News in the personal and corporate income taxes

1. Personal Income Tax

The amendments that entered into force on the 1st January 2014 are characterized by an effort towards the simplification in the collection of tax revenue and by chirurgical modifications in the taxation of some income categories of income.

The increased use of **final flat rates** and **withholding taxes** is translated in a greater simplification in the collection of taxes.

These amendments are characterized by an effort towards the simplification in the collection of tax revenue and by chirurgical modifications in the taxation of some income categories of income

A. Employment income

Until the end of 2013 employment income was taxed by withholding tax on account of the personal income tax finally due and it was aggregated with the remaining income of the employee and subjected to tax in general terms.

From the 1st of January 2014 employment income is taxed through a final withholding tax. The withholding tax shall be made without taking into consideration the marital status of the beneficiary of the income and shall be made by the sum of the value of the personal income tax (in accordance with the table hereunder that changes depending on the gross monthly salary and the number of dependents) with the result of the application of the coefficients that are stated in the table (and that are applicable to the difference between the gross monthly salary and the minimum value of the "escalão" they are included).

Gross monthly Salaries Limits'	Personal income tax amount to withhold concerning the lower range limit of the gross monthly salary per number of dependents (MTs)					Coefficient for each additional unit of the lower limit of the gross salary
	0	1	2	3	4 ou mais	
Until 20.249,99	-	-	-	-	-	-
From 20.250,00 to 20.749,99	0,00	-	-	-	-	0,10
From 20.750,00 to 20.999,99	50,00	0,00	-	-	-	0,10
From 21.000,00 to 21.249,99	75,00	25,00	0,00	-	-	0,10
From 21.250,00 to 21.749,99	100,00	50,00	25,00	0,00	-	0.10
From 21.750,00 to 22.249,99	150,00	100,00	75,00	50,00	0,00	0,10
From 22.250,00 to 32.749,99	200,00	150,00	125,00	100,00	50,00	0,15
From 32.750,00 to 60.749,99	1.775,00	1.725,00	1.700,00	1.675,00	1.625,00	0,20
From 60.750,00 to 144.749,99	7.375,00	7.325,00	7.300,00	7.275,00	7.225,00	0,25
From 144.750,00 onwards	28.375,00	28325,00	28.300,00	27.275,00	28.225,00	0,32

B. Capital gains

There were also some changes in the taxation of **capital gains** from the sale of shares and other securities. While previously capital gains were considered in just 75%, 60% or 30% of their amount, depending on whether the shares and securities were held, respectively, for a period of until 1 year, 2 years or more than 5 years, form the 1st January 2014 onwards they are considered at 100%, 85%, 65% or 55% of their amount, depending on whether the shares or securities are held, respectively, for a period of until 1 year, 2 years, 5 years or more than 5 years.

Nevertheless, these time limits are not applicable to non-resident individuals without a permanent establishment in Mozambique. In these cases the total value of the capital gain shall be considered, regardless of the period of detention of the shares and other securities.

C. Reporting Obligations

Certain **reporting obligations** were also modified, notably the case of households, in which the tax shall now be due individually by each income holder, that shall deliver a separate income tax return (contrary to the previous situation in which the income of the household was declared in the same tax return) and the income splitting for spouses will no longer be applied.

On the other hand, paying entities that have to withhold tax see their reporting obligations intensified, as they will have to verify the beneficiary of the income Tax Identification Number (NUIT) before paying or making available the respective income.

Paying entities that have to withholding tax see their reporting obligations intensified

2. Corporate Income Tax

A. Broadening the Scope of the tax base

Due to recent events that occurred in Mozambique in the oil and gas sector, the scope of the corporate income tax liability in Mozambique was extended, now being also considered as profits obtained within the Mozambican territory, "*regardless of the place where the alienation has occurred, the gains resulting from the transmission, direct or indirect, onerous or gratuitous, between non-resident entities, of shares or any other corporate participating interests and rights over assets located in the Mozambican territory*"

Gains derived by non-resident entities from the sale of shares in non-resident entities that directly or indirectly own shares in companies that have assets and other participating interests in the territory of Mozambique are subject to tax

This amendment is causing a great extent of perplexity in the community as its literal application would result in being considered subject to tax in Mozambique the capital gains derived from the sale of shares in the capital of entities resident in other jurisdictions provided somewhere in the participations chain there is a company with assets located in the territory of Mozambique.

The literal application of this new rule seems to result however in an extension of the source beyond the boundaries of the principle of territoriality in tax matters.
Further guidance on the application of this new rule is awaited with expectation.

B. Non-deductible expenses for tax purposes

It is also worth noting the introduction of limits to the deductibility of interest and other remuneration linked with shareholders' loans in the part that exceed the amount correspondent to the reference rate (MAIBOR – 12 months), plus 2%; as well as the non-deductibility of expenses proven by documents issued by taxable persons with an invalid or inexistent tax identification number or by taxable persons that have ceased their activity.

Interest due on shareholder loans over certain limits is non-deductible

C. Transfer Pricing

This legislative amendment has clarified the concept of "*special relations*" in the transfer pricing legal regime, considering that such special relations exists in situations where an entity has the power to, directly or indirectly, exercise a "*significant influence*" in the management decisions of another entity.

D. Other changes

i. Entities resident in Mozambique

Entities resident in Mozambique deriving income from *(a)* interest over treasury notes and listed debt securities; and *(b)* interest from the exchange of liquidity between banks with or without guarantees, are now subject to withholding tax at the rate of 20%.

ii. Non-resident entities in Mozambique (and without permanent establishment)

It has also been clarified amoung others that the provision of telecommunications and international transportation services and the installation and assembly of equipment connected with such services, as well as services related with maintenance and freight of aircrafts are subject to withholding tax at the rate of 10%.

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