MIRROR MIRROR ON THE WALL WHO HAS THE FAIREST TAX RATE OF THEM ALL?

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Developing countries (or capital-importing countries) are making strong efforts to attract foreign investments. South Africa and Mauritius are seen as developing countries and have adopted tax incentive regimes to increase their attractiveness for Multinationals to set-up locally.

The Headquarter Company (HQ) regime provides tax benefits for South African resident companies that satisfy the requirements and elect to be HQ Companies. Mauritius has its own tax benefit regime with the Global Business Category 1 (GBC1) company. Although Mauritius has attracted many MNEs over the past number of years, it is not the only African country with favourable tax rates/regimes.

The United Arab Emirates (UAE) is also attracting foreign direct investment. To create an onshore company in the UAE, the following requirements must be met:

- The company should operate in the local UAE market;
- A UAE resident must hold at least 51% shares in the company and be the local partner (professional companies could use a local agent);
- A business license linked to the business activity must be obtained, subject to local authorities and federal authorities.

The benefits of these three tax jurisdictions are:

Benefits	**South Africa (HQ company regime)**	**Mauritius GBC1**	**United Arab Emirates**
Corporate tax rate	28%	3% effective rate	No federal income tax
Controlled foreign company (CFC) rules	Exempt from CFC rules	No CFC rules exists	No CFC rules exists
Withholding taxes	No withholding tax on dividends, interest or royalties	No withholding tax on dividends, interest or royalties	No withholding tax on dividends, interest or royalties
Transfer pricing	Exempt from foreign financing or intellectual property licensing	No transfer pricing rules	No transfer pricing rules

Double Tax Agreements (DTAs)	DTAs with most African countries	DTAs with most African countries	Very few DTAs with African countries
Foreign Exchange Rules	Mainly exempt	No foreign exchange rules	No foreign exchange rules

These benefits indicate that a multinationals specific circumstances inevitably dictate the most favourable tax jurisdiction in which to set up. The tax effect is only one of the factors when deciding in which country to invest. Other factors to consider include the costs of setting up and doing business in that country, ease of repatriating money, political and economic stability and barriers to entry.

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