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REPORT

From: General Secretariat of the Council
To: Permanent Representatives Committee/Council

Subject: Code of Conduct Group (Business Taxation)
– Report to the Council
= Endorsement

Cabo Verde's Incentives for Internationalisation (CV004)

The regime is set forth by Law Decree 2/2011 and Law 26 VIII 2013. The legislation excludes certain activities that are regulated under other pieces of legislation (such as banking, insurance, financial intermediation, tourism) but does preclude any activity in other economic sectors, including services.

The following assessment was agreed by the Code of Conduct Group on 13 September 2019:

	1a	1b	2a	2b	3	4	5
Cabo Verde – Incentives for internationalisation	?	X	X	X	X	X	V

V = harmful

X = not harmful

Explanation:

Gateway criterion

The base line corporate tax rate in Cabo Verde is 25%. The benefits under the regime consist of a 50% or 70% CIT reduction, based on the amount of investments made, as well as VAT and customs exemptions. This reduction can be allowed for 3 or 5 years.

The regime is therefore preferential and should be considered potentially harmful under the Code of Conduct.

Criterion 1 & 2

According to Art. 2 of Law Decree 2/2011, the regime is open to entities that have their seat and effective management in Cabo Verde.

However, to benefit from the regime, a company has to undertake transactions with non-residents, as the regime aims at supporting the expansion on other international markets of Cabo Verde based companies. It is therefore unclear whether this would actually amount to ring-fencing under the Code criteria.

Criterion 3

Art. 4 of Law decree 2/2011 clarifies that companies can benefit from the regime if they meet minimum job creation and investment requirements. Considering the nature of the regime, the substance requirements under the Code are met.

Criterion 4

The regime is subject to the general accounting rules in force in Cabo Verde, which are in line with the international standards.

Criterion 5

The requirements for the concession of the licence and therefore the tax benefits are generally laid down in the legislation for investment up to 15 millions of Escudos. However, for projects that are above this threshold, the government has discretionary powers to evaluate whether advantages could be granted.

Overall assessment

When assessed against the Code criteria, the Incentive for Internationalisation regime is harmful, as it may result in discretionary administrative powers to determine the tax advantages granted to a company whose investment exceed a set threshold. However, as there are no entities currently benefitting from the regime, the regime cannot be considered harmful at the moment. Member States should also consider that the regime is due to expire at the end of 2020 and Cabo Verde has not expressed any intention to extend the duration of the regime.

The COCG will continue to monitor the regime, should Cabo Verde notify that companies start to benefit from the regime.