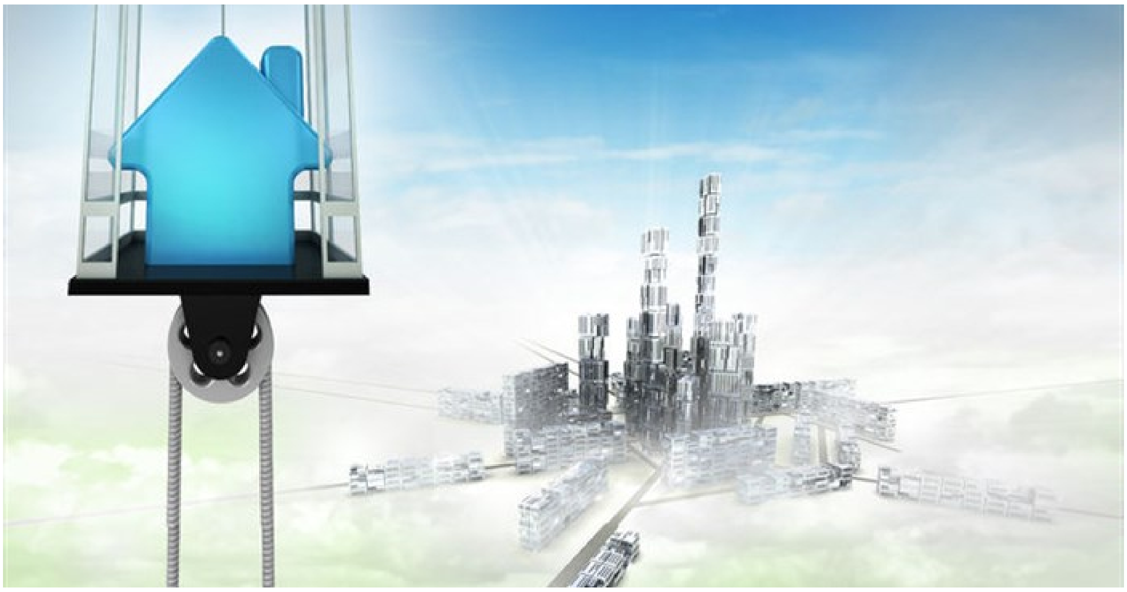
Assessing transfer prices remains a challenge for Africa

A rapidly growing middle class and urbanisation are expected to continue to contribute to the impressive economic progression in Africa, with real estate development a prime catalyst driving this growth.



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According to an article in Ventures Africa, there are five countries which currently offer the greatest investment opportunities in 2015. They are South Africa, Angola, Kenya, Nigeria and Egypt. Investment opportunities go hand in hand with economic growth and profitability which presents the opportunity for profits to be shifted out of these countries using the mechanism of transfer pricing.

Transfer pricing relates to the pricing of transactions between companies within the same group which is required to be market related. "These countries all have transfer pricing legislation or rules in place, which is critical in protecting their respective tax bases," says Roxanna Nyiri, head of transfer pricing at BDO South Africa.

Implementation delayed

Angola has experienced a real estate boom over the years with construction activities in major cities such as Luanda and Huambo, but the country still struggles with affordable residential and office space. "Angola set its specific transfer pricing rules at the end of 2013, but implementation was delayed to the 2014 tax cycle with real estate tax charged at a 30% rate on taxable income and property transfer tax applicable to transfer of real estate. The country applies the arm's length principle of transfer pricing to related party transactions," Nyiri comments.

Nigeria is in an interesting real estate market, according to Nyiri. "Capital is definitely being thrown in both Lagos and Abuja and the two cities have one of the most expensive retail space markets on the continent, at $80/m2." The West African country's transfer pricing rules commenced in 2012.

Egypt's tax authority issued the first general transfer pricing guidelines in 2010, but no transfer pricing practice or transfer pricing audit has been undertaken since then. The country's retail market is booming and looks to stay that way for the foreseeable future. As consumers start spending more, more investors are expected to enter Egypt's market to improve retail development.

Key focus area

Moving on to Kenya, Nyiri shares some interesting points. "The Kenya Revenue Authority (KRA) is part of the African Tax Administration Forum which has identified transfer pricing as a key focus area." KRA has carried out several transfer pricing audits since the rules came into effect in 2006. Although office space prices have diluted since 2014, they are picking up again and is projected to be one of the fastest growing markets for real estate.

"South Africa's retail space remains very attractive, especially in Johannesburg and Cape Town, with retail space being in the top five most expensive at $60/m2 in both cities. "South Africa has seen a series of changes when it comes to transfer pricing with a radical overhaul in 2012 and incremental changes since then," Nyiri explains.

For developing economies the challenge remains in assessing appropriate transfer prices and is exacerbated by a lack of the requisite skills and experience required to analyse complex transfer pricing issues. Despite these current deficiencies in capacity, most of Africa is focused on capacity building in order to provide clear taxation policies which foster foreign direct investment.