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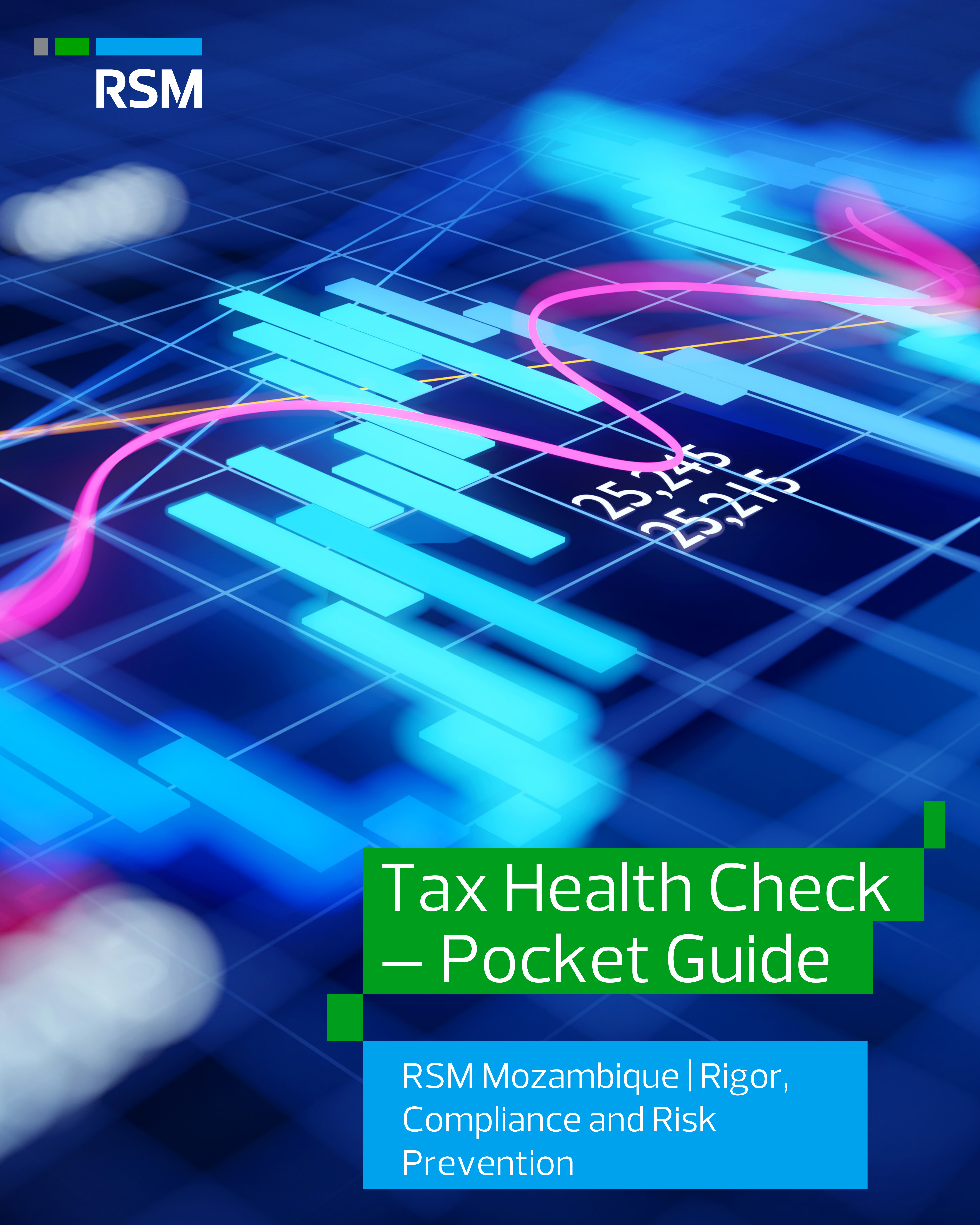

Tax Health Check – Pocket Guide

RSM Mozambique | Rigor, Compliance and Risk Prevention

Tax Health Check

In light of the growing complexity of Mozambique's business environment, tax management has moved beyond a mere legal obligation and has become a strategic governance tool for risk mitigation. Legislation is continuously evolving, tax inspections have become more rigorous, and tax regimes increasingly complex, heightening companies' exposure to tax and labour contingencies that may compromise liquidity, reputation, and legal certainty.

The Tax Health Check enables companies to:

- Identify risks prior to inspections by the Tax Authority (AT);
- Correct inconsistencies in internal processes;
- Ensure full compliance with applicable tax legislation.

RSM's experience shows that most contingencies do not arise from fraud, but rather from operational failures such as incomplete reconciliations, incorrect withholdings, inconsistent documentation, and outdated tax classification. This pocket guide presents a structured, objective, and practical approach to assessing risks, optimising processes, and reducing exposure to tax and financial penalties, providing greater security and predictability in corporate management.

I — Objective

The Tax Health Check aims to:

- Anticipate tax and risks that may impact the company;
- Ensure full compliance with Mozambican legislation, minimising contingencies;
- Optimise accounting and tax processes, reducing rework and inefficiencies;
- Provide security and predictability for strategic management decision-making.

II — Main Sources of Risk

Neglecting these aspects significantly increases the risk of tax adjustments, interest, penalties, and other applicable sanctions, potentially compromising financial stability and reputation:

- Incomplete or inconsistent accounting reconciliations;
- Incorrect or late application of withholding taxes;
- Insufficient, incomplete, or inconsistent documentation;
- Outdated tax classification;
- Weak internal processes and inadequate internal controls.

III – Strategic Steps

1. Understand the business and confirm the tax framework

The tax framework defines the scope of legal obligations and tax risks and forms the basis of the entire analysis. An incorrect tax classification increases exposure to tax adjustments, penalties, and compliance risks.

During the review, the following should be addressed:

- Identification of the applicable tax and accounting regime;
- Confirmation of activity classification and adopted accounting policies;
- Understanding of critical processes and financial flows.

Note that entities may be tax-classified under Value Added Tax (VAT), Personal Income Tax (IRPS), Corporate Income Tax (IRPC), and Special Regimes, namely:

1. For VAT purposes:

- VAT – Normal Regime.

2. For IRPS and IRPC purposes:

- General Regime / Organised Accounting.

3. Under Special Regimes:

- Simplified Tax for Small Taxpayers (ISPC).

2. Assess tax benefits and incentives

Failure to utilise available incentives results in direct and avoidable financial losses. Each incentive provided by law supports strategic sectors or priority investments.

2.1. Principais benefícios:

Tax Benefits	
Generics	**i.** Exemption from customs duties and VAT **ii.** Investment tax credit **iii.** Accelerated depreciation and write-offs **iv.** Modernization and introduction of new technologies **v.** Professional training **vi.** Expenses to be considered as tax-deductible costs
Specifics	**Sector I:** Development of basic infrastructure **Sector II:** Trade and industry in rural areas **Sector III:** Manufacturing and assembly industry **Sector IV:** Agriculture and fisheries **Sector V:** Hospitality and tourism **Sector VI:** Science and technology parks **Sector VII:** Large-scale projects **Sector VIII:** Rapid development zones **Sector IX:** Industrial free zones **Sector X:** Special economic zones

3. Gather all tax documentation

Complete documentation is essential for accurate validations and reliable reconciliations. The absence of documents increases the risk of errors, discrepancies, and penalties.

Without documentation, it is not possible to perform validations, reconciliations, or confirm whether what has been declared corresponds to reality. It is worth remembering that missing documents are one of the main causes of tax adjustments.

3.1. Key documents:

- Tax returns (of VAT, CIT, PIT, ISPC, ICE, Stamp Duty etc.);
- Proof of payment;
- Monthly trial balances and account statements;
- ssued and received invoices;
- Contracts with clients and suppliers;

4. Validate accounting-tax reconciliations and verify key points

Unjustified discrepancies constitute an immediate tax risk and may result in adjustments, fines, and interest.

4.1. Some best practices

- Segregation of duties for greater transparency;
- Monthly reconciliation between recorded and declared VAT;
- Monthly verification of recorded versus declared sales;
- Monthly validation of withholdings, dates, and consistent accounting.

4.2. Examples of key points to verify:

I. Invoice and equivalent document requirements

- Name or corporate name;
- Address or domicile of the supplier and purchaser;
- Tax identification numbers of taxable persons;
- Quantity and description of goods supplied or services rendered;
- Description in Mozambique's official language (Portuguese);
- Net price excluding tax (invoice value breakdown):
  a. Value before tax,
  b. VAT, and
  c. Value after tax;
- Tax rate and amount due: Tax rate (16%) or 5% (if applicable).

Attention:

i. When the document is not electronically processed, it must be printed by authorized printing houses;
ii. Electronically processed documents must include the software description and the wording "Processed by computer";
iii. Electronic invoicing must be authorized by the Tax Authority.

II. Sales reconciliation

- Ideally, the sales recorded in the sales and services rendered accounts should be equal to the sales reported in the VAT periodic returns. However, for various reasons, these may differ, and therefore it is advisable to maintain reconciliations and supporting documentation explaining such differences.

- Adjustments in favour of the taxable person resulting from issued credit notes constitute one of the elements that contribute to the differences mentioned above. Therefore, it is necessary to maintain as supporting documentation the relevant reconciliations and copies of the valid credit notes (for which receipt by the customer is duly evidenced).

III. Analysis of VAT deductibility

It is essential not to consider for deduction purposes, and to regularize in the accounting records, any VAT that does not grant the right to deduction. This may arise due to the nature of the expense (for example, expenses related to passenger vehicles, beverages, meals, and mobile phones), due to the deduction period being exceeded, i.e., more than 90 days (3 months), and/or due to the failure to comply with the invoicing requirements or equivalent documentation (e.g., as listed in section 4.2).

IV. Analysis of VAT on services acquired from non-resident entities

Certain services provided by non-resident entities are subject to VAT, giving rise to the obligation for the acquirer (resident entity) to self-assess and pay the VAT through the isolated operations declaration, as well as the right to deduct such VAT through the periodic VAT return.

V. Transactions with related parties

There are several relevant aspects concerning this type of relationship, taking into account the various risks that should be considered, namely:

1. The obligation to withhold tax at source and pay the tax relating to income obtained by non-resident entities is not limited to the moment of payment of the income and may precede it if, depending on the circumstances, one of the following moments occurs first: recognition of the expense in the accounting records, the due date (even if presumed), the moment the amount is made available to the beneficiary, the settlement or determination of the amount, or, in the case of commissions arising from the conclusion of intermediation contracts, at the moment of payment or when the amount is made available to the beneficiary.

2. Additionally, entities that carry out transactions with related parties, whether resident or non-resident, may incur the risk of not complying with the arm's length principle. In such cases, the law provides for the mandatory preparation of a transfer pricing report for each fiscal year in order to ensure that this principle has been respected and consequently confirm that there is no need for any tax adjustment.

3. In the same context, there may be risks of thin capitalization when the indebtedness to a non-resident entity with which special relations exist is considered excessive. In such situations, the interest incurred in respect of the portion of the indebtedness considered excessive is not deductible for the purposes of determining taxable profit.

VI. Analysis of services provided by individuals

Generally, and depending on the circumstances, services provided by individuals may be subject not only to withholding tax (for Personal Income Tax purposes – IRPS) but also to VAT.

The acquirer becomes jointly liable for the assessment and payment of the VAT through the appropriate form.

In many cases, the VAT borne (paid) is not deductible due to the failure to comply with the legal requirement of issuing an invoice or equivalent document by the supplier.

VII. Payroll Processing Analysis.

Data for payroll preparation, for example, must be provided in an organized and timely manner, enabling accurate analysis and calculations in compliance with current legislation. It is important to share information including:

- Base salary;
- Working days;
- Allowances received;
- Commissions earned;
- Other benefits such as company car or health insurance;
- Bonuses;
- Per diems;
- New contracts;
- Other relevant information.

Whenever possible, supporting travel schedules should be attached, and the frequency of allowances, bonuses, and commissions should be clarified. If a vehicle is assigned, its acquisition value should be provided.

VIII. Strict compliance with legal deadlines

- INSS declarations must be submitted from the 20th of the month of the respective income until the 10th of the following month, otherwise late interest and fines apply;
- Withholding tax declarations (IRPS and IRPC) must be submitted monthly from the 21st of the income month until the 20th of the following month, otherwise compensatory interest and fines apply;
- VAT returns must be submitted through Model A within the following deadlines:

a. Payment forms must be submitted by the last day of the following month to which the transactions refer;
b. Credit or no-movement forms must be submitted by the 15th day of the following month;
c. By the 10th day of the month following the operations related to digital services provided by non-resident suppliers.

IX. Information retention.

All documentation supporting incurred expenses must be archived and retained for a minimum period of ten (10) years, as established by Mozambican tax legislation.

Although electronic means may be used for validation and storage (such as scans or document management systems), it is essential that the entity's archive, containing original documents, be properly organized to allow quick and clear access whenever requested by competent authorities (such as the Mozambique Tax Authority – AT, National Social Security Institute – INSS, and General Labor Inspectorate – IGT).

The lack of valid supporting documentation, whether physical or digitally authenticated, may result in significant fines and penalties, especially during inspections or reviews by INSS, AT, and IGT.

X. Alignment with the finance department

For greater accounting and tax compliance, the tax department must always remain aligned with the finance department, as information analyzed and reported by tax is extremely important for accounting, and vice versa.

When this synergy is well-tuned, it leads to greater accounting and tax efficiency, avoiding discrepancies that could generate financial and tax risks.

XI. Continuous legislative updates

Continuous updates on legislation are essential to ensure compliance with the most recent regulations. A clear example is the increase in the minimum wage, which directly impacts on the payroll, as well as on contributory and tax obligations.

With the increase in the minimum wage, mandatory adjustments in employee remuneration occur, potentially influencing companies' competitiveness in employment contract negotiations. Additionally, there are effects on INSS contributions and IRPS taxation, as the minimum wage serves as a reference for determining certain tax thresholds.

XII. Clear communication with employees

To ensure greater organizational transparency, the company should:

- Maintain a clearly defined career development policy aligned with fair promotion and salary adjustment criteria. Articulating this internal policy with current legal standards is an advantage, as it ensures flexibility in remuneration adjustments whenever required by law;

- Stablish internal communication mechanisms to inform employees about legislative updates or internal changes clearly and promptly, avoiding misunderstandings, complaints, or surprises regarding increases or reductions that may occur;
- Ensure that payslips are prepared in detail, containing all necessary information for employees to understand the composition of their remuneration, including base salary, allowances, commissions, deductions, comments, and any other relevant elements. Payslips must be signed by the employee, and the company must keep evidence of salary payments on file.

5. Analyze internal processes and contracts

Weak processes increase the likelihood of errors and tax exposure. The absence of clear procedures makes early detection of inconsistencies difficult.

Therefore, having a procedures manual is important, as it serves as an official guide on how activities should be carried out within an organization, ensuring organization, quality, safety, and efficiency.

5.1. Strategic measures:

- Review of accounting records and pending adjustments;
- Identification of contracts that may alter the tax framework;
- Ensuring clarity and formalization of internal procedures.

6. Prepare a prioritized risk report

The report transforms technical analysis into strategic decision-making by presenting risks, financial impacts, probability, and practical recommendations.

6.1. Report content:

- Identification of risks and financial impacts;
- Assessment of the probability of occurrence;
- Practical recommendations and action plan.

IV – Conclusion

The Tax Health Check Pocket transforms invisible risks into concrete opportunities, ensuring:

- Clarity and predictability in tax and management;
- Early identification of contingencies;
- Reduction of interest, penalties, and other applicable sanctions;
- Optimization of internal processes and reconciliations;
- Structured and reliable information for strategic decision-making;
- Greater security in managing tax and compliance;
- Transparency and predictability for management and employees;
- Minimization of tax and risks, protecting liquidity and reputation.

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ASSURANCE | TAX | CONSULTING

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