Zambia-Mauritius tax treaty provides new alternatives for investing into Zambia

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In brief

The tax treaty between Zambia and Mauritius, which entered into force on June 4, 2012, will provide alternative investment structuring opportunities to US multinationals with planned or existing investments in Zambia. When a US company holds its Zambian investment through Mauritius, the treaty — combined with the attractive Mauritius holding company regime — may reduce the cost of doing business in Zambia.

In detail

Zambia levies withholding tax on dividends and interest at a general rate of 15%. The withholding tax rate on management fees and royalties to non-residents without a permanent establishment in Zambia is 20%.

However, the treaty with Mauritius reduces the withholding tax to the following rates:

- dividends - 5% (if investing company has at least 25% interest)
- interest - 10%
- royalties - 5%
- management fees - 0%

If a Mauritian company that holds a Zambian investment also holds a Mauritian Category 1 Global Business Company (GBC1) license, it will qualify for preferential tax treatment under Mauritian domestic tax laws. The preferences include:

- income taxed at an effective rate of 0% to 3%
- no withholding tax on dividends, interest, and royalties paid to non-residents.

The treaty applies to amounts paid on or after August 1, 2012, and with respect to tax years beginning on or after August 1, 2012.

The takeaway

Because taxpayers may qualify for reduced withholding tax rates without being subject to an additional layer of Mauritian tax, US multinationals with planned or existing investments in Zambia may wish to consider holding those investments through a Mauritian entity.

Let's talk

For a deeper discussion, please contact:

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