# Tax and policies incentives

Tax and policies incentives

# Tax rules

Mozambique has stable tax laws. Its major taxes on income are the 2007 Personal Income Tax (IRPS) and Corporate Income Tax (IRPC), which haven't undergone many changes.

For tax purpose, an individual is considered a resident if, during the relevant fiscal year:

- Has been in the Country for more than 180 days, consecutive or not;
- Has been in the Country for less than the aforementioned period, but owns estate or uses estate as a permanent residence in Mozambique;
- He works abroad performing public duties for the Republic of Mozambique.

# Personal Income Tax (IRPS)

A resident taxpayer is subject to taxes on their income in the country and abroad. On the other hand, a non-resident concerned is only subject to taxes on income in Mozambique.

A person's income is taxed in separate categories, depending on the type of income: job income (first category); professional and business income (second category); capital income and capital gains (third category); estate income (fourth category) and other income (fifth category).

There are particular deductions for each income category and general deductions for taxable income, such as health,

education and other expenses.

Usually, taxes on personal income are taxed progressively, ranging from 10% to 32%.

## **Corporate Income Tax** (IRPC)

National and foreign legal entities are subject to taxes on their profits. Legal entities based in Mozambique (such as companies headquartered or with effective management in Mozambique) are taxed on their global income. Non-local legal entities (companies with their headquarters or effective management offices outside Mozambique) will only be taxed on income in Mozambique. Mozambique's Law is also applicable to a permanent establishment's income generated by non-residents. IRPC's current rate is 32%.

Capital gains will be taxed in Mozambique if those gains are the result of direct or indirect transmission of shares between non-resident entities involving assets located in Mozambique's territory. This provision does not set a shares limit.

Concerning taxes over non-resident entities, taxing is performed through deduction at the source at a rate of 20%, as long as that income is obtained in Mozambique.

### Value-added Tax (IVA)

Generally speaking, VAT is a tax on the supply of goods and provision of services, as well as imported goods. There are some VAT exemptions for specific services and sales of goods, for the import and export of goods and also other exemptions. VAT is charged on a flat rate of 17%.

#### Source: APIEX - Mozambique

### **General Import Regime**

In the past few years, Mozambique Government has adopted legislative measures aimed at simplifying the bureaucratic process regarding foreign trade, namely the abolition of the export licensing system.

In its place, a Single Document (DU) system was introduced. Since December 1st, 1998, it is the customs dispatching system for all goods entering or exiting Mozambique, no matter the different customs procedures applicable (for commercial purposes, the Abbreviated Single Document – DUA – can also be used for importing and exporting goods in small amounts).

The Single Electronic Window (JUE) was later created to simplify Mozambique's business environment in the customs front. It involves two IT subsystems: TradeNet, (manages standard information submitted by commercial operators); and CMS -Customs Management System (processes statements submitted to customs and other Government agencies).

JUE ensures that required information for imports and exports should be submitted once, and then distributed electronically to various Government agencies.

Among the goals set by the Single Electronic Window are: greatly reducing time and costs for customs clearance; transparent customs proceedings; and a rise in state revenue.

One of the highlights is the Search & Find function, that aims to provide foreign commerce operators, such as managers of the logistics, procurement and commercial sectors, a way to keep up with the status of the relevant customs proceedings using the system, without resorting to their representatives in Customs procedure.

Customs reforms also include: regulating customs transit; site verification process rules (mandatory presentation of the original Certified Single Document and exemption statement for customs clearance of goods subject to Pre-shipment Inspection or tax benefits, respectively), and the recent publication of a new Diploma with the general rules for customs clearance of goods (Decree No.9/2017, April 6).

Source: APIEX - Mozambique

# Signed/ratified bilateral and multilateral treaties and international investment agreements

Mozambique signed 25 (twenty-five) Bilateral Investment Treaties (TBI) with Argelia, Belgium, Luxembourg, China, Cuba, Denmark, Egypt, Finland, France, India, Indonesia, Italy, Japan, Mauritius, Netherlands, Portugal, South Africa, Sweden, Switzerland, United Arab Emirates, United Kingdom, United States of America, Vietnam and Zimbabwe.

TBI's objective is to foster and protect foreign investors coming from the other Contracting State whenever they invest in Mozambique, or whenever Mozambique nationals invest in the other Contracting Party's territory. Currently, only 3 (three) of the aforementioned TBI were not yet implemented in the domestic legal framework: relating to Spain, United Arab Emirates and Zimbabwe, and as such they are not yet in force.

All TBI signed by Mozambique include the common provision of

the "Most Favored Nation", establishing that both Contracting Parties are forbidden of favoring national investors over investments by foreign nationals. Besides, investors from each Contracting Party should always benefit from the most favorable treatment granted by that Contracting Party to other nation.

This principle protects all citizens from Contracting Parties that signed TBI with Mozambique, providing a nondiscrimination guarantee.

Besides protecting the investor and his or her investments, TBI also establish clear rules for dispute resolution. Most TBI signed with Mozambique establish that, in case of dispute, both parties should try to solve it amicably within six months from the date the dispute arises.

Besides, TBI generally stipulates that both parties renounce the right of demanding use of all internal administrative or legal resources in the first place, and the investor has the option to submit the dispute to legal entities or international arbitration as mentioned below.

The two most common rules for dispute resolution: (i) submitting the dispute to the International Centre for Settlement of Investment Disputes (ICSID) for dispute resolution through arbitration following the terms laid out in the Washington Convention of March 18, 1965, aimed at dispute settlement between States and citizens of other States; or ii) arbitration according to the United Nations Commission on International Trade Law (UNCITRAL).

Source: APIEX - Mozambique

# **Double Taxation Agreements**

There is international legal Double Taxation when: (i) similar taxes are applied in two (or more) States; (ii) over the same taxpayer and (iii) over the same matter for identical periods.

Double Taxation has damaging effects for international exchange of goods, services and the cross-border movement of capital, technology and people. Mozambique signed nine treaties to avoid Double Taxation (TDT).

In order to avoid Double Taxation, in 1963 OECD's Committee on Fiscal Affairs adopted the Model Convention with Respect to Taxes on Income and on Capital, aimed at clarifying and standardizing the tax situation of taxpayers active in other countries, as well as providing a way to solve in a uniform manner the most common problems stemming from international legal double taxation.

Source: APIEX - Mozambique

# **Investment Stimulus**

The Mozambique Government approved the Investment Law and Regulations in order to promote and encourage national and foreign investment in the country, granting several incentives and benefits. These include tax and customs duties exemption, free funds repatriation and the possibility of hiring more expatriate workers than previously permitted by law. These incentives vary according to the economic and industrial activity performed and the relevant region where the project is implemented, including the possibility of allowing special benefits to particular sectors, such as mining, oil and gas.

In order to qualify for those benefits, the relevant foreign

investment must meet the conditions of (i) freely convertible currency; (ii) infrastructure, equipment, materials and other imported goods; (iii) exploitation rights through concessions, licenses and other similar rights.

The Investment Law grants customs and tax benefits according to the investment's amount, location and business sector:

- General Tax and Customs Benefits: Investments under the Investment Law benefit from customs duties exemption, as well as exemption of VAT payment over equipment goods classified "K" in the customs tariff, including their components and accessories.
- Investment Tax Credit: Investments undertaken in Maputo City benefit, for five fiscal years, of a 5% deduction of the total of real investment on their IRPC, for the part concerning activities in the scope of the project.

The rate is 10% in all other provinces. Furthermore, there is a special arrangement for:

- Infrastructure build-up;
- Commerce and Industries in Rural Areas;
- Processing and Assembling Industry;
- Agriculture and Fishing;
- Industrial Free Trade Zones;
- Special Economic Zones;
- Science and Technology Parks;
- Hotel Business and Tourism;
- Large Scale Projects;
- Rapid Development Zones;
- Investments Under the Mining Law;
- Investments Under the Petroleum Law.

# **Special Arrangements**

### Commerce and Industries in Rural Areas

Exemption of customs duties and VAT payment when importing equipment classified "K", as well as others required for the project fulfillment:

- a) Cold chambers;
- b) Scales;
- c) Weights;
- d) Cash registers;
- e) Oil and petroleum gauges;
- f) Counters.

### **Processing and Assembling Industry**

 Exemption of customs duties and VAT payment over equipment goods classified "K", as well as other goods required for the project fulfillment, in quantities deemed necessary to its construction and resourcing.

#### **Agriculture and Fishing**

- Exemption of customs duties and VAT payment over equipment goods classified "K", as well as their respective components and accessories;
- 50% deduction to the IRPC from 2016 to 2025.

### Hotel Business and Tourism

 Exemption of customs duties and VAT payment over equipment goods classified "K", as well as other goods required for the project fulfillment, in quantities deemed necessary to its construction and resourcing.

### Rapid Development Zones

- Exemption of customs duties and VAT payment over goods classified "K", as well as their respective components and accessories;
- Localized investments in Rapid Development Zones benefit from an investment tax credit of 20% over the total investment made, deduced in their IRPC, for 5 fiscal years.

### Special Economic Zones

Companies operating under Special Economic Zone or Free Trade Industrial Zone rules benefit from tax and non-tax benefits, namely:

- Tax exemption on imports (Including Value-Added Tax-VAT) of construction materials, equipment, accessories, components and other goods intended for the undertaking of licensed activities at the Special Economic Zones and Free Trade Industrial Zones
- VAT exemption over internal purchases.

### Tax Benefits for Companies

### operating under Special Economic Zone rules

- IRPC exemption for the first three fiscal years;
- 50% deduction on the IRPC from the 4th to the 10th fiscal year;
- 25% deduction on the IRPC from the 11th to the 15th fiscal year.

Companies in the Services Special Economic Zone benefit from a 50% deduction on the IRPC rate for a period of five fiscal years

From the date their certificates are issued on IRPC, Operators in Special Economic Zones benefit from:

- Exemption on the first five fiscal years;
- 50% deduction from the 6th to the 10th fiscal year;
- 25% deduction for the whole duration of the project

### Tax Benefits for Companies operating under Free Trade Industrial Zone rules:

- IRPC exemption for the first ten fiscal years;
- 50% deduction on the IRPC rate from the 11th to the 15th fiscal year;
- 25% deduction for the whole duration of the project

Source: APIEX - Mozambique