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SEYCHELLES TAX AND STRUCTURING OVERVIEW

1. HOLDING STRUCTURE: IBC

- 1.1 A Seychelles International Business Company ("IBC") - is the most popular and versatile type of offshore corporation available in Seychelles. Seychelles IBC is a tax-free corporation designed for engagement into all forms of international business, with no reporting and minimum record-keeping requirements, and comprehensive confidentiality features.
- 1.2 An IBC is not subject to any tax or duty on income or profits. A shareholder of an IBC is also not subject to any tax on his income derived from the IBC.
- 1.3 An IBC is also exempt from any stamp duties on all transactions relating to its business, in particular on any transfers of property to or by the company, and on any transactions in respect of the shares, debt obligations or other securities of the IBC.
- 1.4 The law provides that all exemptions for an IBC shall remain in force for a period of twenty years from the date of incorporation of the IBC.
- 1.5 An IBC may not pursue business or own immovable property within the territory of the Seychelles.

2. SEYCHELLES LOCAL PROPERTY OWNING ENTITY

- 2.1 Rental Income
 - 2.1.1 The same progressive tax rates apply to corporate and non-corporate businesses. The maximum tax rate is 40%.
 - 2.1.2 Rental income from a building used exclusively as a residence, is exempt from tax. Therefore income from long term residential leases will not be taxed.
 - 2.1.3 Where the building is rented out for residential use on a short term basis or it is rented out as a business premises, the rental income will be subject to income tax.



3. FUNDING

- 3.1 There are no thin capitalization or transfer pricing rules in the Seychelles.
- 3.2 Interest paid on borrowed funds used to produce assessable income may be deducted for tax purposes.
- 3.3 The deduction of interest on loans from entities other than banks or money lenders is limited to an interest rate at the minimum rate of interest on deposits prescribed by the Central Bank which prevailed at the date the loan was made less 2%.
- 3.4 Therefore, if the acquisition of the property is funded by a loan from the IBC, the interest deduction will be limited. If the property owning vehicle were to make a loan directly from a bank, the full interest will be deductible (subject to the provisions of the Business Tax Act.)

4. DIVIDENDS

- 4.1 A 15% withholding tax is levied on dividends paid to non-residents. If the local property owning entity pays a dividend to an IBC, the 15% withholding tax on dividends will be payable.
- 4.2 The local entity will however require exchange control approval to pay a dividend to an IBC or any other non-resident. It is very difficult to obtain exchange control approval for such payments.
- 4.3 There is no withholding tax on dividends paid by an IBC. As the IBC is deemed to be a non-resident, there are no exchange control limitations on the payment of dividends by an IBC.

5. EXIT STRATEGY

- 5.1 Sale of property by the local property owning entity:
 - 5.1.1 There is no Capital Gains Tax in the Seychelles.
 - 5.1.2 If the taxpayer claimed depreciation on the building, the taxpayer will be taxed on a recoupment of the building allowance when the property is sold.
 - 5.1.3 If the taxpayer then declares a dividend out of the profit on the sale of the building, that dividend will be subject to a withholding tax of 15% if the dividend is paid to an IBC or other non-resident. There will also be a withholding tax on a liquidation dividend if the local entity is wound up after the sale of the property.



- 5.1.4 The main problem with this exit strategy is that the exchange control restrictions make it very difficult to expatriate the profits on the sale of the property.

- 5.2 Sale of shares in local entity:
 - 5.2.1 There is no Capital Gains Tax in the Seychelles.
 - 5.2.2 There will be no recoupment of the building allowance as the building will not be sold.
 - 5.2.3 Full stamp duty on transfer of shares will be payable.

- 5.3 Sale of shares in IBC:
 - 5.3.1 The IBC is completely offshore. The gains on the sale of the shares in the IBC will therefore not be taxed in the Seychelles.
 - 5.3.2 There will be no transaction taxes or stamp duty on the transfer of the shares.
 - 5.3.3 No exchange control issues will arise in the Seychelles.
 - 5.3.4 The sale of the interest in the IBC is therefore the most advisable exit strategy for an investor. The problem with this strategy is that the law does not require an IBC to keep accounting records or file returns. A potential purchaser will therefore have difficulties in doing a due diligence on acquisition of the shares in the IBC.

6. LIQUIDATION DIVIDEND

The ownership structures for the properties on Eden Island are obviously influenced by the ability of owners to structure their affairs in a tax efficient manner. Accordingly, one of the questions relates to the ability of a local Seychelles company (a Limited company) to declare a liquidation dividend in the event of a winding up.

This relates to the situation where the owner of the property (being the Limited Seychelles company) sells the property out of it (i.e. the company sells its asset...the property on Eden Island...to a purchaser). The proceeds of this sale are then sitting as cash in this company and for the shareholders of the company to be able to get their hands on the money, the company has to either declare a dividend or the company can repay any shareholders' loans (loan accounts) there may be.

For purposes of declaring a dividend to foreign shareholders, there is a withholding tax of 15%. The question now is whether this 15% withholding tax also applies should the company be wound up (liquidated) and the proceeds are paid to its shareholders as a liquidation dividend. The reasoning being that any growth in the



value of the asset equates to a capital gain. As there is no Capital Gains Tax in the Seychelles, theoretically there should also be no withholding tax on such liquidation dividend.

The taxation situation regarding dividend distribution is the same whatever kind of dividend is declared, this applies whether it be it a liquidation dividend or otherwise.

Dividends paid to non Seychellois are subject to withholding tax at 15%, but this can be mitigated by double taxation agreements such as the one with South Africa and other countries, however this taxation cannot be avoided or by-passed.

Although capital gains are not taxed, the dividend outflow will be in the scenario outlined. This has been confirmed with the Seychelles Tax office and unfortunately the Tourism Incentive Act does not deal with this issue either in that all other property developments are in exactly the same situation.

This document is produced for information and guidance purposes only and Purchasers should seek their own independent advice to address and suit their own specific circumstances

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