Leasing rolling stock into Africa from a Mauritius base – the tax issues
March 2017
Agenda

1. Rolling Stock – Tax Issues
2. Asset Based Lending
3. Lease Financing
4. Concluding Remarks

Leasing rolling stock into Africa from a Mauritius base - the tax issues
Rolling Stock – Tax Issues
Rolling Stock – Tax Issues

1. Permanent Establishment/Income Sourced from Foreign Jurisdiction

- Mauritius
- Location of asset
- Income
- Foreign jurisdiction
- Leased Equipment

Income being sourced from foreign country – subject to foreign tax
## Rolling Stock – Tax Issues

1. **Permanent Establishment/Income Sourced from Foreign Jurisdiction**

2. **Operating Lease versus Finance Lease**

### Beneficial Ownership

<table>
<thead>
<tr>
<th></th>
<th>Operating Lease</th>
<th>Finance Lease</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lessor</td>
<td>✓</td>
<td>✗</td>
</tr>
<tr>
<td>Lessee</td>
<td>✗</td>
<td>✓</td>
</tr>
</tbody>
</table>

### Lessor perspective

- Plant & Machinery – Other 35%
- Aircraft leased by a company engaged in aircraft leasing – 100%

### Annual Allowance


Rolling Stock – Tax Issues

1. Permanent Establishment/Income Sourced from Foreign Jurisdiction

2. Operating Lease versus Finance Lease

3. IFRS16 – Leases

- Operating lease will no longer exists, 1 January 2019
- No impact on lessor
- Lessee perspective

Income Statement

Amount

Lease payment

IFRS16 charge

Time

Balance Sheet

Right of use asset

Financial liability

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**Asset Based Lending**

**Example**
- Interest income: 1,000
- Interest expenses: (800)
- Net interest: 200
- Tax at 15%: 30
- 80% tax credit: (24)
- Actual foreign tax: (100) (30)
- Tax liability: 0

**Tax Implication**
- Interest income taxed at effective rate of 3%

**Mauritius**
- Bank
- Loan
- Borrower

**Foreign Jurisdiction**
- Mozambique
  - Domestic rate – 20%
  - DTA – 10%
- Interest Payment of 1,000

**WHT**

*PwC*
Lease Financing

3
**Lease Financing – finance lease**

**Example**

- **Lessor**
  - Finance Lease Facility
  - Financial Lease Interest & Capital
  - Mauritius

- **Lessee**
  - Foreign jurisdiction

**Tax Implication**

- Interest income taxed at effective rate of 3%

**WHT**

Same as for Asset Based Lending

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### Lease Financing – operating lease

<table>
<thead>
<tr>
<th>Tax Implication</th>
<th>Example</th>
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<tbody>
<tr>
<td>Lease income taxed at effective rate of 3%</td>
<td>Lease income 1,000</td>
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<td>Lease expenses</td>
<td>Lease expenses (800)</td>
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<tr>
<td>Net interest</td>
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<td>Tax at 15%</td>
<td>Tax at 15% 30</td>
</tr>
<tr>
<td>80% tax credit</td>
<td>80% tax credit (24)</td>
</tr>
<tr>
<td>Actual foreign tax</td>
<td>Actual foreign tax (0) (24)</td>
</tr>
<tr>
<td>Tax liability</td>
<td>Tax liability 6</td>
</tr>
</tbody>
</table>

**Example**
- Lease income 1,000
- Lease expenses (800)
- Net interest 200
- Tax at 15% 30
- 80% tax credit (24)
- Actual foreign tax (0) (24)
- Tax liability 6

**Foreign Jurisdiction**
- Mauritius
- Mozambique
  - None (DTA) – 0%

**Lessor**
- Operating Lease Facility
- Lease Payment

**Lessee**
- Lease Payment of 1,000

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Concluding remarks

Established Tax Framework

Mauritius – Good Opportunities

Operating leases – Preferred Route