

AFRICA DESK

YOUR BUSINESS LINK INTO AFRICA



**The Leader for Exceptional
Client Service**

▶ BDO IN SOUTH AFRICA PROVIDES AUDIT, ADVISORY AND TAX SERVICES TO A BROAD RANGE OF CLIENTS - FROM LARGE JSE-LISTED COMPANIES TO INDIVIDUALS AND SMALL AND MEDIUM SIZED ENTITIES.

As the South African member firm of BDO International, the world's fifth largest accounting network with offices in over 157 countries, we have been delivering exceptional service to our clients since 1963.

Our people are trusted to deliver the quality of service that our clients expect. We offer a tailored approach to every client and our people have the skills and experience to take responsibility for the work they do. We are agile and quick in responding to client demands.

Our approach involves listening to our clients, understanding their expectations and delivering the calibre of service associated with a leading global financial services firm.

DELIVERING EXCEPTIONAL SERVICE INTO AFRICA

For organisations looking to capture business opportunities provided by other African countries, our team can help you minimise risk and maximise potential. Through our extensive network in almost every African country, we are able to identify the latest developments as they would pertain to your business venture.

ISSUES THAT CAN IMPACT YOUR BUSINESS WHEN INVESTING IN AFRICA

South African companies that expand into Africa, mostly set up subsidiaries in the target country for various reasons. However, the financing options to optimise the after tax returns on the investment then become important as companies are often set up with nominal share capital and funded through inter-company loans.

It is imperative that a number of strategic issues need to be considered from a tax and regulatory perspective early on in the process. For example, it needs to be established whether the South African company has an offshore parent. Should this be the case, then it is unlikely that South Africa will be used as an intermediate holding company jurisdiction as the parent company may be subject to Controlled Foreign Company legislation (CFC), similar to South Africa, so most multinationals avoid multiple-layered CFC regimes and invest directly from the holding structure.

Many funding decisions involve the treasury area and most have tax consequences that should be considered.

Issues that impact the funding structure of a locally domiciled investor without a foreign controlling shareholder:

Issue		Structuring considerations	Factors to consider
Central Bank		Nominal share capital, i.e. thin capitalisation rules	Local capital regulations; Exchange control rules on remittance of debt versus equity
Debt/equity ratio		Optimal initial debt/equity mix	Local capital regulations; Exchange control rules on remittance of debt versus equity
Currency accounting		Functional currency for accounting and tax purposes	Need to take local advice
Earnings currency		Currency in which revenue must be earned	If not local currency this can have functional currency and choice of funding currency implications as funding will tend to happen in currency of earnings to create a natural hedge between earnings and loan repayments; If local currency this will also affect choice of currency funding
Funding currency		Currency in which loan/equity funding must be done	Earning currency, remittance issues, bank regulations, currency tradability
Interest charging		If loan funding is required, must the loan be interest bearing?	Local withholding tax issues, local tax base projections, host country transfer pricing issues, parent guarantees
Funding source		Funding of finance, i.e. inter-company loans or loans from a third party	Options to be considered
Guarantees		Is a guarantee required?	Host country transfer pricing rules, local country deductibility
Special tax regimes		Deciding between a “headquarter company” or a “domestic treasury management company” as defined in the South African Income Tax Act to hold or fund the investment	Comparative analysis may be required if this is considered
Remittance regulations		Level of withholding taxes on interest and dividends for remittances	Awareness of local legislation and double tax treaty network; Relief in investment incentives/ stability agreements
Debt levels		Tax legislation regulating the level of debt in the host country (thin capitalisation legislation)	Awareness of local legislation; Relief in investment incentives/ stability agreements
Transfer pricing rules		Transfer pricing rules applicable to the lending and borrowing countries when setting interest rates on loans	Local and host country legislation and double tax agreements, OECD guidelines, parent company controlled foreign company legislation

FOR COMPANIES SEEKING TO INVEST OR DO BUSINESS IN AFRICA THERE ARE NUMEROUS CULTURAL, LEGAL, FINANCIAL, INFRASTRUCTURAL AND RISK MANAGEMENT CHALLENGES TO CONSIDER. BDO CAN HELP WITH ALL OF THESE.

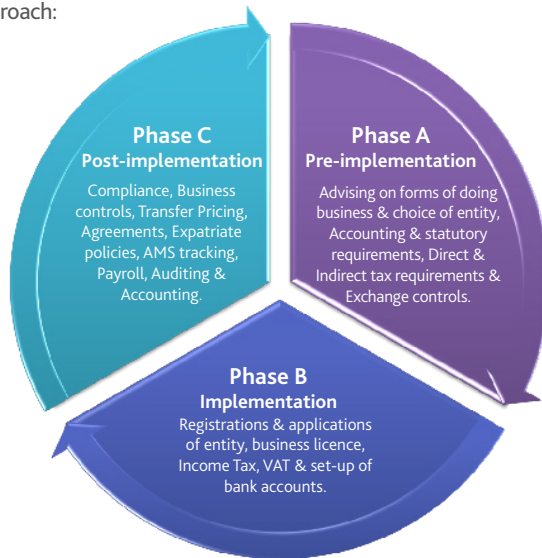
Our business advisers bring country-specific, tailored advice to businesses facing the challenge of efficiently administering multiple operations within and across varying business jurisdictions.

Expanding across borders is a complex exercise – unfamiliar cultures, new business landscapes, complicated tax structures and differing regulatory regimes can present daunting hurdles. It is vital to partner with an experienced team who can guide you every step of the way.

We become the face for your company in the country in which you are starting a new business. We advise on the most efficient way of establishing a business, including examination of accounting, tax, legal, statutory and exchange control requirements in each country. This is all coordinated from one office in South Africa.

Why not profit from our experience when venturing into Africa?

Our three phase approach:



Research conducted by BDO shows that clients want a single point of contact when operating in different business jurisdictions. The research highlighted these key points:

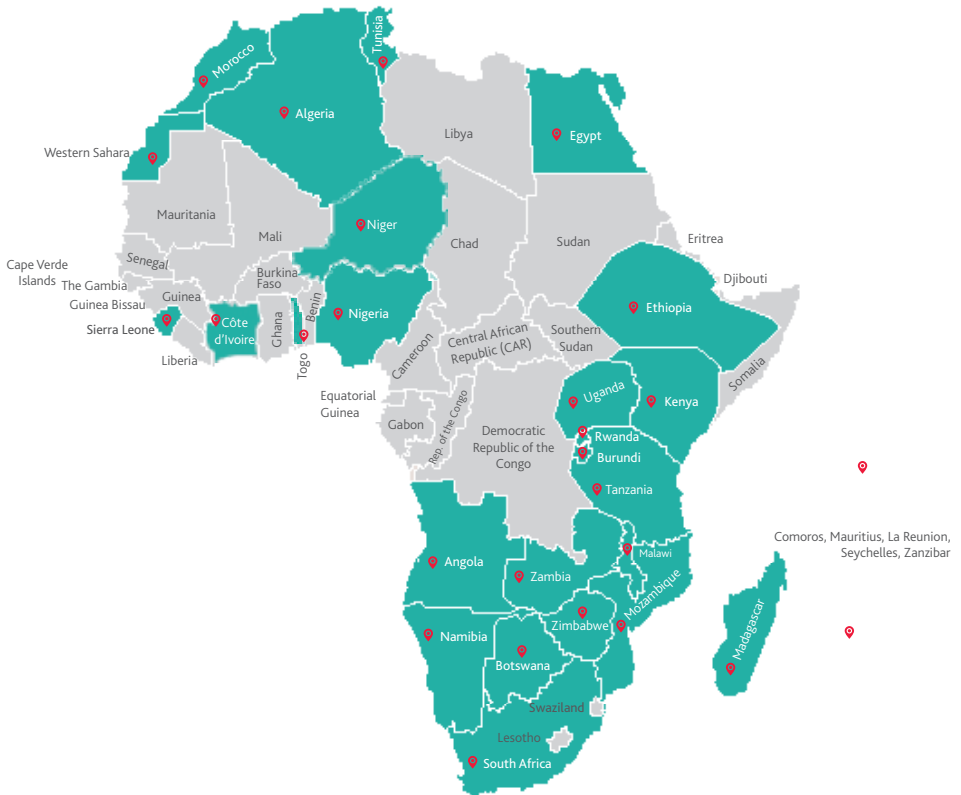
- ▶ Important compliance considerations
- ▶ Potential problems and pitfalls of investing in certain countries
- ▶ The most efficient form of doing business in a chosen country
- ▶ Potential tax planning opportunities
- ▶ The framework for future business and tax planning
- ▶ Ensuring that the proposed structure fits into the existing business model

In order to achieve this we have established a network of BDO member firms and Independent Referral Firms across the whole of Africa.

The BDO team can assist you with your entry into Africa in a number of ways including:

- ▶ Establishing business operations
- ▶ Educating you on African business cultural behaviors
- ▶ Undertaking due diligence of company affairs in Africa
- ▶ Performing taxation compliance, expatriate payroll and accounting services
- ▶ Setting up back office functions (representative offices and expatriate policies)
- ▶ Structuring and planning for international taxation
- ▶ Reorganising corporate structure in Africa.

BDO's African footprint



■ BDO Member Firms

Algeria, Angola, Botswana, Burundi, Cape Verde Islands, Comoros, Egypt, Ethiopia, Ivory Coast, Kenya, La Reunion, Madagascar, Malawi, Mauritius, Morocco, Mozambique, Namibia, Niger, Nigeria, Rwanda, Seychelles, Sierra Leone, South Africa, Tanzania, Togo, Tunisia, Uganda, Western Sahara, Zambia, Zanzibar and Zimbabwe

■ Independent Referral Firms

Benin, Burkina Faso, Cameroon, CAR, Chad, Congo, Djibouti, DRC, Equatorial Guinea, Eritrea, Gabon, Gambia, Ghana, Guinea Bissau, Guinea, Lesotho, Liberia, Libya, Mali, Mauritania, Senegal, Soa Tome & Principe, Somalia, Southern Sudan, Sudan and Swaziland,

WE TAKE IT PERSONALLY

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BDO is the brand name for the BDO network and for each of the BDO Member Firms.

The Africa Desk will put you in contact with the right person in the service line area:

- Audit and Assurance
- Business Services and Advisory
- Company Secretarial
- Corporate Finance
- Employee Benefits
- Healthcare Consulting
- HR Advisory Services
- Risk Advisory Services
- Tax
- Wealth Advisory