BUSINESS NEWS

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Tax-savvy SA investors find a haven in Mauritius

BY MICHAEL HONIBALL

South Africans have long been familiar with Mauritius as a prime tourist destination. They are now discovering it is also a prime investment destination.

One reason for the new perception is the Income Tax Act, which was changed last July. Investment income such as interest, royalties and annuities had been taxed at source. It is now taxable on a worldwide basis.

Amendments to eliminate anomalies and uncertainties in the act were announced with the budget. These changes have highlighted the new rules, which many do not yet fully understand.

The new law taxes South African residents who have controlled foreign entities (CFEs), offshore entities such as trusts or companies that are more than 50 percent controlled by South African residents.

More South African taxpayers are becoming aware of the far-reaching effect of these rules and are searching for tax planning to avoid the rules legally.

One important exemption is for CFEs that form part of a substantial business conducted through a permanent establishment in the offshore jurisdiction. The investment income is then taxed under the old source rules. That generally means income sourced in a low-tax jurisdiction will only be taxed in that jurisdiction, if the business is a substantial business.

Mauritius is becoming an increasingly important jurisdiction for South African residents with CFEs who wish to take advantage of the substance exemption.

The reason lies in the island's proximity, its excellent infrastructure and the relatively low cost of adding the required substance. Corporate taxpayers can quickly and easily arrange for the required substance to be added. The substance cost is generally far outweighed by the tax savings.

Seconding employees to the island is an important way to add substance. Employees are often reluctant to be seconded to the more traditional, but remote, island tax havens, such as the Isle of Man.

South Africans are usually keen to be sent to Mauritius because of its reputation as a vibrant economy and a prime tourist destination.

Another reason for the island's increasing popularity among investors is the relaxation of South African exchange controls coupled with Mauritius's membership of the South African Development Community (SADC).

Past applications to the Reserve Bank for permission to remit funds for foreign start-ups were often turned down. With the relaxation of exchange controls, it has become easier for South African investors to obtain approval for investments in SADC countries.

The latest budget relaxed control on investments in SADC countries to R250 million from R50 million. That move alone should lead to substantial South African investment in Mauritius.

Increasing uncertainty over the traditional low-tax jurisdictions also focuses attention on Mauritius.

The EU has announced measures that will affect Belgian co-ordination centres and Dutch and Irish finance companies. The UK has appointed a commission to investigate transactions with Jersey, Guernsey, Alderney, Sark and the Isle of Man, creating uncertainty over their future tax positions.

Bermuda now exchanges information with the US. The British Virgin Islands have regulatory problems.

International tax advisers say Mauritius is the best-known and respected location for holding companies among the newer tax-efficient jurisdictions. It is also known as one of the few jurisdictions that couples a relatively low tax rate with a wide treaty network.

What is not yet generally well known is that Mauritius is also a safe, confidential and well-regulated jurisdiction to locate offshore trusts. Only 75 offshore trusts were established in Mauritius last year, up from 63 the previous year.

Considering the modern and effective Mauritian trust law and the changes in South Africa, the number of South African trusts formed in Mauritius should rapidly increase in the near future.

It should not be long before Mauritius becomes one of the most important gateways for investment into and out of South Africa.

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National chain

BUSINESS REPORTER

Hyper-Pharm has launched a branding concept for individually owned pharmacies to enjoy the marketing muscle of a national group without the restrictions of franchising.

John and Graham Purchase, the co-owners of Hyper-Pharm, say their national chain concept will increase the number of Hyper-Pharm-branded outlets to as many as 200 within a short time.

They say they were motivated by the uncertainty within retail pharmacy. "Many pharmacies are feeling unsettled due to the changing nature of the pharmacy concept.

"Nothing is the way it used to be. No sooner have the doctors been disbarred from dispensing than there is the threat of new competition from the supermarkets.

"It is quite clear that the smaller pharmacies have been going under at an alarming rate. Whereas there were 3 600 in this country there are now 2 700, yet the recognised branded pharmacy groups are doing well," the Purchases say.

Hyper-Pharm is a Pretoria-based pharmacy group that has

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