

Mauritius: A Gateway to East Africa

A visitor to Nairobi or Dar es Salaam will immediately notice the scale of the commercial and residential property development going on around them, the infrastructure projects taking shape, and the general buzz in the air. Our clients and the professionals we work with tell us the economic outlook is good, their businesses are thriving, and they are confident about the future.

The world is recognising that with its abundance of land and natural resources, generally strong economic fundamentals, improving socio-political trends and youthful population, Africa offers huge potential. Talk in the Funds industry is of substantial private equity capital seeking scarce investment opportunities and of plans for the launch of sub-Saharan Africa equity funds.

Against this background it is no surprise clients are seeking to expand their businesses, or enter into new ventures, and in so doing looking for the most efficient means by which to bring fresh capital into the region. Mauritius has long been associated with inward investment into India however this long established and well regulated international financial centre is now carving a niche in structuring capital flows into Africa, particularly East Africa. Mauritius benefits from being a member of all the main African regional organisations such as The African Union, Southern African Development Community, Common Market for Eastern and Southern Africa, and Indian Ocean Rim – Association for Regional Cooperation, more normally referred to be their acronyms: 'SADC', 'COMESA' and 'IOR-ARC'.

Mauritius has also signed Investment Promotion and Protection Agreements ('IPPAs') with 15 African states, the significance of these being that typically an IPPA offers certain guarantees to investors such as:

- Guarantees against expropriation
- Free repatriation of investment capital and returns
- Favoured status if compensation for investment losses caused through armed conflict or civil unrest arises
- Dispute resolution in cases involving the contracting African state

Important though these are, it is perhaps Mauritius' growing stature as the international centre serving East Africa (and more widely), and the increasing number of double taxation treaties it has successfully negotiated that makes it so attractive to clients and their professional advisers. Mauritius has concluded tax treaties with 12 African states: Botswana, Lesotho, Madagascar, Mozambique, Namibia, Rwanda, Senegal, South Africa, Swaziland, Tunisia, Uganda, and Zimbabwe. There is also a treaty with the Seychelles, and 5 treaties are awaiting signature with Egypt, Malawi, Nigeria, Zambia, and most notably for many of Minerva's clients, Kenya.

This treaty network provides for interesting and attractive tax planning opportunities which include:

- Elimination of double taxation through the tax credit equivalent of Mauritian tax
- Reduction in withholding taxes on dividends, interest and royalties
- Exemption from capital gains

To benefit from these treaties a Mauritius tax resident company holding a Category One Global Business Licence 'GBC1' must be used. Minerva Fiduciary Services (Mauritius) Limited specialises in the incorporation and administration of such GBC1s, and satisfies the need for these entities to be managed and controlled from Mauritius.

Although treaty benefits vary country by country, generally capital gains are taxed at rates of as much as 35%, although typically 30% is more widespread. Most of the Mauritius treaties restrict the taxing of capital gains to that of the country of residence of the seller (Mauritius in the case of a GBC1), and as there is no capital gains tax in Mauritius, the potential tax saving is significant. Alternatively an investor's exit can be structured by the sale of the Mauritius holding company rather than the underlying African assets, and again with careful planning capital gains taxes can be legitimately avoided. Often such a sale will be an attractive option for the purchaser as well as the investor.

The treaties can also reduce withholding taxes on dividends paid to non residents. The majority of African states impose withholding taxes on such dividends at rates varying between 10% and 20% however again there are significant potential tax savings as the treaty rates agreed are generally in the range of 0% - 12%.

Tax mitigation requires careful planning specific to the circumstances of the investor, the underlying assets, and the nature of the taxes to be mitigated. Some general information regarding Mauritius' treaties and their benefits can be found on the Mauritius Revenue Authority website, although this is no substitute for professional advice and guidance.

Although Mauritius is rightly associated with its attractive double taxation treaty benefits, the majority of companies incorporated in Mauritius are Category Two Global Business Licence holders 'GBC2s', the Mauritius equivalent of the ubiquitous BVI international business company.

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Why Mauritius? Minerva has invested heavily in its Mauritius business over the last seventeen years recognising Mauritius is becoming the increasingly preferred gateway into the African continent. As an international financial centre it benefits from its:

- Strategic location between Africa and Asia
- Political, social, and economic stability
- Legal system offering certainty and precedence
- Mature and well regulated financial services industry, with 'white list' status
- Professional services infrastructure, and the presence of international banks, accountancy, and law firms
- Skilled and highly qualified labour force
- Lower cost base

Minerva Fiduciary Services (Mauritius) Limited provides full administrative services for the incorporation/creation and on-going administration of GBC1s and GBC2s, trusts and funds from its modern offices in Cyber City, the financial heart of Mauritius.

Increasingly clients are electing a multi-jurisdictional approach to the structuring of their affairs, and it is now quite normal for a Jersey trust to own a Mauritius holding company in which African business assets are vested. Such a strategy combines the strengths of Jersey as the preeminent jurisdiction of choice for trust administration, with the potential tax advantages of investing in Africa through Mauritius.

Minerva staff work closely with one another across borders, and the ability to structure arrangements involving our offices in Jersey, Mauritius, Dubai, Switzerland and London as required offers significant advantages.

Please contact Manon Thamothisram (manon.thamothisram@minerva-trust.mu) for more information regarding the services available through Minerva Mauritius, and how to use Minerva as your gateway into Africa. Alternatively liaise with your usual Minerva contact.

This information is supplied as a general introduction to the topics covered. It is not comprehensive and does not constitute legal, investment, taxation or other advice. Recipients are advised to take appropriate professional advice before committing themselves to any investment funds arrangement.

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