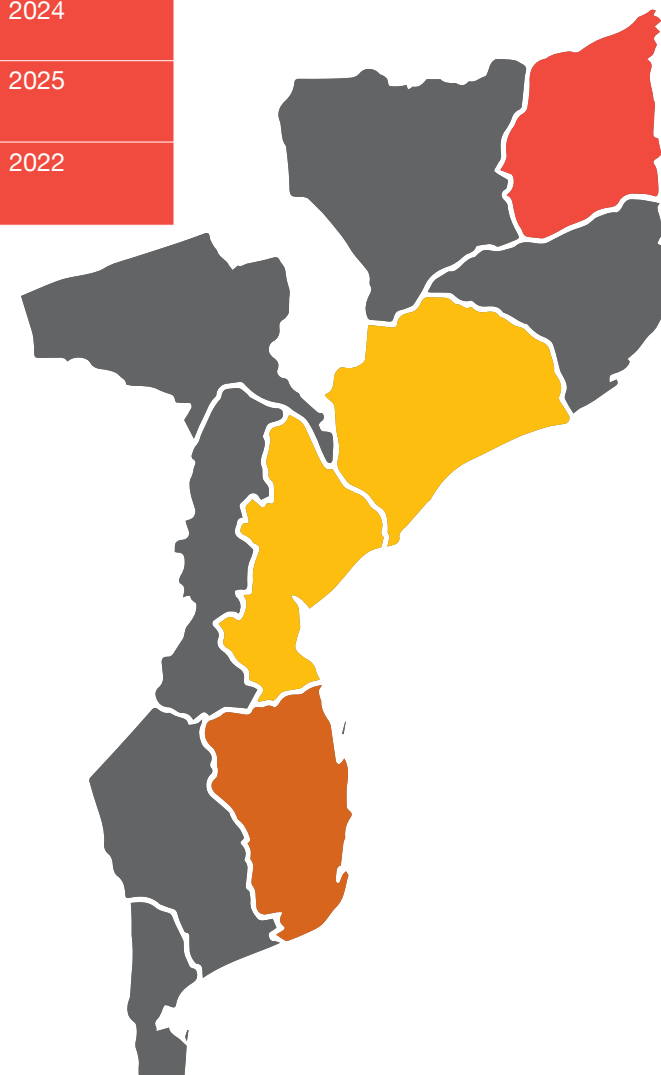
Basin	Block name	Operator	Project name	Oil/ Gas	Capacity	EPC contractor	Investment (in US\$ billions)	Est. first production date
Rovuma	Area 1	Total	Moz LNG	Gas	12.88 mtpa	CCS JV (Saipem & McDermott)	23	2024
Rovuma	Area 4	MRV / Exxon / Eni	Rovuma LNG	Gas	15.2 mtpa	JFT JV (JGC, Fluor & TechnipFMC)	30	2025
Rovuma	Area 4	MRV / Exxon / Eni	Coral FLNG	Gas	3.4 mtpa	Samsung, JGC & TechnipFMC	4.7	2022

Oil and gas sector overview – Exploration and appraisal projects

Basin	Block name	Operator	Oil/ Gas	Status
Mozambique	Area A	Sasol	?	Exploration
Mozambique	Block 16/19	Sasol	?	Exploration
Mozambique	Inhassoro	Sasol	Oil	Appraisal
Zambezi	A5-A	Eni	unknown	Appraisal
Zambezi	A5-B, Z5-C, Z5-D	Exxon	unknown	Exploration

Oil and gas sector overview – Production projects

Basin	Block name	Operator	Oil/ Gas	Capacity
Mozambique	Pande and Temane	Sasol	Gas	



“

We expect these three projects [Coral FLNG, Rovuma LNG and Moz LNG 1] to represent the main driver of capital spending in Sub-Saharan Africa over the next decade, with over USD 55bn of projected capital expenditure. Taken together, they will boost Mozambique's gas production from a mere 5.4bcm in 2021 to over 50bcm by the end of the forecast period [10 years]

— Fitch Solutions – Mozambique Oil & Gas report Q4 2019

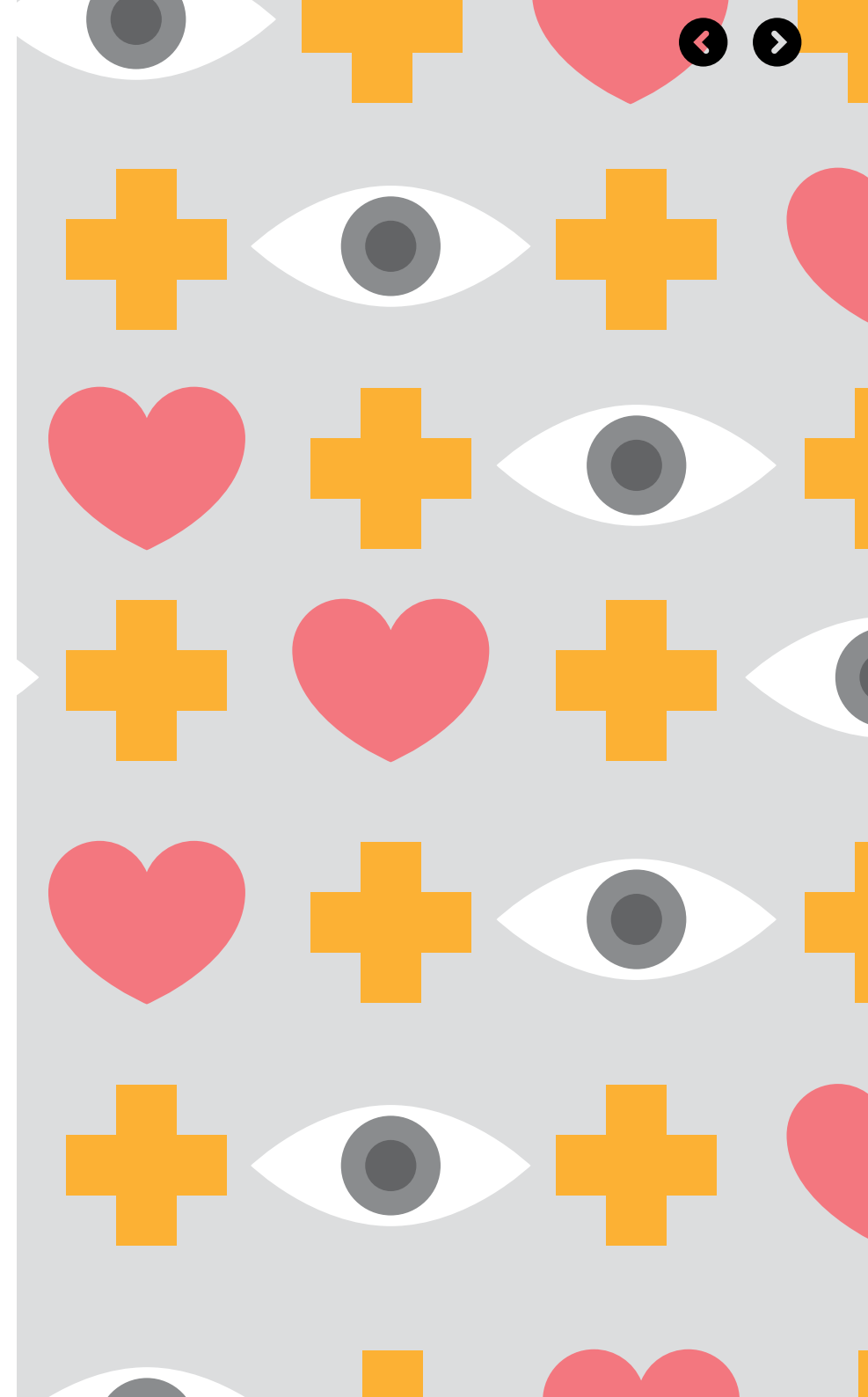
Legal

3.2

Legal

Legal system at a glance

- Separation of powers:
 - Executive (president and government)
 - Legislative (parliament and government)
 - Judiciary (Constitutional Council, judicial courts, administrative courts)
- The administration machine follows a highly formal system, with lengthy and bureaucratic procedures – occupies 135th (out 190) position in World Bank's Doing Business rankings;
- Legal sources – based on civil law and legislation is the primary source of law;
- Mozambique is a party to various international treaties and conventions, including bilateral investment agreements and double tax agreements.



Legal

Considerations for foreign investors

Investment guarantees and incentives

- Protection of property rights;
- Transfer of funds abroad;
- Tax and customs incentives.

Accessibility

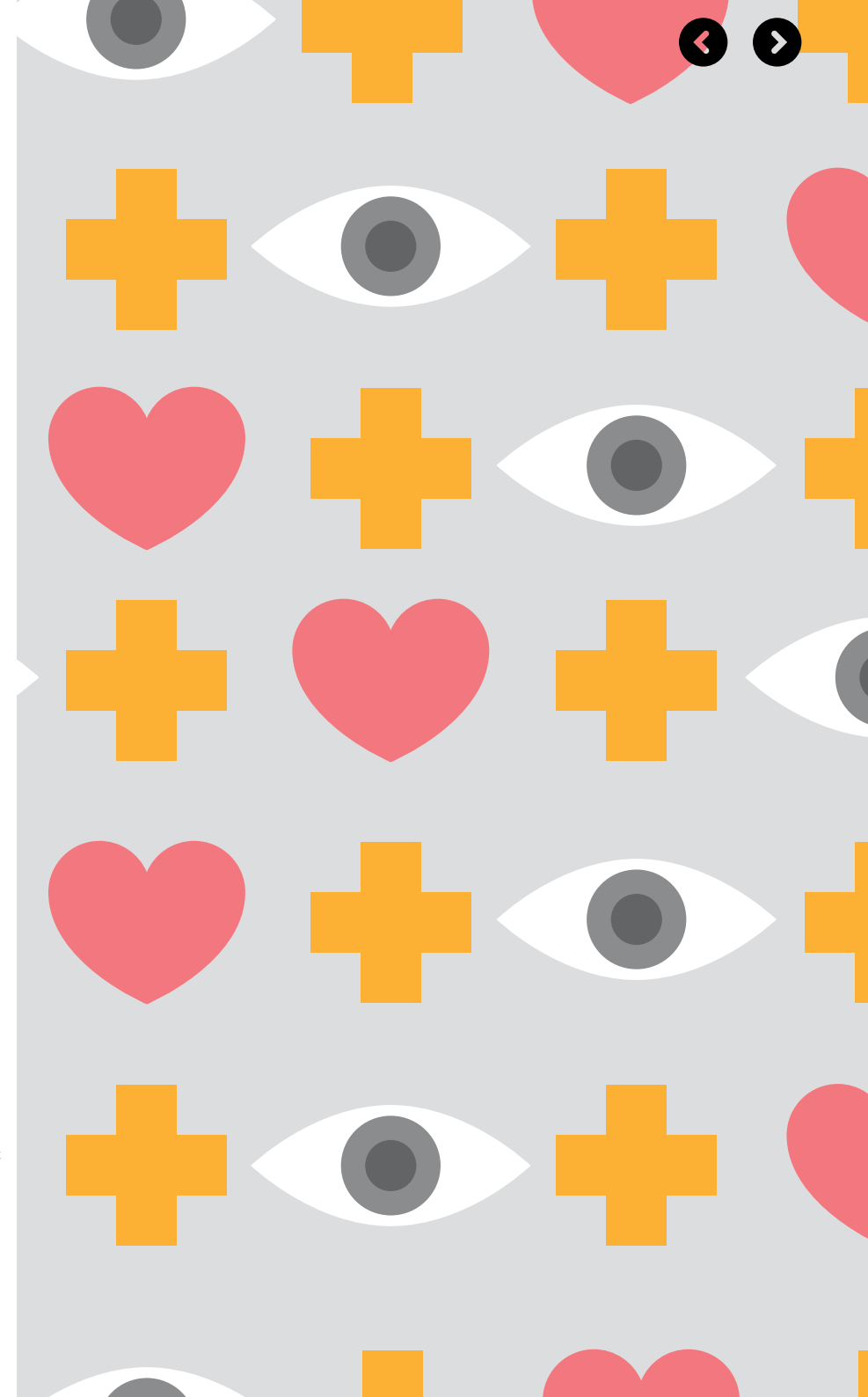
- Guarantees and incentives are available for foreign direct investment (FDI) equivalent to MZN 2,500,000 (approximately USD 40,000);
- Transfer of funds abroad can also be available if other conditions are met.

International treaties

- Mozambique has ratified the New York and ISCID Conventions;
- Mozambique has a bilateral investment agreement and double tax agreement in place with South Africa.

Local content – ownership/management

- General rule – no local ownership requirements to set up a business vehicle and operate in Mozambique;
- Exceptions:
 - Construction and related consulting sector – for permanent activities for public civil construction works;
 - Private security sector – in addition to the local shareholding requirements, extends the local content to directors and managers;
 - PPP and large-scale projects (5 to 20% + state participation).



Legal

Considerations for foreign investors (cont.)

Local content – procurement of goods and services

- Local content under discussion for large-scale projects since 2014;
- Specific regime applies for public tenders and oil & gas projects, especially Area 1 and Area 4 (Rovuma LNG Decree-Law 'DL').

Contract type or value	Local content requirements	Condition
< USD 3m	Preference to Mozambican companies (owned in majority by Mozambican nationals) or nationals ('Moz contractors')	Price (incl taxes) <10%
> USD 3m but < USD 25m	Preference given to Moz contractors or to foreign companies that associate themselves with Moz contractors in whatever shape or form	Price (incl taxes) <10%
> USD 25m or contracts re to technology, patents or special requirements (e.g. construction, operation and maintenance of the project infrastructure)	N/A	N/A



Legal

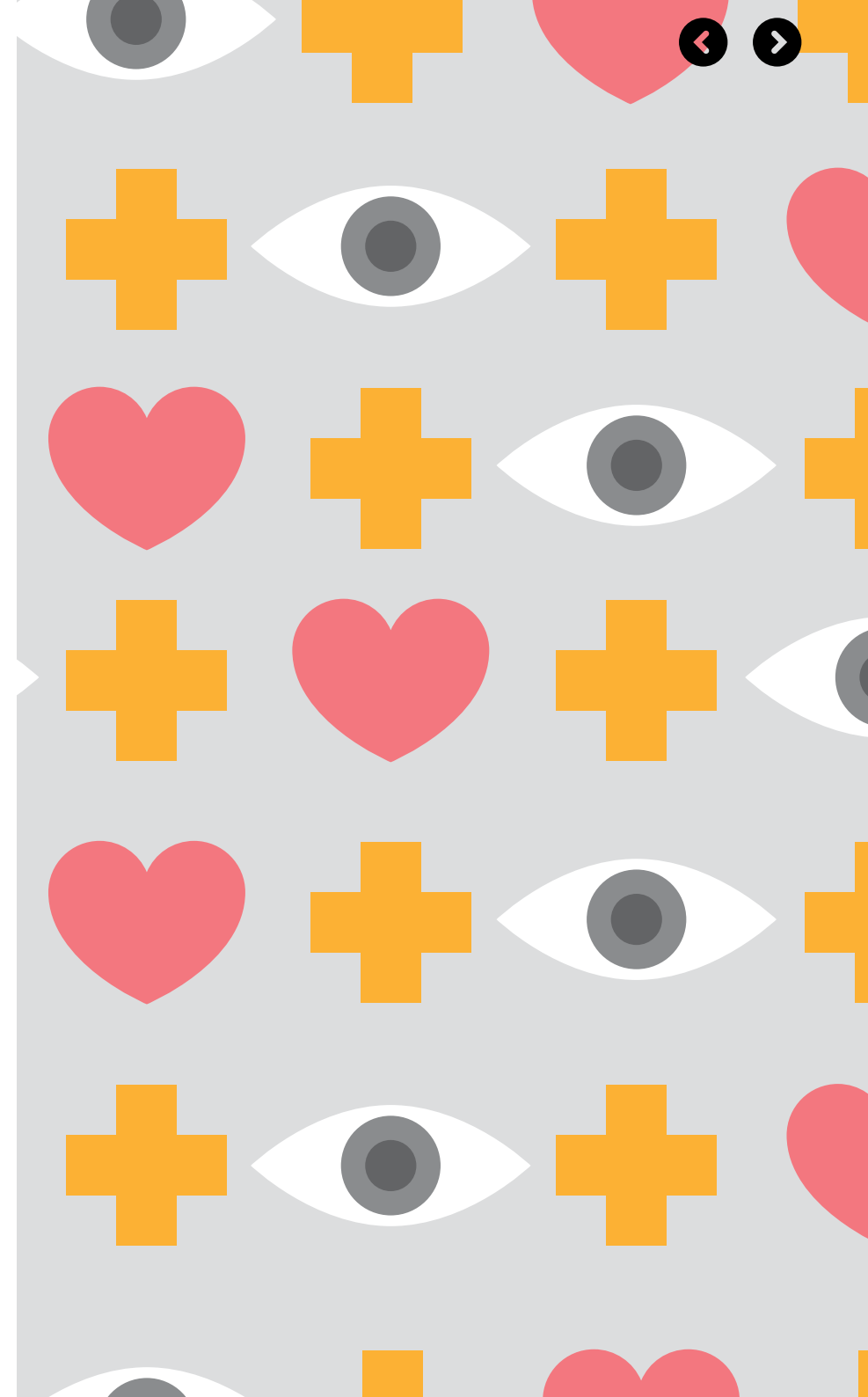
Considerations for foreign investors (cont.)

Local content – employment

- Foreigners are allowed to work only under specific conditions.

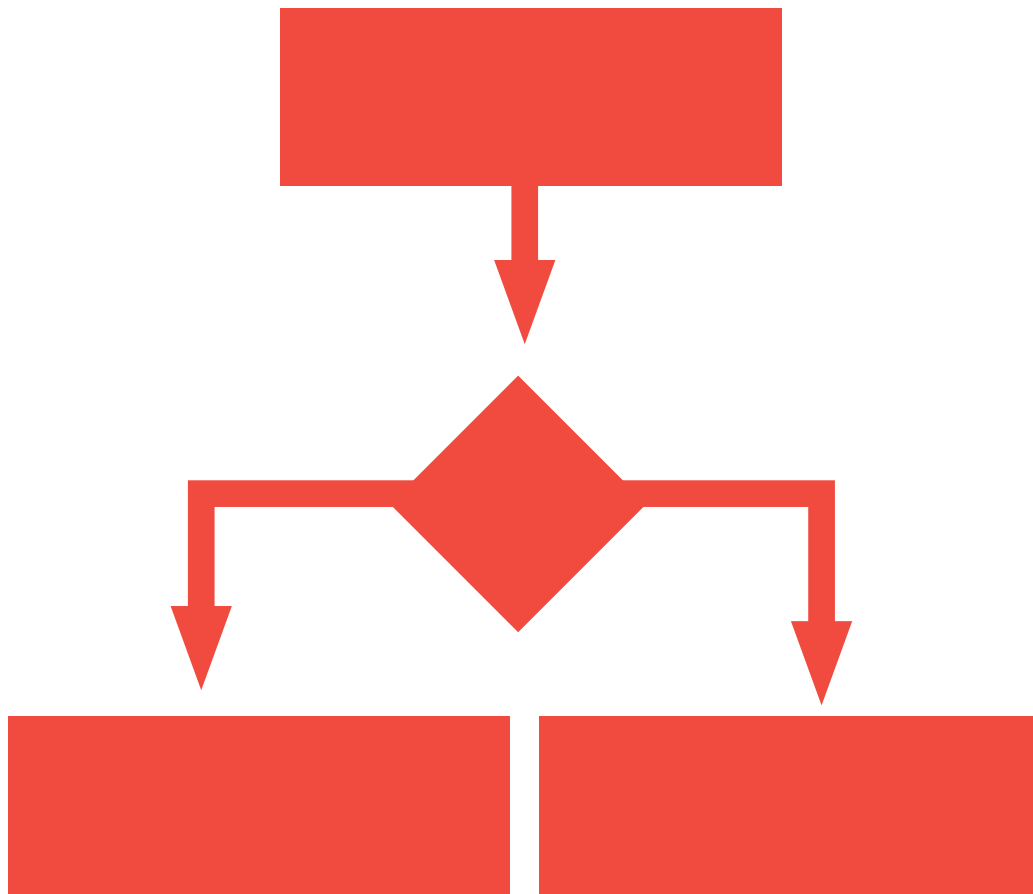
Land and property rights

- Land is the property of the state and cannot be sold, mortgaged or otherwise encumbered;
- Foreigners residing in Mozambique for more than five years or through Mozambican companies with approved investment projects are allowed to apply for concession for the right to use and exploit land (DUAT) for a specified period of time.
- Property rights are granted over immovable improvements built on the land covered by the DUAT.

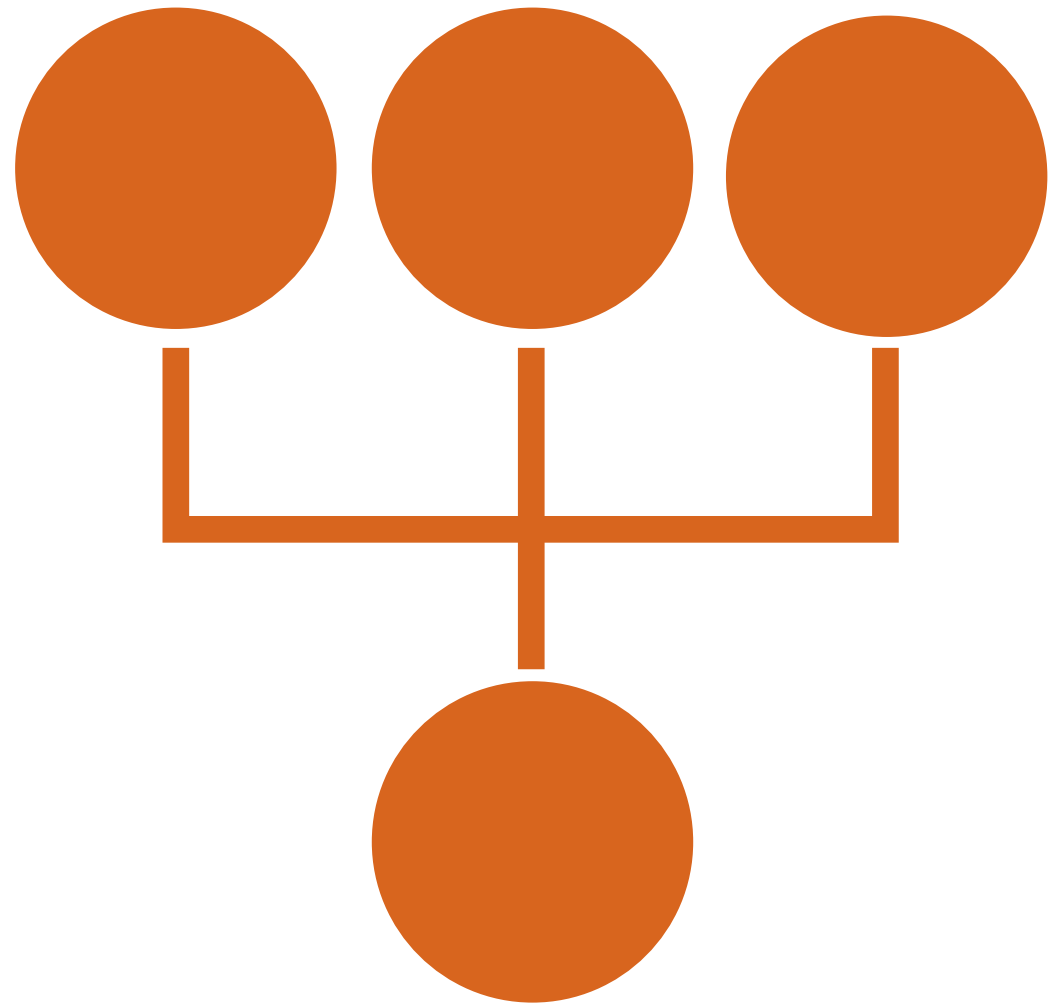


Business vehicles

3.3



2.1 Types of vehicles

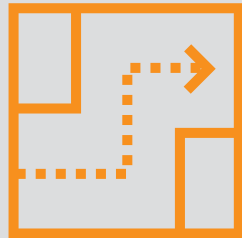


2.2 Company vs branch

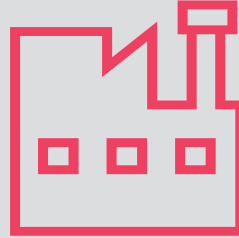
Types of vehicles



1. Branch



2. Public company



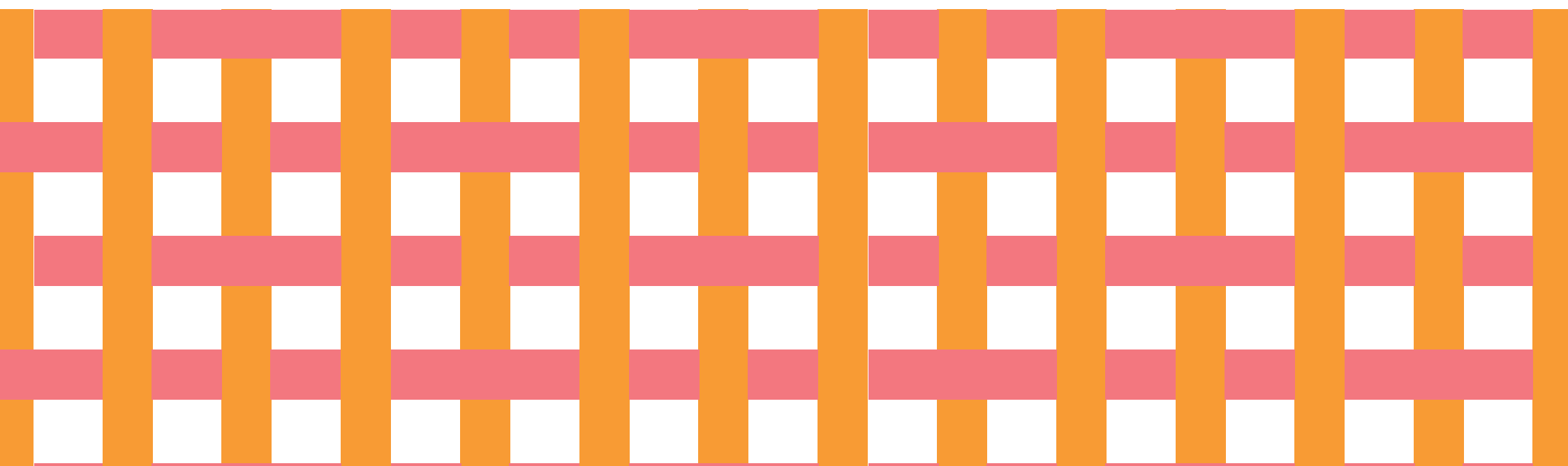
3. Private company



4. Sole proprietorship



5. Partner / joint
venture (Consórcio)



Company versus branch



Item	Distinguishing factor	Company	Branch
1	Legal personality	Yes	No
2	Tax personality	Yes	Yes
3	Applicable law	Mozambican law	Law of the country in which head office is established. Mozambican law also applies
3	Liability	Limited to the amount of the company's share capital	Head office is fully responsible for branch's liabilities
4	Number of shareholders	Minimum of two or three	Not applicable ('N/A')
5	Stakeholders' perception	Long-term presence	Short-term presence
6	Audit requirements	Not mandatory (exceptions apply)	Mandatory
7	Taxation of dividend distribution (to non-resident)	20% WHT on dividends	No taxation on remittance of profits from branch to head office
8	Liquidation / business closure	Long process	Short process
9	Corporate bodies	Management/Board of Directors/Fiscal Council	N/A (only requires a legal representative)
10	Management requirements	Minimum of one director	N/A (only requires a legal representative)
11	Exchange control	Capital operations and current transactions	No capital operations with head office

Business vehicles – company incorporation

Step 1 Incorporation

- Legalisation and translation of shareholders' documents;
- Private document, exception in case where the share capital includes immovable assets – Public Deed;
- Specific corporate purpose (in certain cases).

Step 2 Registration

- Commercial registration and publication of articles of association in official gazette;
- Investment project (if applicable);
- Registration at central bank;
- Tax registration;
- Branch registration in other provinces (if necessary).

Step 3 Licensing

- Different types of licences depending on the nature of the activities;
- Prior inspection of the premises (for certain activities);
- Importer licence;
- Start of activities for tax and labour purposes – at least one employee;
- Social security registration of company and employee(s) – at least one employee.

Business vehicles – branch registration

Step 1 Favourable opinion

- Legalisation and translation of head office's documents;
- Corporate purpose of the branch limited to the head office's activities;
- Prior favourable opinion from the public authority that supervises the sector of activity.

Step 2 Registration

- Branch's licence and commercial registration;
- Registration at central bank;
- Tax registration;
- Registration of extension offices (if the branch will perform activities in other provinces of the country).

Step 3 Licensing

- Different types of licences depending on the nature of the activities;
- Prior inspection of the premises (for certain activities);
- Importer licence;
- Start of activities for tax and labour purposes – at least one employee;
- Social security registration of branch and employee(s) – at least one employee.

Business vehicles – licensing



General licence

- Activities not covered under the simplified, industrial and specific licensing regulations;
- Subject to prior inspection (certain activities);
- Undetermined validity;
- Provincial level.

Simplified licence

- Activities with no negative impacts to the environment, public health, security and economy in general;
- Exempt from prior inspection (in most cases);
- Less bureaucratic;
- Undetermined validity;
- Provincial level.

Specific licence

- Specific regulations;
- Highly regulated and bureaucratic – minimum legal, financial and technical requirements;
- Provincial/National level;
- Subject to prior inspection;
- Limited validity.

Industrial licence

- Industrial establishments;
- Subject to prior inspection;
- Undetermined period;
- Provincial level.

Exchange control

3.4

Exchange control rules and regulations

(Normal) exchange control regulations

- Exchange control rules applicable to capital operations and current transactions.
- Non-compliance with the exchange control regulations results in:
 - The payment of fines that can vary between MZN 10,000 and MZN 1,000,000 and to be under a exchange control contravention process; and
 - Not being authorised to export profits abroad or re-export the invested capital at the end of the project in Mozambique.



Exchange control rules and regulations

(Normal) exchange control regulations – the procedures

Registration

Company and foreign shareholders / branch and head office

- To perform any type of capital operations the Moz company and foreign shareholders must be registered at the central bank before any importation of funds to Mozambique.
- The same initial registration applies for the branch and head office, although same are only allowed to perform current transactions.

Prior approval

Capital operations

- Exemption from prior approval from central bank: share capital and capital supplementary payments injection and very specific shareholders' loans and external loans, being only subject to registration at the commercial bank.
- All other capital operations are subject to a prior approval process from central bank.

Investment registration

Capital operations

- All capital operations are subject to registration at the commercial bank.
- The registration of the investment injected in Mozambique according to the applicable exchange control rules allows the future repatriation.

Exchange control rules and regulations

Decree-law 2/2014 ('DL') exchange control regulations

- DL establishes a special exchange control regime applicable to (i) contractors, (ii) SPEs, (iii) main subcontractors of contractors and SPEs in relation to the Rovuma Basin Project, (iv) non-resident subcontractors, (v) expatriates and (vi) lenders, involved in the Rovuma Basin Project.
- A 'main subcontractor' is defined by the DL as (i) a entity with a signed EPC or (ii) any subcontractor with a contract with a value above USD 25m signed with a contractor or SPE.
- Special rules in terms of opening and operation of local and offshore accounts, FDI prior approval and registration rules, funding structures.



Exchange control rules and regulations – DL

Bank accounts

Questions (Generics)	Con / SPE	MS		Subcontractor		Expatriate
		Resident	Non-Resident	Resident	Non-Resident	
Obliged to have local MZN account	√	√	n/a	√	n/a	n/a
Allowed to have local foreign currency account ('FCA')	√	√	n/a	√	n/a	√
Allowed to have offshore FCA	√	√	√	x	√	√
Reporting obligations re offshore FCA	√	?	x	x	x	x

Exchange control rules and regulations – DL

Capital operations

Questions (Generics)	Con / SPE	MS	Subcontractor
Capital operations: Normal exchange control rules	X	√	√
Capital operations: DL rule – approval within five days	√	X	X
Capital operations: DL rule – registration	√	X	X
Project expenses: DL rule – registration as FDI	√	?	X
Funding: DL rule re any funding structure applies?	√	X	X
Funding: DL rule re capital adequacy ratios applies?	√	X	X

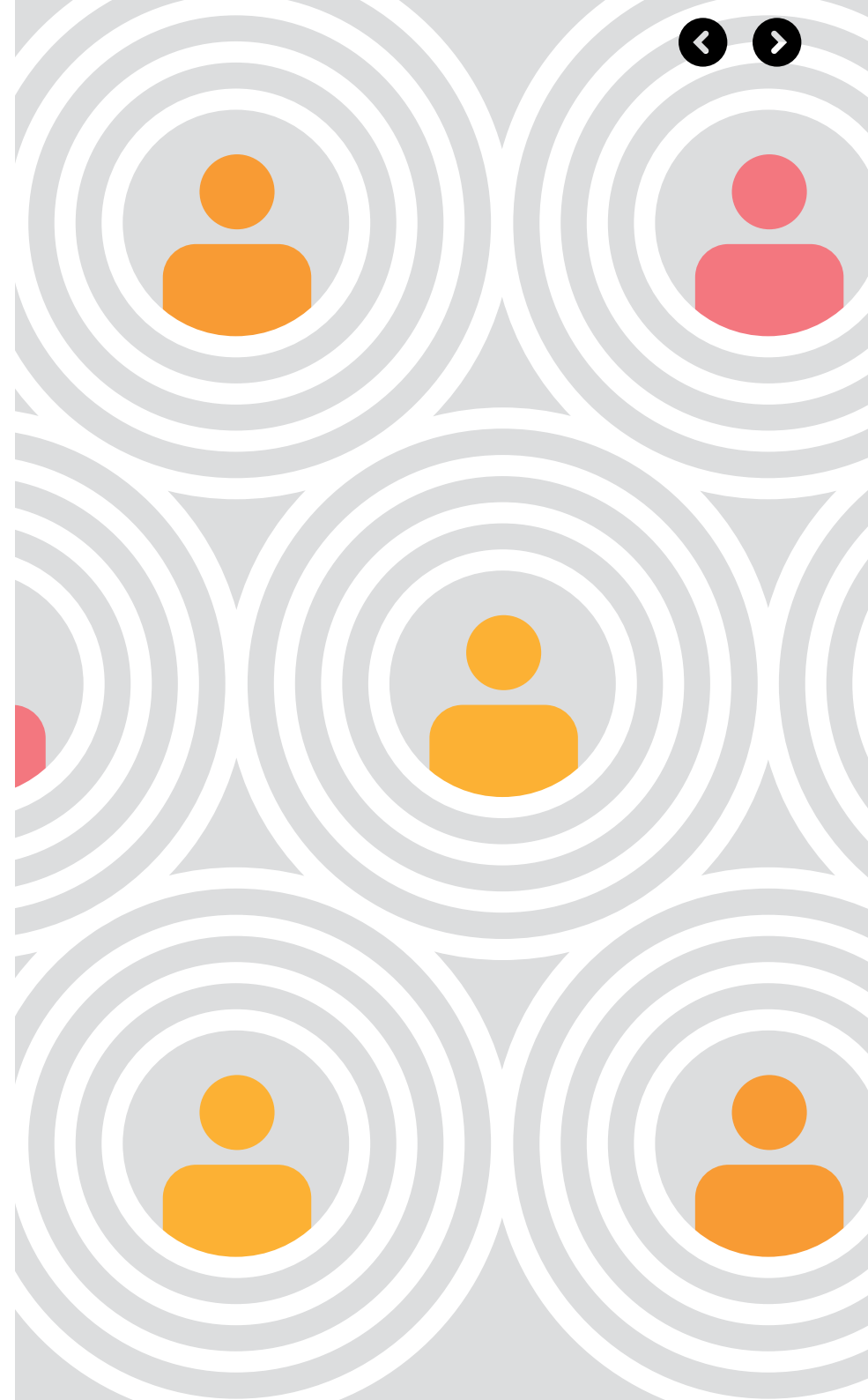
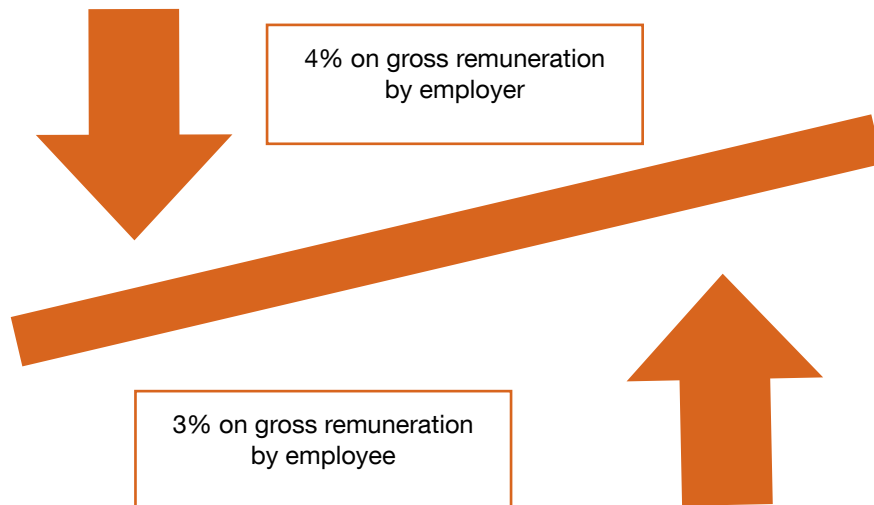
Labour and immigration

3.5

Labour and immigration

Labour – investor considerations

- Shortage of skilled labour;
- Employment contract terms and conditions must comply with the labour law and regulations in force;
- Written contracts mandatory for labour period > 90 days;
- Social security contributions.
- Compulsory social security costs include pension, social insurance, maternity leave, sick leave and death benefits;
- Expatriates are not required to join the pension scheme if an exemption may be applied (not applicable for SA);
- Monthly contributions are due at the following rates for the employee and employer respectively:



Immigration – DL regime

Limited employment of foreign staff through the following regimes:

- Short-term work (90/180 days);
- Quota;
- Work authorisation (subject to discretionary decision);
- Contracts approved by government/ investment projects (as established in the contract).

Special labour and immigration regime under the DL applicable to

- (i) contractors,
- (ii) SPEs,
- (iii) main subcontractors of contractors and SPEs in relation to the Rovuma Basin Project and
- (iv) resident subcontractors involved in the Rovuma Basin Project, establishing:
 - Workforce plan – local requirement for unskilled and semi-skilled jobs;
 - Development plan ('DP') quota regime approved by the Mozambican government;
 - How to have access to the DP quota regime – the 'beneficiary status';
 - Special requirements and process for hiring of foreign citizens under short- and long-term permits – SIMIGRA and waiving of requirements;
 - Issuance of business and work visas on arrival.

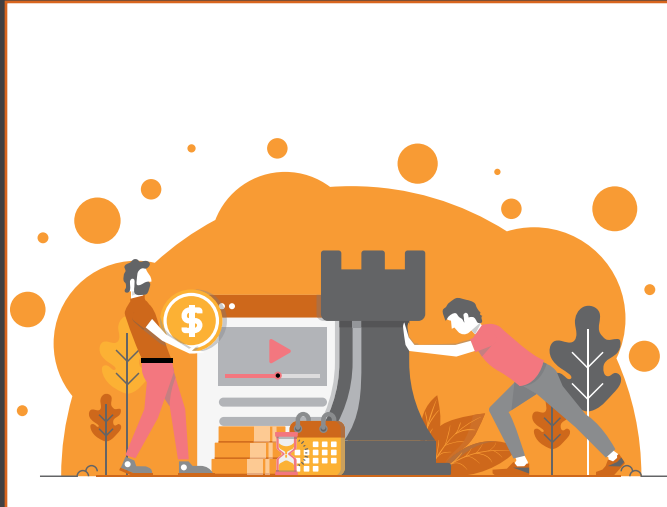
Tax framework

3.6

Tax framework



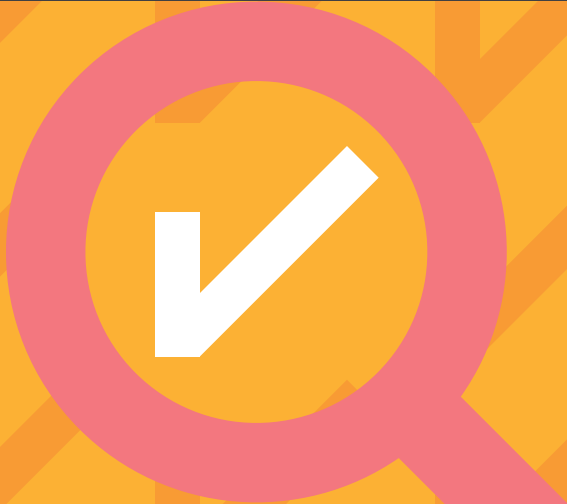
Tax overview



Tax incentives



Treaties



Tax framework

Item	Tax or levy type	Rate
1	Corporate income tax	32%
2	Dividends paid to non-residents	20% WHT
3	Capital gains	Residents & non-residents: 32%
4	Individual income tax	10% – 32% final tax
5	Value-added tax	17%
6	Import VAT	17%
7	Custom duties	Various
8	Property transfer tax	2%
9	Social security	4% (employer) 3% (employee)
10	Stamp duties	Various
11	Transfer pricing rules	Yes
12	Withholding tax on interest	20%
13	Withholding tax on royalties	20%
14	Withholding tax on services	20%
15	Permanent Establishment rules	Yes
16	Group relief	No
17	Specific mining and O&G tax legislation	Yes

Tax framework

Immigration – DL regime

- Dependent on approval of investment project;
- Incentives vary depending on type of activity and project location;
- General set of incentives;
- Specific incentives for certain industries (e.g. agriculture);
- Specific incentives for certain locations (e.g. rapid development zones, industrial free zones, and special economic zones);
- Mining and the oil and gas companies are excluded from the above and have specific tax incentive regimes.

Oil and gas incentives (to subcontractors in the Rovuma Basin)

Tax-related incentives:

- Exemption from input VAT and custom duties on importation of equipment used in petroleum operations;
- Personal income tax exemption for non-residents;
- Withholding tax on services reduced to 10%.

Non-tax-related incentives (summary):

- Immigration/Work permits;
- Exchange control relaxations in certain cases.



Tax framework

Treaties

	Dividends	Interest	Royalties	Service fees	CGT on shares
Non-treaty	20%	20%	20%	20%	32%
Portugal	10%	10%	10%	0%	Property rich
Italy	15%	10%	10%	0%	Exempt
Mauritius	8% / 10% / 15%*	8%	5%	0%	Exempt
UAE	0%	0%	5%	0%	Property rich
Macau	10%	10%	10%	10%	Exempt
South Africa	8% / 15%*	8%	5%	0%	Property rich
India	7.5%	10%	10%	0%	Full taxing rights
Botswana	0% / 12%*	10%	10%	0%	Property rich
Vietnam	10%	10%	10%	0%	Property rich

* The applicable rate of WHT depends on the beneficial shareholding of the recipient.

Key issues

3.7

Key issues



Non-residents: WHT and PE risks

Licensing: specific operating licence according to the type of activities and extensions to other provinces (if applicable)

Exchange control: prior approval and registration of foreign investment in Mozambique. Specific rules on repatriation of cash (services, dividends, loans)

Tax treaties: practical implementation versus tax authority interpretations

VAT: self-assessment (or reverse charge) requirements on import of services into Mozambique

Refunds: lengthy procedures to obtain VAT / CIT refunds

Accounting: electronic invoicing and bookkeeping require prior approval of software by the tax authority. Comply with Mozambique chart of accounts

Individuals: complex procedures for work/residency permits

Individuals: monthly WHTs on PAYE for tax residents and non-residents

Disinvestment: capital gains and investment registration

General: lack of experience and knowledge of public authorities – practice versus law

4

South Africa out-bound
investments



Investing from SA – Agenda

1.

Mozambique branch

2.

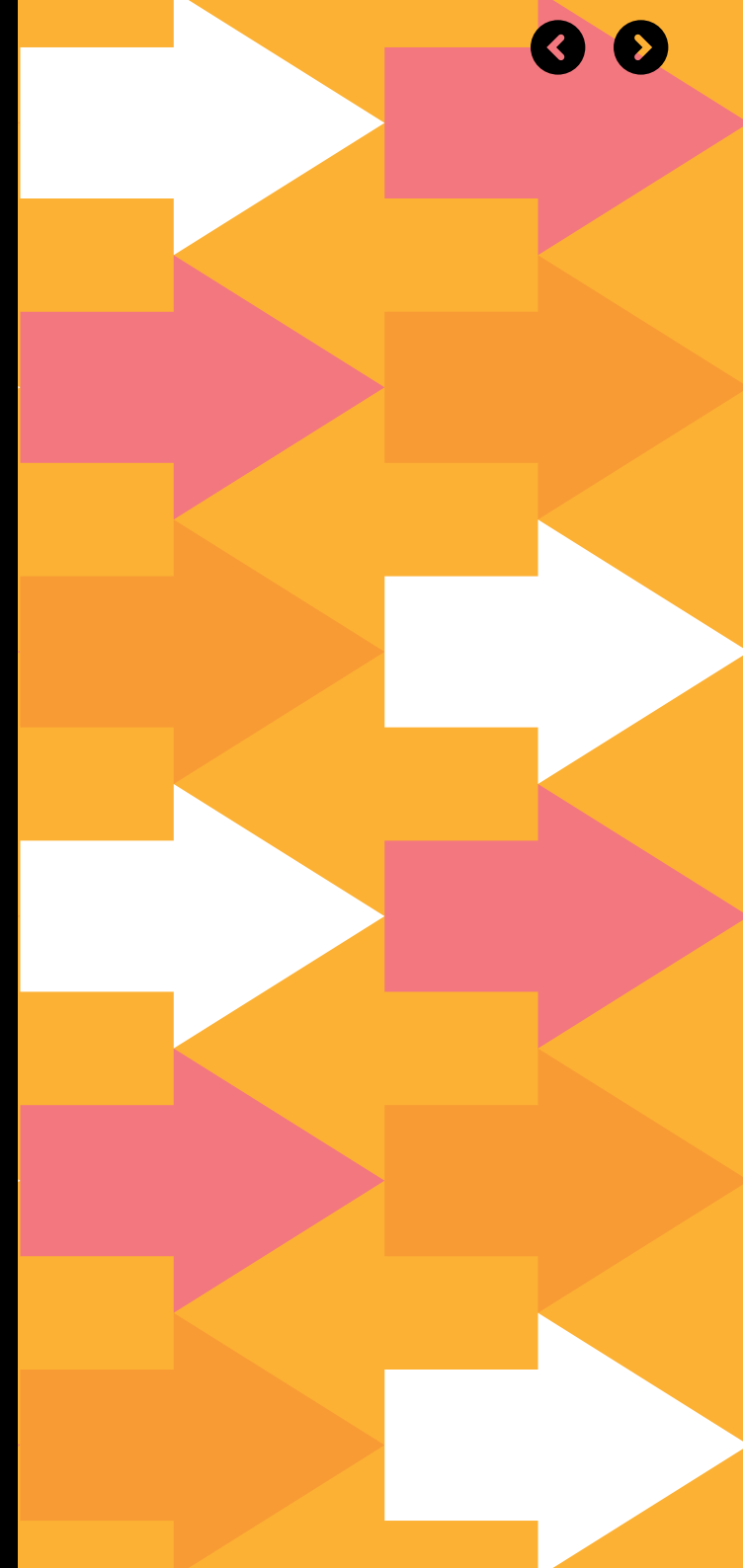
Mozambique
subsidiary company

4.

Other matters

3.

Funding



Mozambique branch

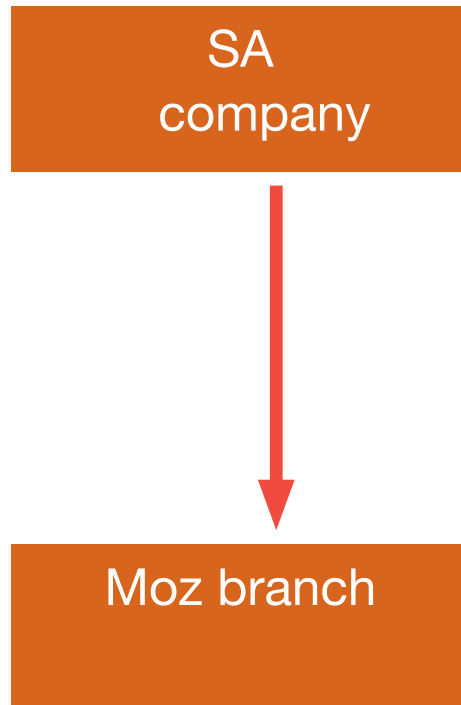
4.1

Legal vehicle

Legal vehicle to set up business in Mozambique?

- Branch of SA company

OPTION 1



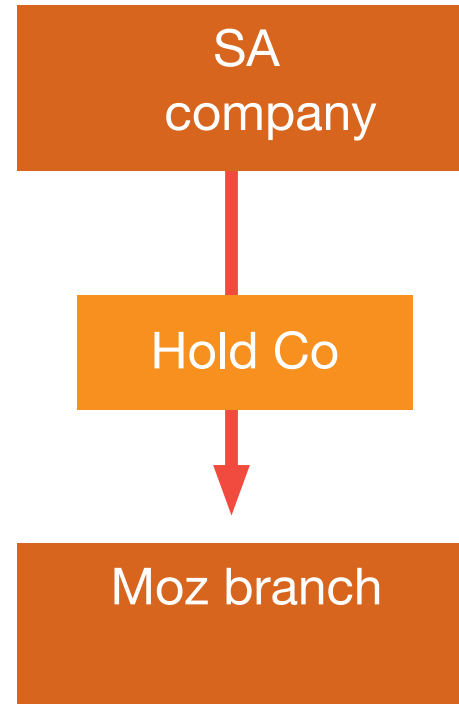
SA
company

Hold Co

Moz branch

- Direct/indirect subsidiary of SA resident company

OPTION 2



Mozambique branch

Where will it be taxed?

- SA law: parent company and its branch – same legal entity
- SA taxes residents on worldwide income
- Mozambique taxes branches on Mozambique-sourced profits
- OVERLAP = double tax
- Art 7 SA/Moz DTA – allocates taxation rights – PE in Mozambique



Mozambique company

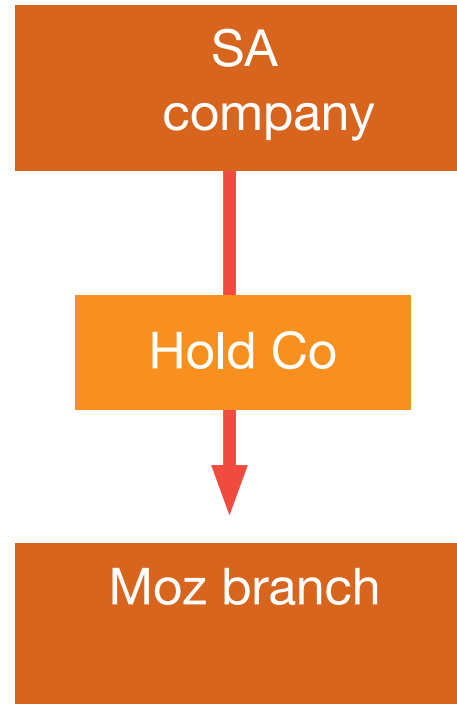
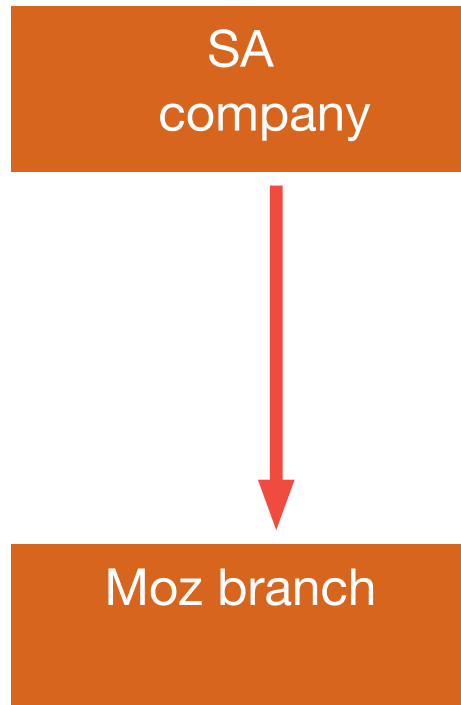
4.2

Mozambique branch

Legal vehicle to set up business in Mozambique?

- Branch of SA company

OPTION 1



- Direct/indirect subsidiary of SA resident company

OPTION 2

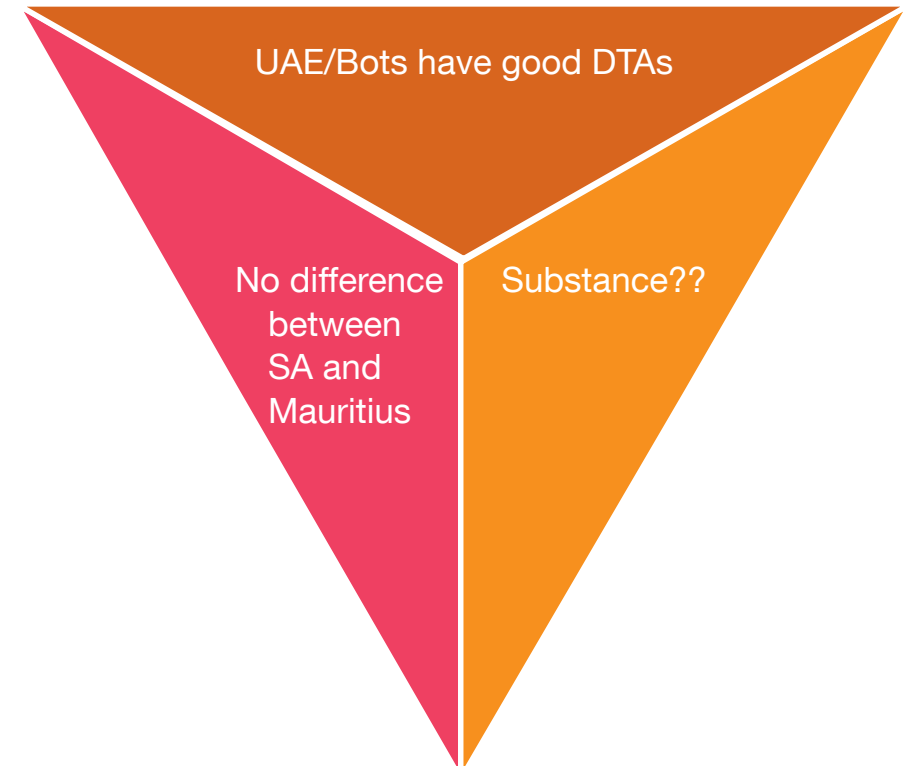
Mozambique company

Who will hold this company

SA or another country? Moz DTA network (assuming MozCo is held >50%):

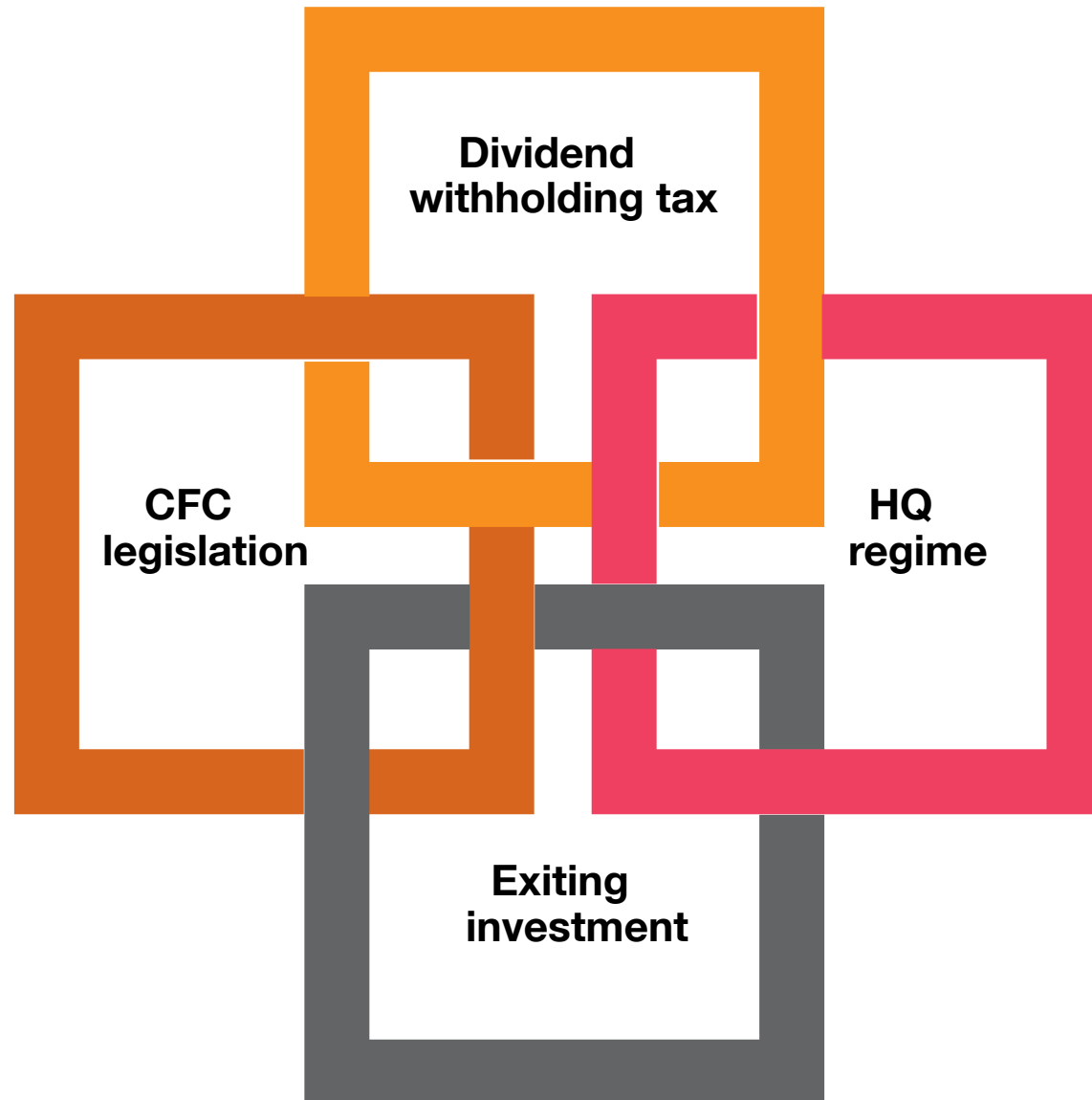
Country	Dividends	Interest	Royalties
UAE	0%	0%	5%
Botswana	0%	10%	10%
India	7.5%	10%	10%
Mauritius	8%	8%	5%
South Africa	8%	8%	5%
Portugal	10%	10%	10%
Macau	10%	10%	10%
Vietnam	10%	10%	10%
Italy	15%	10%	10%

Substance: people in UAE/Bots – ability to manage Moz investment?



SA holding company

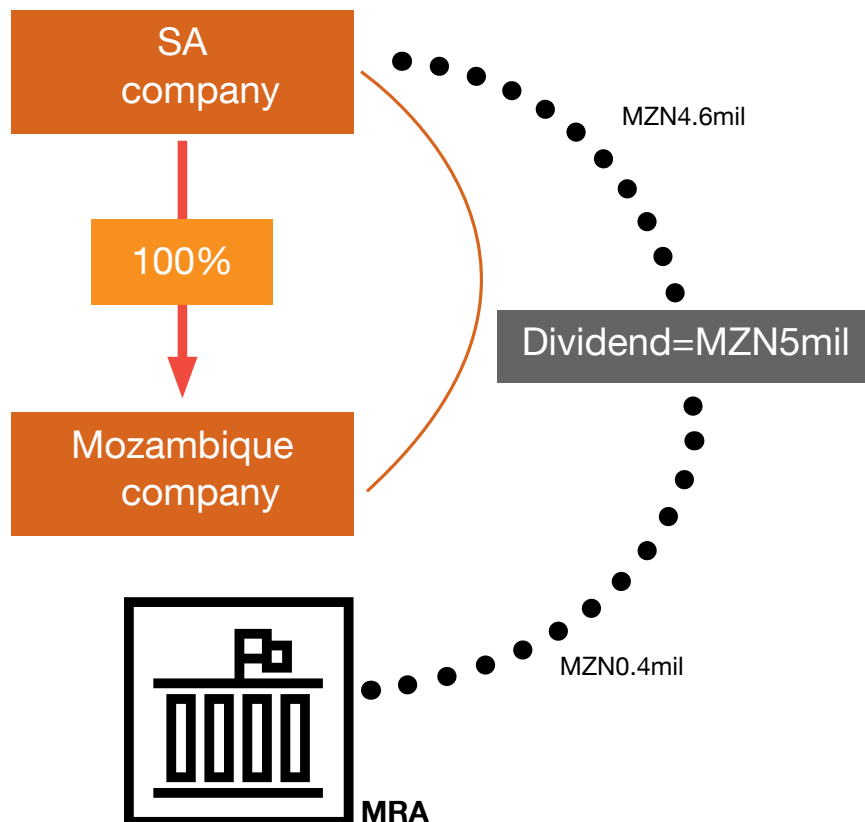
Tax consideration



Dividend withholding tax

Tax consideration

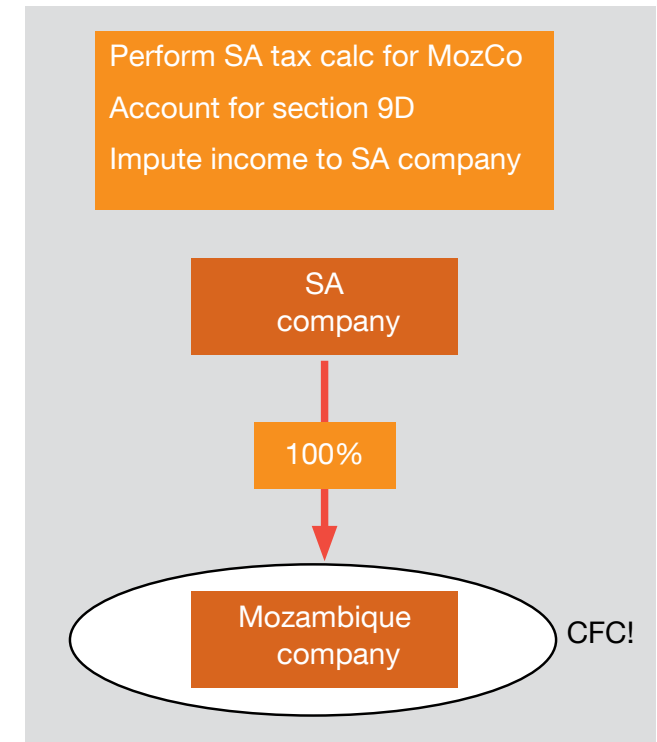
- WHT rate in Moz = 20%
- Reduced to 8% by DTA
 - E.g. Mozambique company declared dividend of MZN5 million
 - Dividend of MZN5 million not taxable in SA (participation exemption)
 - No tax credit for MZN0.4 million foreign tax



CFC legislation

How does it work?

- Anti-avoidance legislation – treats the ‘CFC’ as SA resident (certain sections)
 - i.e. SA tax calc for CFC as if resident for certain sections
 - Specific provision in section 9D
 - Answer – net income – imputed as income for SA resident
- What is a CFC?
 - Foreign company
 - >50% of participation or voting rights
- Common exemptions (net income = nil)
 - High tax exemption (HTE)
 - Foreign business establishment exemption (FBE)
 - Suitably equip team conducting the primary operations of that business
 - Suitably staffed; suitable facilities
- Risk areas
 - HTE: difference in tax treatment (e.g. exchange difference)
 - HTE: if the 10% rate applies (agriculture)
 - FBE: diversionary rules



Headquarter company regime

How does it work?

- Special regime from National Treasury – encourage use of SA – ‘Gateway to Africa’
- How to qualify (three requirements):

1. Each shareholder (together with other group companies) must hold $\geq 10\%$ of the equity shares and voting rights in HCQ

2. At end of FY (and all previous FYs) – 80% of value of assets (excl. cash) must be from:

- Equity shares in QFC
- Loans to QFC
- IP licensed to QFC
- QFC = $\geq 10\%$ equity share and voting rights held by HQC

3. Where gross income > R5million, $\geq 50\%$ must be in form of:

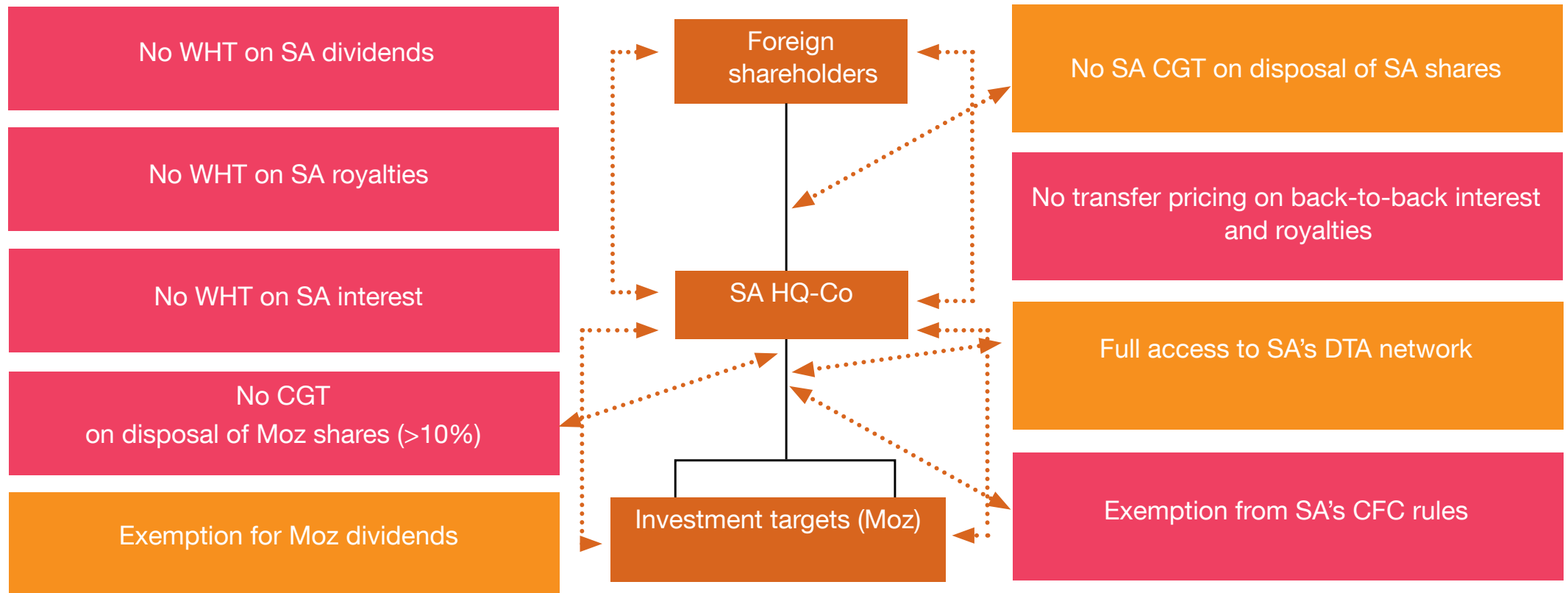
- Rent, dividend, interest, royalties, service fees paid by QFC
- Proceeds from disposal of equity share or IP

Cannot be HQC if MV < R50,000

You have to elect to be an HCQ – not automatic! Elect on ITR14.



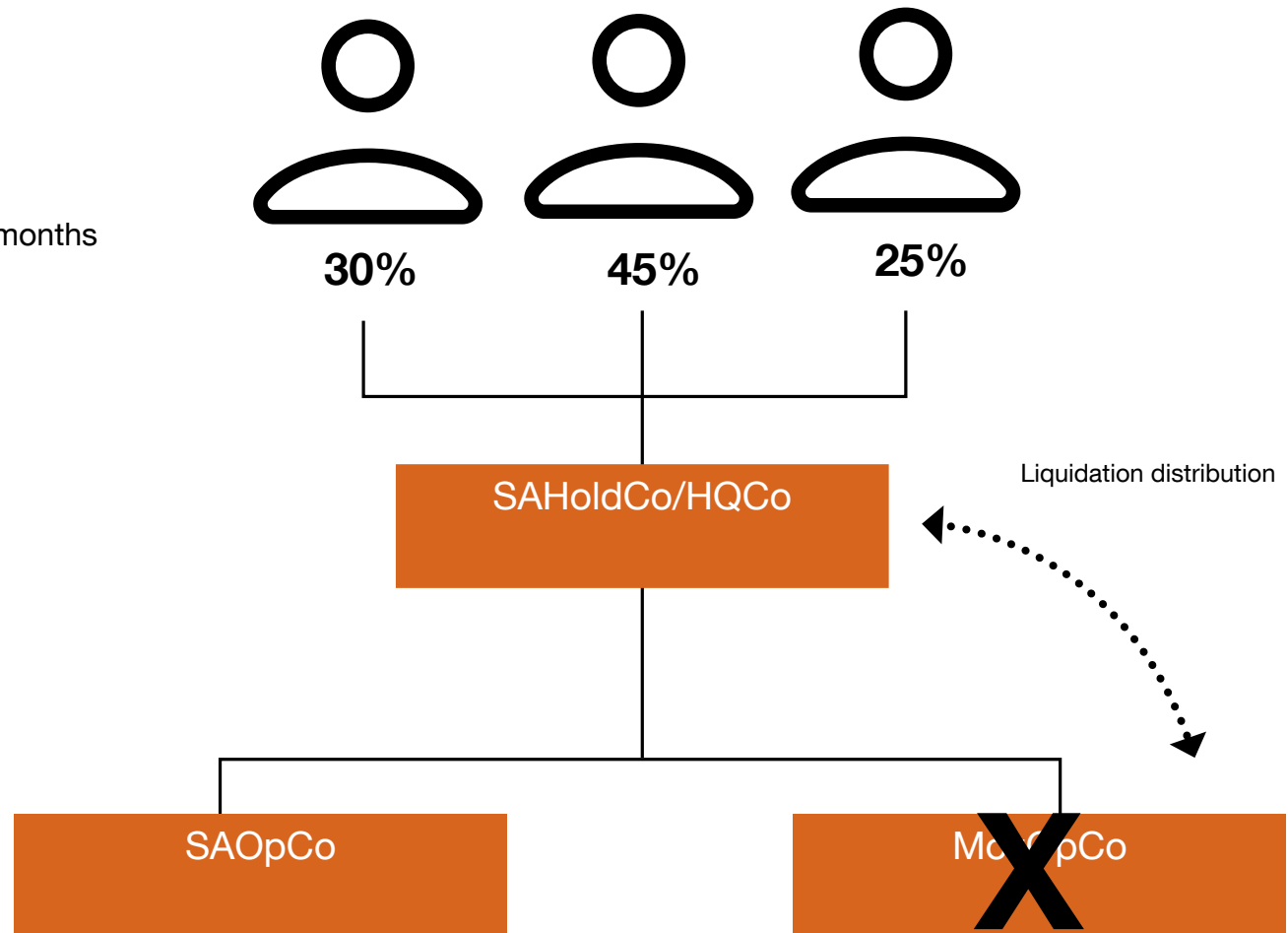
Headquarter company regime – Attractive to non-SA investors



Exit

How will SA Co exit Moz?

- Sells the investment
 - Unrelated ForeignCo
 - Capital gain disregarded if:
 - SAHoldCo: >10% equity shares and VR hold of 18 months
 - HQCo: >10% equity shares and VR hold
- Unrelated SA Co
 - CGT should apply
- Liquidation distribution
 - Section 47 – para (b)
 - SAHoldCo and MozOpCo – same GoC
 - Original share capital returned



Funding Moz business
from SA

4.3

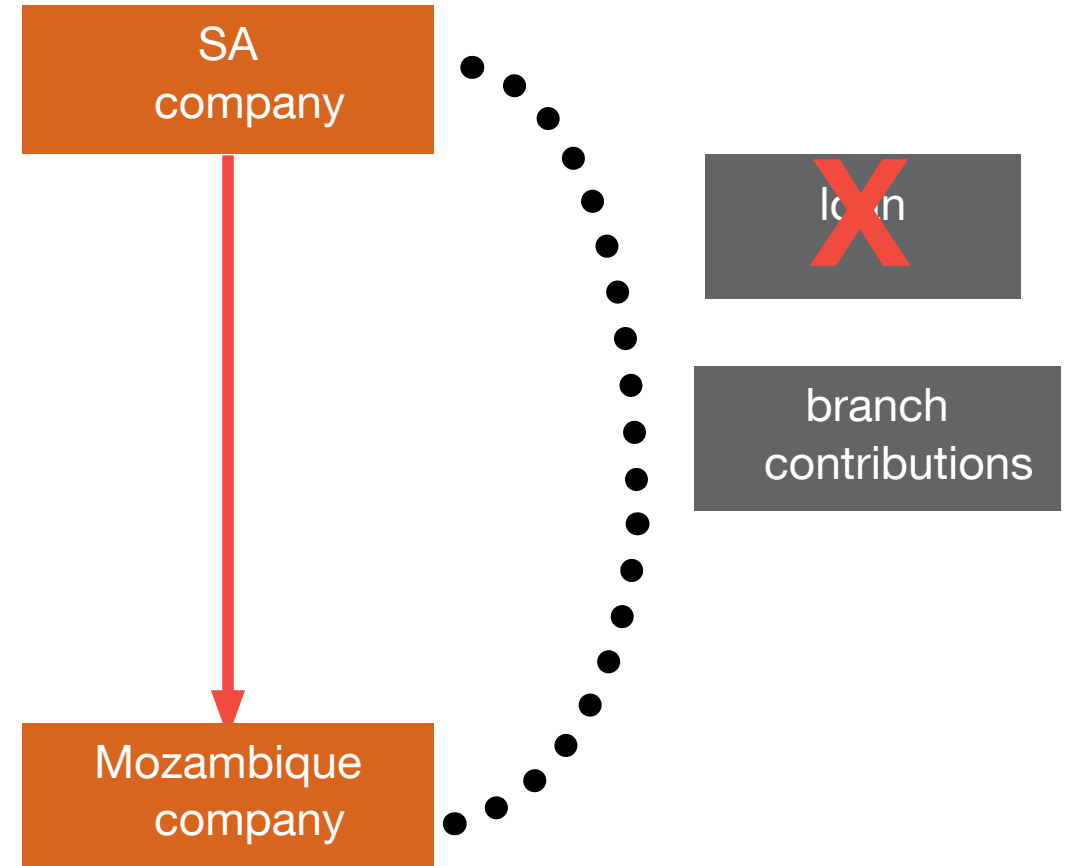
Funding MozCo from SA

Moz business is a branch

- As branch and parent one and same – can't be a loan – treated as branch contribution
- No transfer pricing
- Exchange control applies as branch not Excon resident

Moz business is a subsidiary

- Transfer pricing applies, unless
 - HTE and FBE apply to that CFC
 - MozCo not obligated to redeem in 30 years, redemption condition: $MVa \text{ not } < MVI$, no interest incurred
- Domestic managed treasury company (DMTC)
 - Function currency = 'local currency' – s24I
 - Exchange control switched off
- DTA relief on IWT



Payroll and Personal Income Tax considerations

4.4

Payroll and PIT

Payroll

- Importance of tax residence of expats in determining correct payroll coding
- Foreign earned income exemption – conditions
- Foreign earned income exemption – 1/3/20 changes bring significant challenges (tracking, coding and reduced withholding directives)

Personal

- Consideration on tax residence implications
- Admin due to increase – proving exemption, proving of foreign taxes paid, claiming of foreign tax credits (cash flow), increased audits



General

4.5

General

Other matters to consider

Exchange control

- Controls movement of foreign currency in/out of SA
- Stability of exchange rate
- Foreign investments
 - Motivate – long-term benefits for SA
 - AD can approve outward FDI – R1 billion p.a. (larger = Reserve Bank approval)
- Outward loans
 - Part of FDI

PoEM (where Moz business is in a sub)

- SA resident = incorporated in SA or where PoEM in SA
- PoEM is where (IN 6)
'key management and commercial decisions that are necessary for the conduct of its business as a whole are in substance made'
- Not based on a 'snapshot' at a point in time
- Where key management and commercial decisions are regularly and predominantly made
- Substance over form – who calls the shots – where is this done – Board meetings?
- If key staff of SACo – call the shots in MozCo – PoEM could be in SA?



General

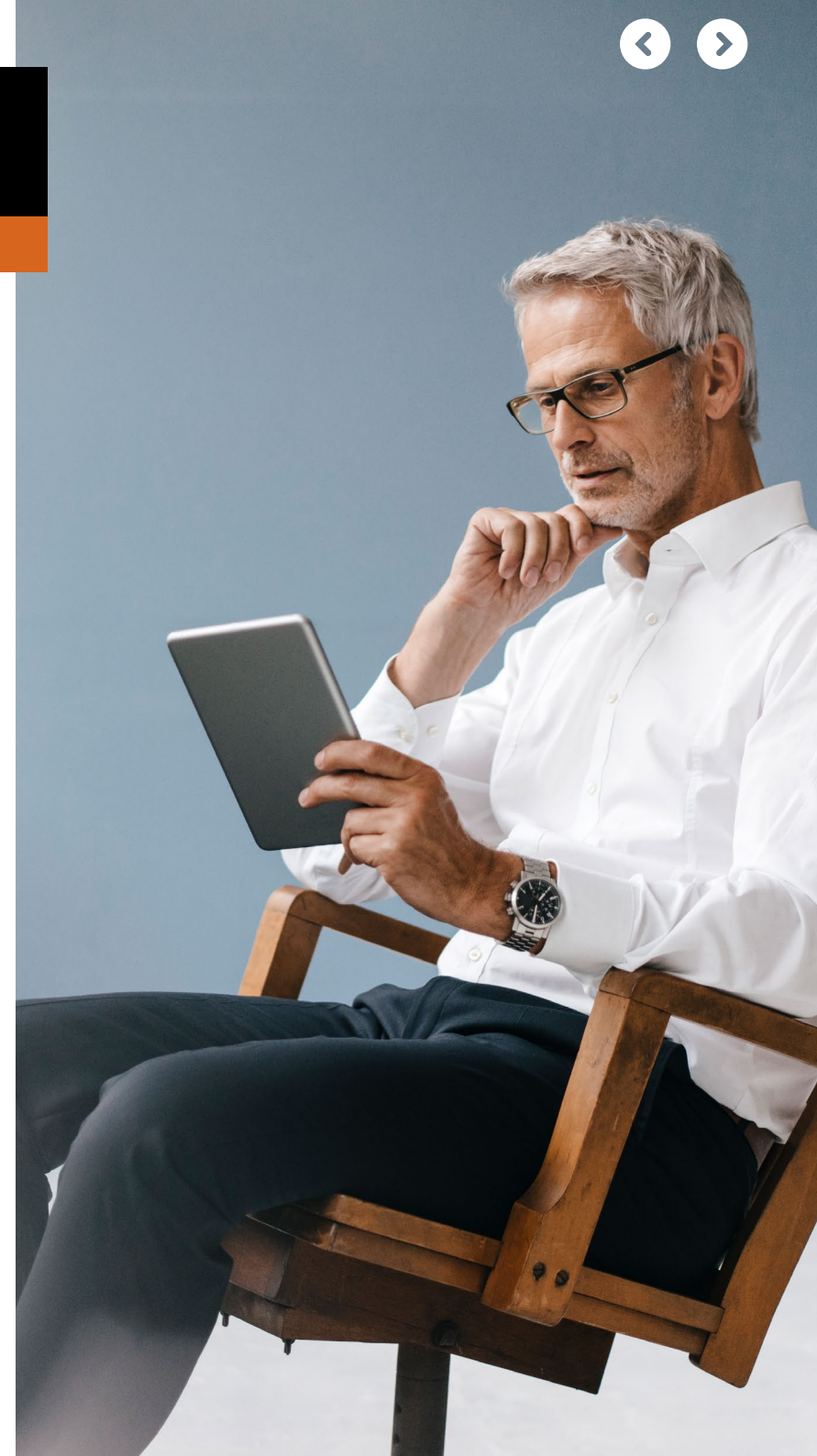
Other matters to consider

Permanent establishment

- Will SACo send staff to MozCo to provide services? More than 180 days p.a.?
- Could create a PE – SA co register for tax in Moz
- Mitigating factors:
 - Ensure proper secondment agreement in place
 - In substance: seconded employees under control and supervision of management in MozCo

Transfer pricing

- Transactions between SACo and MozCo subject to transfer pricing
- Taxable income of person deriving benefit:
 - Calculate taxable income as if transaction was at arm's length
 - Adjustment (if needed) = 'primary adjustment'
 - Difference in actual TI and TI after primary adjustment = 'secondary adjustment'
 - Secondary adjustment = 'deemed dividend' – DWT applies



Mozambique inbound investment – Structuring opportunities

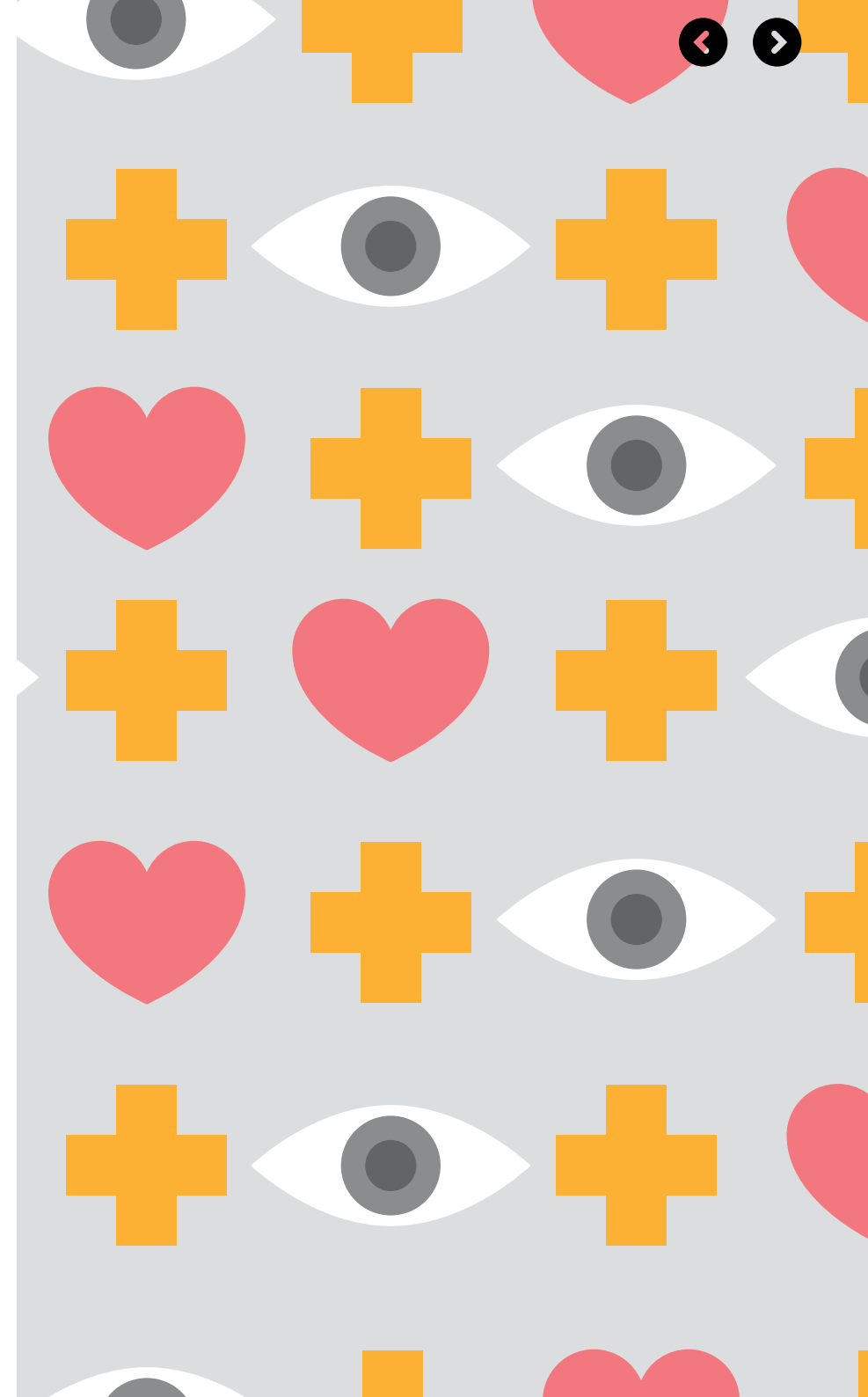


Mozambique inbound investment

Structuring opportunities

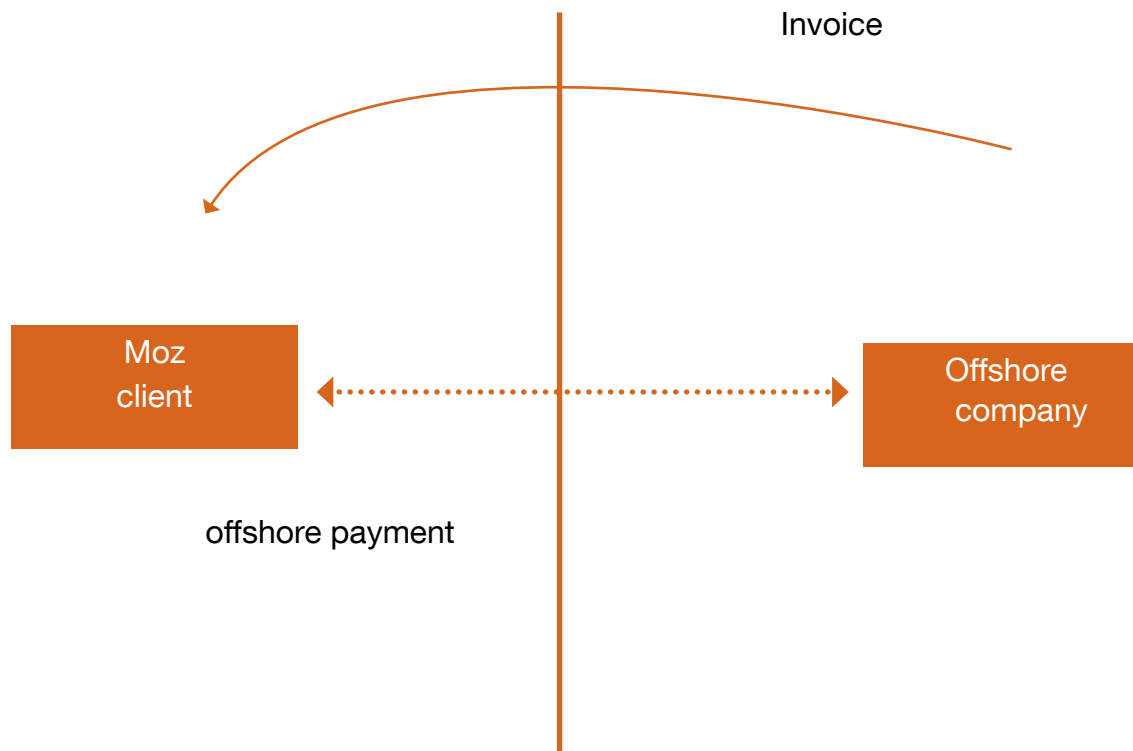
Local content – employment

- When do I create a taxable presence in Mozambique?
- Can I minimise gross-based withholding taxes?
- How do I repatriate funds tax efficiently?
- Is there an exit strategy in terms of capital gains tax?
- Which international investment holding location to choose?
- Which business vehicles are available?
- What is the tax and legal landscape to operate in the country?



Mozambique inbound investment

No presence in Mozambique



Services:

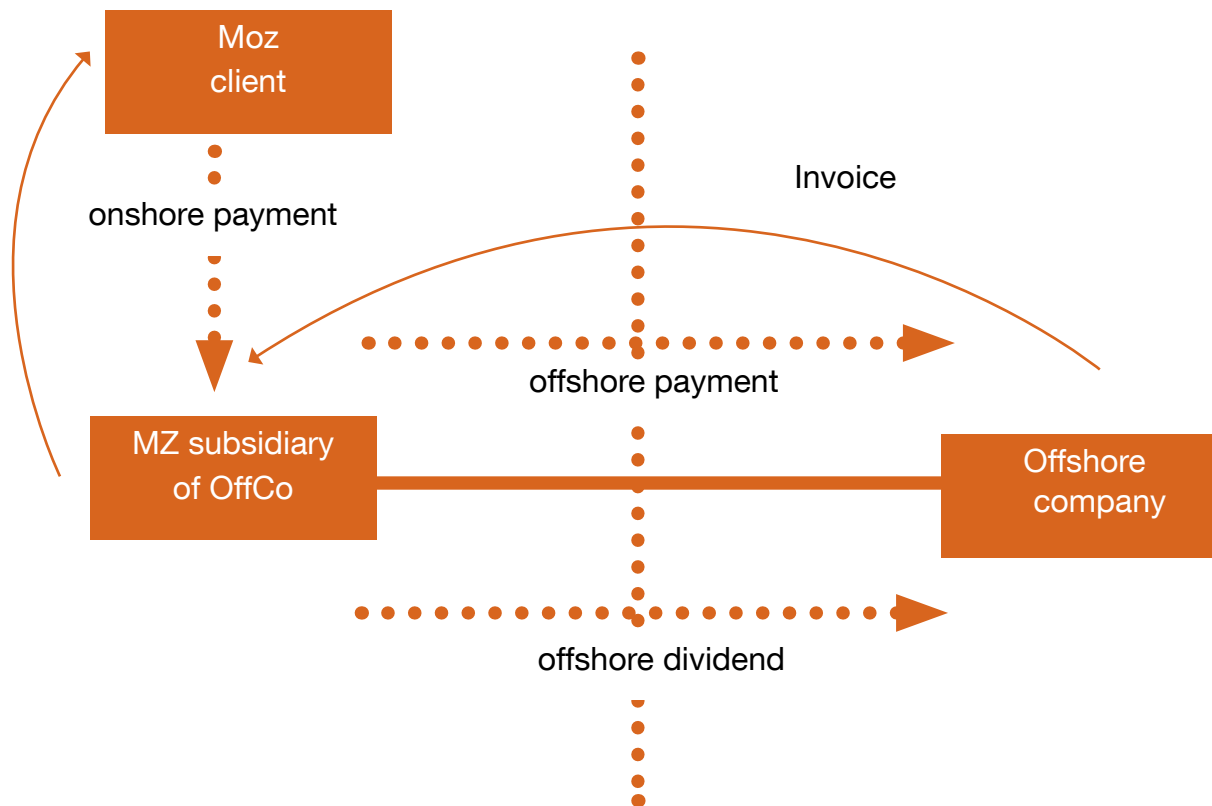
- Payment subject to 20% WHT, unless treaty relief applies:
 - Certain treaties will reduce WHT to 0% if it is service payments (provided no PE in Moz);
 - Practical risks for PE and/or viewing payment as a 'royalty' (attracts WHT).
- Moz VAT could be applicable on services, depending on the type of services rendered (including VAT self-assessment).

Goods:

- No WHT upon payment;
- Customs duties;
- Import (input) VAT.

Mozambique inbound investment

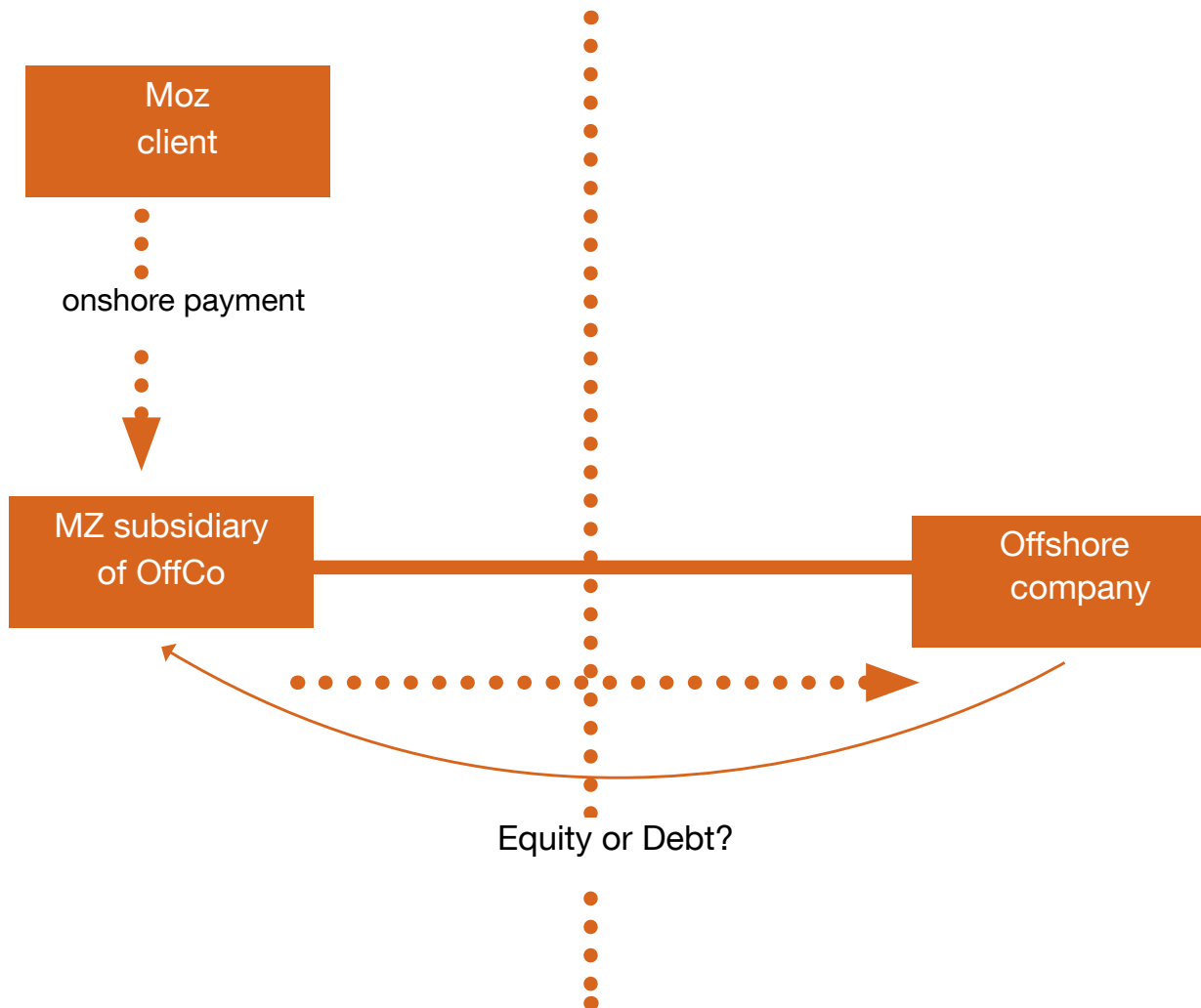
Presence in Mozambique – incorporate company



- MZ subsidiary invoices Moz client
 - All local invoicing requirements applicable;
 - Invoice subject to VAT at 17%;
 - Subject to corporate tax at 32%;
 - Payment not subject to WHT.
- OffCo invoices MZ subsidiary for services rendered
 - Services vs secondment charges;
 - Services subject to 20% WHT, unless treaty relief applies;
 - PE considerations;
 - Moz VAT self-assessment;
- MZ subsidiary distributes after tax dividend to OffCo
 - Dividend subject to 20% WHT per domestic legislation, unless treaty relief applies

Mozambique inbound investment

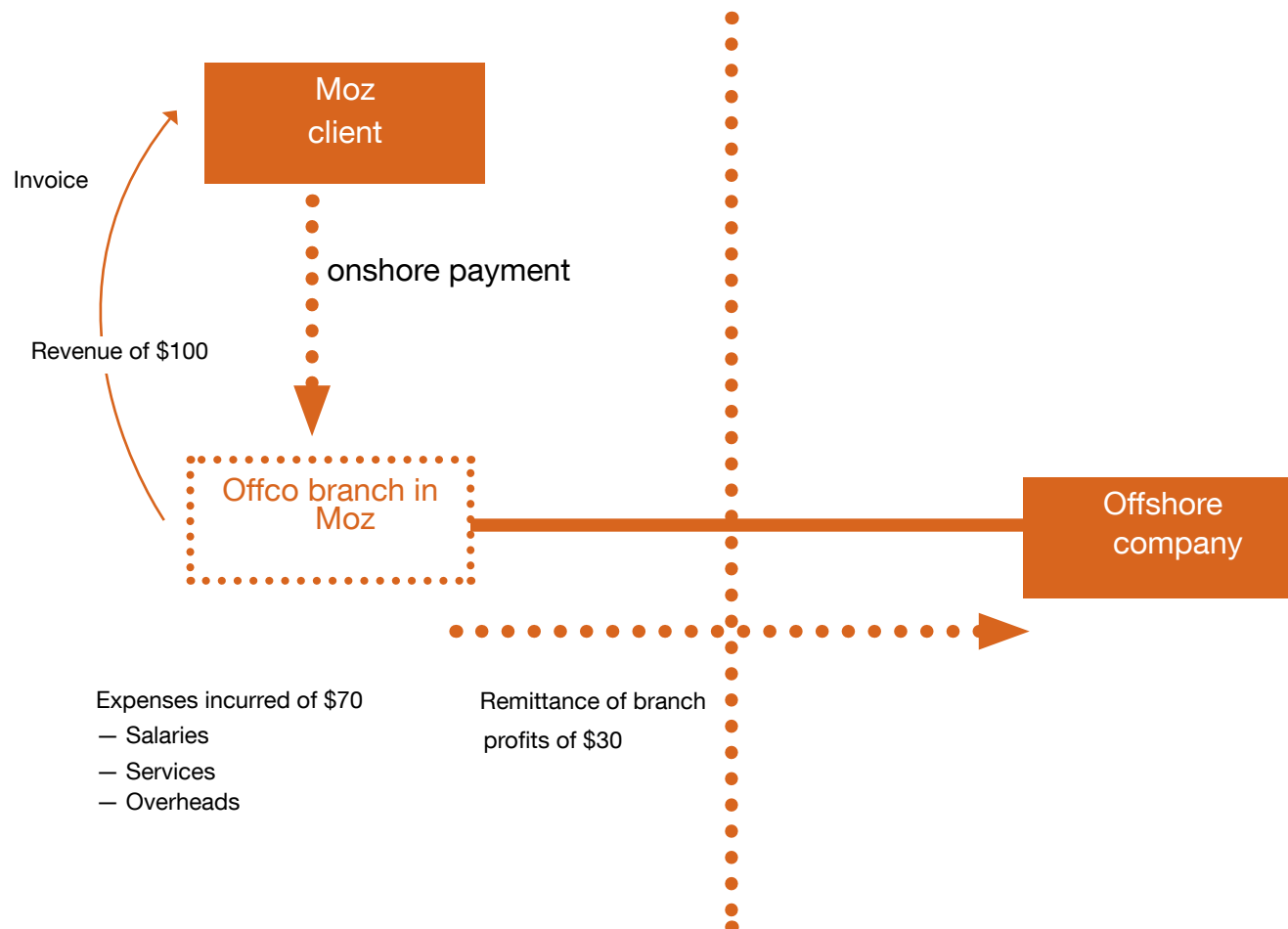
Presence in Mozambique – incorporate company + funding



- OffCo funds MZ subsidiary
 - Share capital, supplementary capital;
 - Shareholder loans;
 - Exchange controls;
 - WHT on interest;
 - Thin capitalisation rules.

Mozambique inbound investment

Presence in Mozambique – incorporate company + funding



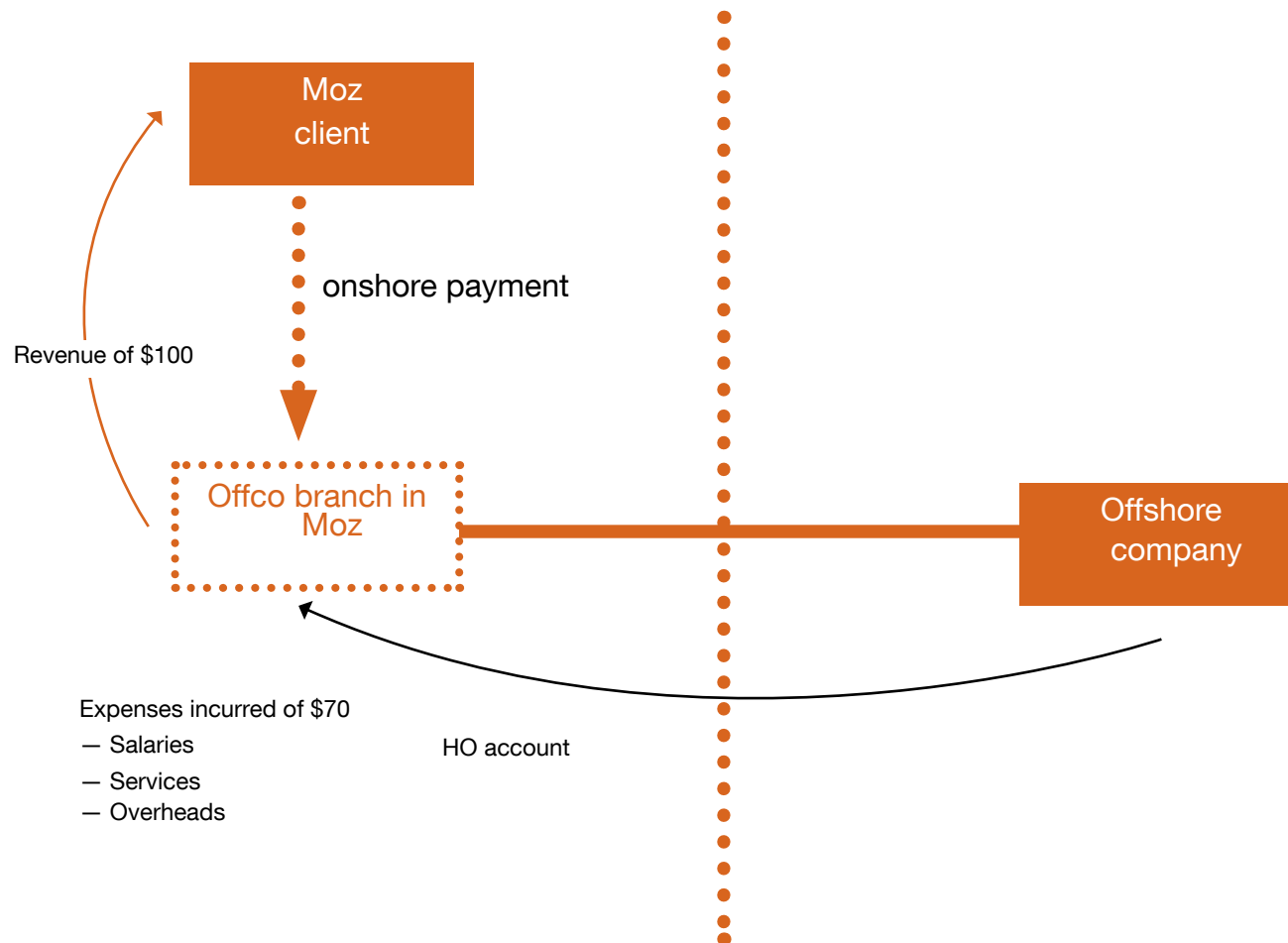
- Offco branch invoices Moz client
 - All local invoicing requirements applicable;
 - Invoice subject to VAT at 17%;
 - Subject to corporate tax at 32%;
 - No WHT.
- Offco branch remits after tax profits to Offco
 - Distribution of profits subject to 0% WHT (irrespective of foreign jurisdiction)
- Recharges of costs between OffCo HQ and OffCo branch

Balance Sheet:

Dr.	Cash	100
Cr.	HO account	70
Cr.	Retained profits	30

Mozambique inbound investment

Presence in Mozambique – incorporate company + funding



- OffCo funds OffCo branch
 - HO account;
 - Exchange controls;
- Third-party funding?

Balance Sheet:

Dr.	Cash	100
Cr.	HO account	70
Cr.	Retained profits	30

Case study



Case study

Project Dosh-M

- Kenny's Food and Prawns Pty Limited ('Prawn') is a South African company contracted to supply food stuffs to caterers engaged by companies established in Mozambique to provide services to the LNG projects.
- Prawn supplies mainly non-perishable food stuffs such as canned meat and vegetables sourced from South African suppliers. Prawn has an existing relationship with Camarao Limitada ('Camarao'), a Mozambique company from which it currently buys fresh fish and shellfish for distribution in South Africa.
- Camarao has a distribution network in Mozambique and contracts with logistics companies, although they have little experience supplying goods to the far north of the country.
- Prawn currently has no presence in Mozambique, and has formed an unincorporated joint venture with Camarao in terms of which Prawn will deliver certain foodstuff to Camarao's warehouse in Maputo, which will then be combined with fresh produce from Camarao and supplied to the customers using Camarao's distribution network.
- Prawn wants to ensure that the operations in Mozambique proceed smoothly, and has decided to second two senior staff to Mozambique, one to over see operations in Maputo and one to act as customer liaison and service delivery oversight in Nampula.
- In terms of the supply agreement, Prawn needs to commence delivery of food stuffs in three months' time, which is when the anticipated influx of workers is expected to begin.

Case study

Workstreams

Workstream 1 – Establishment

- Due diligence on Mozambique partner
- Entity (branch/subsidiary) registration – documentation, processes and cost
- Business licences
- Financing and exchange control
- Bank account
- Project management, timing and dependencies

Workstream 2 – Operations

- Appointment of suitable service providers
- Monthly compliance processes
- Logistics ((routes, timing, documentation, weather, road and port accessability, etc))
- Cash and forex management
- Project management and dependencies

Workstream 3 – Taxation

- Concession-specific rules
- Company taxation (income taxes, WHT, VAT, transfer pricing)
- Structuring opportunities
- Customs duties
- Payroll and social security
- Software solutions
- VAT
- Compliance obligations
- Exchange control

Workstream 4 – People

- | | |
|---|---|
| • Quotas | • expatriate policy |
| • Preparation of expatriates | • compensation build-up and contracting |
| • Work permits | • Software solutions |
| • Taxation policy and compliance | • project management |
| • Appointment of suitable service providers | • timing |
| | • dependencies |

7

Q&A



Questions



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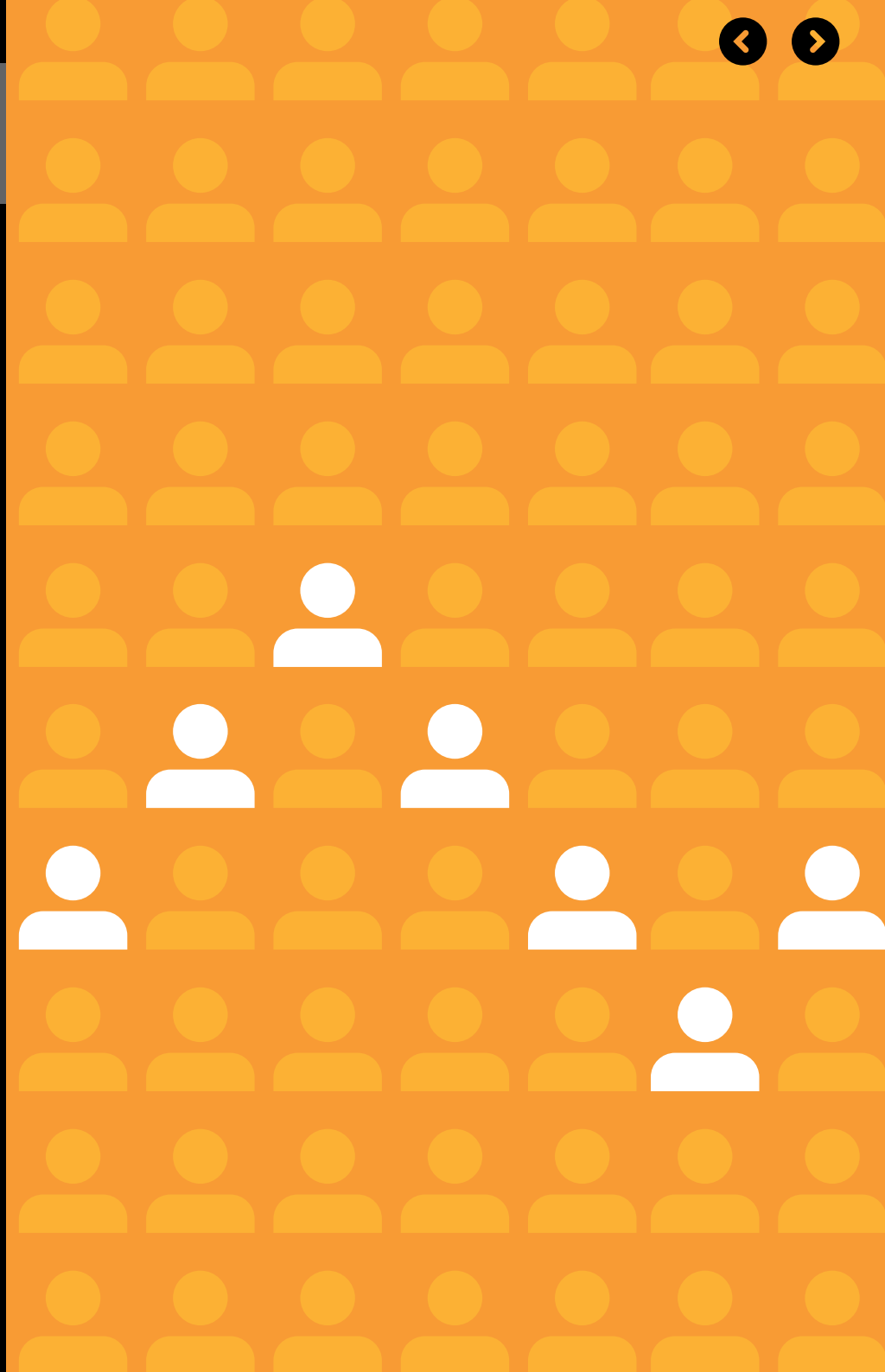
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