

Investing in Africa: Where do you start?

Africa Tax Alert

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PwC's Growing Footprint in Africa

Dennis Nally, Chairman of **PwC International**, recently announced an ambitious growth strategy for PwC in **Africa**. It features three strong initiatives:

- 1) investing more than **US\$100 million** in additional skills and business infrastructure in firms across Africa over the next three years
- 2) further integration of **PwC firms** in order to provide **Advisory services** across the continent through one Pan African entity, and
- 3) PwC will be recruiting **8,000 additional staff** and partners in Africa over the next five years.

Dennis Nally explained that this growth strategy is in response to foreign firms demanding more African coverage and because *“Africa is an important frontier for economic growth. We believe the regional economy could double by 2020 to nearly **\$three trillion**.”*

The **International Monetary Fund** (IMF) has projected an expansion of 5.5 per cent for Sub-Saharan Africa this year and 5.9 per cent next year. This is due to soaring commodity prices but also through the growth of the technology sector and improvements in the region's political and economic governance.

Note: Please refer to page four for an overview of PwC's existing African footprint.

PwC – African Tax and Business Symposium

The Safari Park Hotel, Nairobi, Kenya
18 – 21 September 2011

“African Winds of Change”

At our **14th African Tax and Business Symposium**, PwC and other specialists on Africa will present topics that will cover the tax, regulatory and business aspects of doing business in Africa, in a range of plenary and workshop sessions. There will also be the opportunity to engage with PwC partners and staff representing more than 25 countries on the African continent either at informal networking sessions or by pre-arranged client-specific sessions.

This event is attended by over 100 representatives of multinational corporations annually, and the number of attendees increases every year – making this an unrivalled opportunity to interact with peers managing tax and other business challenges in Africa. If you are interested in, or are already doing business in Africa, you should not miss this prestigious event.

For further details please contact Didier Lenette on (07) 3257 8178 or by email at didier.lenette@au.pwc.com.

News in brief

Zimbabwe's central bank governor has attempted to dispel rumours and comfort foreign investors after several major companies (including banks such as Barclays and mining companies) were warned that they could be nationalised. Under **Zimbabwe's** empowerment laws, black Zimbabweans can acquire 51 per cent of foreign businesses.

In view of the current political crisis, **Madagascar's** tax authorities have become more aggressive with tax collection and are now focussing on VAT and income tax audits. Currently banks and mining entities are being targeted. It is of particular importance that businesses ensure that they have 'regular invoices' for all their transactions in order to avoid tax adjustments and disallowances.

Tax clearance certificates issued by the **Malawi Revenue Authority** will now be required for the renewal of licences issued by government ministries and departments in respect of mining and energy licences. VAT has now been introduced on various supplies previously exempt or zero-rated.

Nigeria's Legislature passed the Personal Income Tax Amendment Bill. There has been a marginal reduction in the top income tax rate from 25 per cent to 24 per cent; a consolidated tax relief and allowance of NGN 200,000 to replace the existing multiple tax-exempt allowances; and more restrictive provisions on the 183-day threshold for tax residency to include periods of temporary absence or annual leave.

Tanzania announced in the 2011/2012 budget special VAT relief to apply to imports by or supplies to entities engaged in exploration or prospecting activities (subject to standard pre-clearance processes). Also an exemption from tax on fuel was announced. This is subject to pre-approval by Tanzanian Petroleum Development Corporation (TPDC) and Ministry of Finance.

Uganda recently amended its source rules for royalties so that the following royalty payments are deemed to be derived from sources in Uganda where the royalty is paid:

- 1) by a resident person other than through expenditure of a business carried on by the person outside Uganda through a branch of the business
- 2) by a non-resident person as an expenditure of a business carried on by a branch of the business in Uganda, or
- 3) arising from disposal of industrial or intellectual property used in Uganda.

A total of 1201 CEOs in 69 countries took part in the **14th Annual Global CEO Survey** which was conducted in the last quarter of 2010. With a focus on **South Africa** and drawing from interviews of **32 local CEOs** the report found that:

- 94 per cent of South African CEOs expect their business in Africa to grow in the next 12 months.
- 84 per cent believe emerging markets are more important to their companies' future than developed markets, compared to a global average of 58 per cent.
- 75 per cent of South African CEOs anticipate changing their organisational structure in the near future.

Did you know?

Mozambique is planning to amend its mining laws and is currently in talks with miners and other stakeholders. Some of the issues being discussed include timeframes for mining production and government royalties from mining.

At present Mozambique imposes a 35 per cent tax on miners and production taxes of 10-12 per cent on diamonds and three- eight per cent on other minerals.

Please contact Didier Lenette should you require a more detailed analysis of the proposed changes.

Tax Sparing Relief

In this new global environment, where countries compete to attract investments, the granting of tax exemptions and tax holidays for investment in specific industries or regions is fairly wide spread.

To ensure that investors obtain the full benefit of such exemptions, tax sparing relief is sometimes granted by a home country for foreign taxes deemed to have been paid in the target country where the tax exemption or tax holiday is provided. The original intent was for such provisions to encourage investment by enterprises of developed nations (home countries) into developing nations (target countries).

Tax sparing refers to granting a home country foreign tax credit for specific foreign taxes that would have been payable but for tax exemption in the foreign country – these taxes have not been paid as they have been ‘spared’.

The **OECD** has recommended a set of ‘best practices’ for designing tax-sparing provisions and that its Member countries should consider granting tax-sparing credits only to countries whose economic level is considerably lower than their own.

Mauritius, for example, not only includes tax sparing clauses in the majority of its tax treaties, but also provides such relief on a unilateral basis (i.e. relief is also granted through the domestic tax laws) on the condition that the tax exemption or tax holiday has been granted by the other state (target country) through State/Provincial or National/Federal legislation. The credit is applied against Mauritian taxes payable on the foreign sourced income

Profile – Africa Desk

Modestino (Tino) Saladino recently joined the International Tax Services team in Sydney, after five years with the PwC Johannesburg office in **South Africa**. Tino is a Chartered Accountant and has been practising as a tax

consultant for over seven years. In the Johannesburg office, Tino’s primary responsibility was to advise clients and targets (both South African multinationals and non South African groups) investing into Africa. Tino also oversaw the day-to-day running of the Johannesburg based Africa Desk.

Tino advises his clients on international (and in particular African) tax matters. He has experience in developing and implementing cross-border tax solutions including advising on acquisition and holding structures. He has knowledge on matters such as interpretation of tax treaties, holding company regimes, withholding taxes and permanent establishments. In his role as international tax advisor, with a focus on Africa, Tino has coordinated and project-managed a significant number of cross-border and global projects for clients operating on the continent.

Tino is a great addition to our **Africa Desk** team and will be the main contract for Sydney based clients.

Double Tax Treaties Update

Algeria – Qatar: signed a tax treaty which will generally apply from 1 January 2012.

Ethiopia – India: signed an income tax treaty on 25 May 2011.

Ethiopia – United Kingdom: an income and capital gains treaty and protocol was signed between Ethiopia and the United Kingdom on 9 June 2011.

Kenya – United Arab Emirates: signed an income tax treaty on 5 July 2011.

Mozambique – Vietnam: signed an income and capital tax treaty which caps withholding tax rates on payments of interest, dividends and royalties at 10 per cent.

Tanzania – India: Signed an income tax treaty on 27 May 2011, which once in force will replace the existing income tax treaty of 1979.

Useful links

Austrade Mauritius -

<http://www.austrade.gov.au/Mauritius-profile/default.aspx>

Africa Business Source -

<http://www.africabusinesssource.com/>

Previous edition of Africa Tax Alert -

<http://www.pwc.com.au/tax/publications/index.htm>

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PwC's Footprint in Africa

