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Africa – Manage your Tax Risk

Mariette Cruywagen (Partner/Director, Infinite Tax) · Thursday, March 12th, 2015

> ***"When the map and the territory don't agree, always believe the territory" Gause and Weinberg – describing Swedish Army Training***

Easier said than done

Tax risk management in Africa reminds me of how the first explorers having to navigate the new world must have felt. Not having any decent maps and often creating their own as they went along. The Tax adventure into Africa is no different and has many similar challenges as these original explorers may have faced. The question therefore is how and, is it possible to navigate these sometimes uncharted and uncertain areas into managing tax risk in Africa.

Africa tax is a territory for which no exact map yet exists. With the uncertain and sometimes unclear tax environment in some of the countries in Africa, a question often asked is: "How easy is it to manage tax risks in Africa"?

How do you read the territory without a decent map?

Yes it is possible to manage tax risk in Africa. It should be managed just like the tax risk in any other continent. If you truly know your business model, then you would know where the already potential weak areas are in your tax compliance. You should have identified that certain pieces of legislation applying to a specific transaction may always have potentially "grey" areas in its interpretation. You should have by now identified that certain transactions will always (by way of example) attract VAT.

You should then wonder why the same transaction in the African country does not attract VAT (in my example). The fact that VAT is not being charged should already raise a flag of potential high risk and you should be asking if legislation exists in the African country to exclude the application of VAT.

Once you have identified a potential risk, fix it. Know the statute of limitation; understand that if there were non-disclosure of material facts, the tax authority may disregard the statute of limitation and tax for any number of years. Investigate and understand what the outcome will be for voluntary disclosure. Provide for potential penalties and interest or additional taxes. Get to know the African territory and follow the map that applies to your business model. Know the danger areas and the area where you know the tax authority will more likely than not, challenge you.

"Risk comes from not knowing what you're doing" – Warren Buffet

Make sure that you know.

- Know the tax environment that you are dealing with;
- Know if you are potentially not tax compliant;
- Know the tax legislation applicable to your business in a country;
- Have a thorough understanding of how the tax authority potentially will interpret the tax legislation in a country;
- Know and understand the need of the tax authority;
- Pre-empt the steps that the tax authority will follow;
- Determine you tax risk.

Just as the explorers of old had to rely on the territory they were exploring to create a map, tax risk management must rely on the territory of Africa to manage the tax risk. It can be done. Africa will never be without tax risk, but it can be managed in a more informed manner.

This post is written in a personal capacity and does not necessarily represent the views of organizations with which the author is affiliated.

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