Madagascar

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Business Tax Advisory

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A. At a glance

Corporate Income Tax Rate (%)	20
Capital Gains Tax Rate (%)	20
Branch Tax Rate (%)	20
Withholding Tax (%)	
Dividends	0 (a)
Interest	20 (b)
Royalties	10 (c)
Other Non-salary Payments	10/20 (b)
Net Operating Losses (Years)	
Carryback	0
Carryforward	5

(a) The withholding tax on dividends was repealed in 2008. However, withholding tax on dividends continues to apply to certain entities (see Section B).
(b) This withholding tax applies to resident and nonresident companies and individuals.
(c) This withholding tax applies to nonresident companies.

B. Taxes on corporate income and gains

Corporate income tax. Resident companies deriving taxable income from activities carried out in Madagascar are subject to corporate income tax. Resident companies are companies incorporated in Madagascar, which include subsidiaries and branches of foreign companies.

Tax rates. The standard corporate income tax rate is 20%.

In general, the minimum tax is MGA100,000 plus 0.5% of annual turnover (including capital gains) for companies carrying out the following activities:
• Agricultural
• Craft
• Mining
• Industrial
• Tourism
• Transport

This minimum tax equals 0.1% of annual turnover for fuel station filling companies. For companies engaged in other activities, the minimum tax is MGA320,000 plus 0.5% of annual turnover.

The minimum tax applies if the company incurs a loss or if the corporate income tax calculated using the 20% rate is less than the minimum tax to be paid as stated above.

Non-registered individuals and companies engaged in the import and export of goods, the sale of local products to industrialists and exporters, or the sale of leaf tobacco to approved collectors are subject to income tax at a rate of 5%. This tax is withheld by the purchaser, industrialist or the exporter and paid by them to the tax authority. A fine of 40% of the amount that should have been withheld applies in the case of a failure to withhold. A fine of 80% of the amount of the tax to be paid applies in the case of failure of payment to the tax authority.

An informal exporter, which is a non-registered exporter of goods, is also liable to income tax. The exporter pays the income tax at the time of exportation. This income tax equals 5% of the sum of the following:
- The value of the goods at the exit point (equivalent to market value)
- Transport costs at the border if not included in the exit duty
- Internal taxes and similar charges

Free zones' companies. Free zones' companies are exempt from corporate income tax for the first five years of their activities and are subject to corporate income tax at a rate of 10% for subsequent years.

Large mining investments. Mining companies making investments over USD25 million can benefit from legal and tax incentives if they are eligible under a special law called Loi sur les Grands Investissments Miniers (LGIM). They are exempt from minimum tax for five years from the beginning of exploitation. The corporate income tax rates are 10% for owners of mining permits and 25% for the transformation entities.

Capital gains. Capital gains are included in taxable income and subject to the corporate income tax rate of 20%.

Administration. The standard tax year is the calendar year. However, companies may select a tax year running from 1 July to 30 June or another tax year.

Companies using the standard tax year must file financial statements and the corporate income tax return with the Malagasy tax authorities by 15 May of the year following the tax year. For companies choosing a tax year-end other than the standard tax year-end, the filing must be made by the 15th day of the fourth month following the year-end. Companies must make six installments of corporate income tax for each tax year. Each payment must equal one-sixth of the preceding year's tax amount. The installments are payable by 15 February, 15 April, 15 June, 15 August, 15 October and 15 December.

Before engaging in activities in Madagascar, an entity must apply for tax registration by completing a specified form during the company creation procedure. The tax registration for wholesalers requires the filing of a specific declaration. A tax identification card is issued to a new taxpayer on the completion of registration.

The tax identification card must be renewed every year at the time of submission of the corporate income tax return.

Taxpayers that compute taxable income under the actual or simplified actual regime must open a bank account in their name.

Financial statements provided to private or public entities require the visa or certification of the tax administration.

Nonresident entities must file a declaration that details all goods and services purchased during a financial year (annual third-party declaration).

Shareholders' current-account transactions (loans granted by shareholders to the company) must be evidenced by registered-loan agreements and be regularly recorded.

In the case of a tax audit, the tax authority may require any documents and information about the nature of the business relationships between a resident company and foreign company, the companies' transfer-pricing methods, and the activities and tax regimes of the companies. A failure to provide documents and information to the tax authority is subject to a fine of MGA5 million (approximately USD2,300).

Industrialists and commercial enterprises under the value-added tax regime are required to have an analytical accounting and a stock card. A failure to comply with this obligation is subject to a fine of 1% of annual turnover. Analytical accounting is a system that is primarily intended to track expense and revenue accounts by categories in order to determine profit and loss for each activity. A stock card is a statement of goods kept regularly on hand for use or sale.

Dividends. The withholding tax on dividends was repealed in 2008. However, a 21% withholding tax continues to apply to dividends paid by companies that are subject to special tax rules.

Dividends received by resident companies are subject to corporate income tax.

Withholding income tax. All payments made to nonresident service suppliers are subject to withholding income tax at a rate of 10%, regardless of whether the service is rendered inside or outside Madagascar. This is a final tax.

Nonresident entities not registered with the tax administration that import goods into Madagascar are subject to a withholding income tax at a rate of 5% on the Cost, Insurance, Freight value of the goods imported.

C. Determination of trading income

General. Taxable income is based on financial statements prepared according to the Chart of Account or the Plan Comptable Géneral (PCG 2005), which conforms to the International Financial Reporting Standards (IFRS' 2003 version) and International Accounting Standards (IAS).

Business operating expenses are generally deductible unless specifically excluded by law. The following expenses are not deductible:

- Interest paid on shareholder loans in excess of the interest rate determined for the interest applicant by the central bank plus two percentage points on an amount not exceeding two times the authorized capital. None of the interest on shareholder loans is deductible if the capital is not fully paid up.
- Certain specified charges and subsidies.
- Taxes, penalties and most liberalities (payments that do not produce a compensatory benefit to the company).
- Interest, arrears, income from bonds, loans, deposits, royalties on operating licenses, patents, trademarks, manufacturing processes or formulas, or other similar rights and remuneration for services paid by residents to nonresident individuals or companies, unless it is established that these payments are in line with the resident's business, regularly evidenced and not exaggerated.

The 2014 Finance Act confirms the arm's-length principle for payments made between affiliated entities.

Expenses incurred on the purchase of local products and leaf tobacco from non-registered individuals or companies are accepted as deductible if the income tax involved has been withheld and paid to the tax authority by industrialists or exporters.

Inventories. Inventory is normally valued at the lower of cost or market value. For goods that are not identifiable, cost must be determined through the use of the weighted-average cost-price method or the first-in, first-out method.

Provisions. Provisions are generally deductible for tax purposes if they are established for clearly specified losses or expenses that are probably going to occur and if they appear in the financial statements and in a specific statement in the tax return.

Depreciation. Land is not depreciable for tax purposes. Other fixed assets may be depreciated using the straight-line method at rates generally used in the industry. The following are some of the applicable straight-line rates.

Asset	Rate (%)
Commercial and industrial buildings	5
Office equipment	10
Motor vehicles	15
Plant and machinery	10

In certain circumstances, plant and machinery and other assets may be depreciated using the declining-balance method or an accelerated method.

Tax credit. The 2012 Finance Act introduced a tax credit equal to 50% of the amount invested by entities engaged in renewable energy production and distribution activities. The 2013 Finance Act extends this incentive to other specified investments by entities in the tourism, industrial or construction sectors. The credit is annually capped to 50% of the amount of corporate income tax. The excess amount may be carried forward without time limitation, subject to the above limit of 50%.

Relief for losses. Losses may be carried forward for five years. Losses attributable to depreciation may be carried forward indefinitely. Losses may not be carried back.

Groups of companies. Malagasy law does not provide for consolidated tax filings.

D. Other significant taxes

The following table summarizes other significant taxes.

Nature of tax	Rate (%)
Value-added tax (VAT); on goods sold and services rendered in Madagascar; also imposed on public and private companies engaged in telecommunications activities, redistribution of broadcasting and television programs or the providing of services electronically; entities that have annual turnover of less than MGA200 million (approximately USD100,000) are not liable to VAT unless they voluntarily apply for the VAT regime; materials and equipment for the production of renewable energy are exempt from VAT; cash payments made between entities liable to VAT are forbidden; only payments by bank check, wire transfer, credit card, non-endorsed bill of exchange and mobile banking are allowed	
General rate	20
Urban tax; annual tax on the rental value of property that is part of business assets	Various
Registration duties; on transfers of real property or businesses	Various
(The occupying or use of movable or immovable property must be supported by a lease agreement. This implies that registration fees at a rate of 2% are imposed on the total amount of rent during the lease agreement period.)	
Social security contributions	
For family allowances; on gross monthly remuneration; amount of remuneration subject to contributions is limited based on the minimum salary provided by decree	
Employer	13
Employee	1
For illness and pregnancy; on gross monthly remuneration, which is not limited	
Employer	5
Employee	1

E. Foreign-exchange controls

The currency in Madagascar is the ariary (MGA).

Exchange-control regulations exist in Madagascar. For foreign-exchange control purposes, the two kinds of operations are current operations and capital operations.

Current operations include transfers abroad of profits after payments of taxes, dividends, earned income, expatriate allowances and savings. Current operations require only a transfer declaration to a local bank.

Capital operations include operations relating to stock transfers, shares of liquidation bonuses, sales of businesses or assets and compensation for expropriations. Capital operations involving transfers abroad require an authorization from the Ministry of Finance.

Madagascar is a member of the South African Development Community (SADC) and the Common Market for Eastern and Southern Africa (COMESA).

F. Treaty withholding tax rates

	Dividends %	Interest %	Royalties %
France	0	15	10/15
Mauritius	0	10	5
Non-treaty countries	0	10	10*

* This withholding tax applies to nonresident companies.