

## Angola to implement VAT in 2019

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At the end of 2017, the Angolan Government approved, through Presidential Decree nr. 258/17, an Interim Plan in order to implement a package of measures to achieve macroeconomic stability, boost the overall economy and address the most pressing social issues of the country.

Among these measures was the inclusion of the Value Added Tax (VAT) in the general state budget for 2019, which will come into force as of 1 January 2019 and it will be gradually applied. VAT will be mandatory for large taxpayers during the first two years, and optional to the remaining taxpayers that intend to apply the VAT regime.

Angola's tax regime already features a Consumption Tax upon internally produced goods, imported goods and a wide range of services.

However, unlike the Consumption Tax currently in force, VAT is a multi-stage tax, applied throughout the supply chain. In this manner, the VAT burden is transferred from stage-to-stage until the end-consumer, who ultimately bears the full cost.

As such, VAT is a non-cumulative tax and tends to be neutral, since taxable persons deduct from the VAT they have collected, the amount of tax they have paid to other taxable persons on purchases for their business activities.

Currently, VAT is widely used throughout the world in approximately 160 countries, of which 54 are African countries. One of the reasons behind this international practice is the importance of VAT as a source of revenue for governments.

There are plenty of advantages associated with the implementation of VAT, namely:

- ▶ Fiscal neutrality
- ▶ Predictability and stability of the tax revenue
- ▶ Transparency in its implementation
- ▶ Tax management effectiveness

Once implemented in Angola, one should expect that VAT will have a significant impact on the country's tax system, namely:

- ▶ Increasing the taxable base
- ▶ New rules related to the taxable event and chargeability
- ▶ New methods related with the deduction of the input VAT
- ▶ New exemptions and specific regimes
- ▶ Introduction of new rates and new rules to compute, assess and pay the VAT, as well as other accounting and reporting obligations

Notwithstanding, in the absence of formal regulations setting forth the rules and functioning of the VAT in Angola, a number of unresolved issues remain, which should be addressed both by the State and the taxpayers.

Questions remain unanswered, such as: (i) chargeability of the tax (who has to pay? How to determine the taxable base?); (ii) the right of the VAT deduction (what are the requirements to deduct and claim a refund? Which restrictions will be applicable?); and (iii) the obligations and guarantees of the taxpayers (when and how to comply? How to react?).

Also, similar to VAT systems implemented in other countries, specific regimes should exist for the main economic sectors of Angola's economy. That would be for the energy sector (essentially exporter and sensitive to refund issues), the financial sector (usually exempt and focused on the recovery of the VAT incurred), the real estate sector (also exempt and with restrictions on the VAT deduction), and other key sectors as well.

In this scenario, it is already known that the Angolan Government will adopt a "SLIM" approach in the implementation of VAT in Angola, i.e., Simple, Local and Modern:

- ▶ Simple, as it should establish a broad scope for the tax, with a reduced number of exemptions and with simplified tax calculations
- ▶ Local, as it should be suitable for the Angola's national reality and socio-economic context
- ▶ Modern, as it should have a digital component and it should follow the international best practices in dealing with tax fraud and evasion

However, it is most likely that the Angolan economy will have to address several challenges in its VAT system, similar to other international experiences of other African countries.

Companies established in the Angolan market should be ready for the new tax and prepared to address inefficiencies resulting from its implementation, by adopting methodologies to enable efficient management of the tax, namely planning to meet the reporting and compliance requirements.

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EYG no. 03188-181Gbl

1508-1600216 NY  
ED None

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