

## **Transfer Pricing Regime**

In Mozambique there is a transfer pricing regime and applies to taxpayers (including Stable establishment) of Corporate Income Tax and Income Tax of Singular Persons domiciled in the Mozambican territory who have an annual turnover equal to or higher to MZM 2,500,000.00, that carry out transactions with related parties. In addition, these regulations apply to taxpayers who carry out transactions with entities incorporated in a country with a low tax jurisdiction, or a privileged tax regime.

### **Main principles of transfer pricing legislation**

The main principle is arm's length, the terms and conditions of a transaction involving a company and its related party shall not be different from those normally would be agreed between independent entities, and otherwise the company will have to make corrections as if it were independent entities.

In Mozambique, five internationally recognized methods are used as the basis to establish transfer prices of a Company, which are:

1. Method of the comparable market price,
2. Method of the resold retail price,
3. Increased cost method,
4. Method of fractioning profits,
5. Net operating margin method

Mozambican legislation provides for an interquartile range, which represents the acceptable part of prices or profit margins obtained by applying one of the methods of determining transfer prices. If the relevant financial indicator falls outside the interquartile range, the price or profit margin used by the independent parties will be considered the median less or more 5% (depending on whether the price or the profit margin is below or above the first or third quartile).

There are also provisions applicable to commodity transactions, cost sharing arrangements and intra-group services.

Taxable persons who are subject to this regime should maintain and provide information on the general view of the taxpayer's business operations, functions, assets and risk analysis, information on comparable data used, as well as details of the analysis performed.