

Payroll Compliance

A short guide for payroll professionals navigating the latest employees' tax legislation.

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1. General Information

1.1 Official currency

The official currency of Mozambique is the Mozambican Metical (MZN).

1.2 Tax year end

Tax year is the calendar year ending 31 December.

1.3 Revenue service

Ministry of Finance

2. Imposto sobre o Rendimento das Pessoas Singulares (IRPS)

Individual Income Tax

IRPS is levied on the income pertaining to natural persons either:

- Resident in the Mozambican territory, including income obtained abroad;
- Non-resident, on income obtained in Mozambique.

2.1 Employment income

IRPS is a direct tax levied on the total amount of annual income, whether this is in cash or in kind and irrespective of the currency or form in which the same is obtained, including income obtained by illicit means.

The referred income results from the following categories, after all deductions and rebates:

- **1st category:** employment income and pensions (including annuities and alimony)

payments);

- 2nd category: income from a business or an independent profession;
- 3rd category: investment income and capital gains;
- 4th category: income from immovable property; and
- 5th category: other income (e.g. lottery prizes and other gambling winnings, unexplained increases in wealth, compensation received under a non-competition-related agreement or for unsubstantiated damages involving a loss of expected profits).

Specific deductions are given in computing net income from the 1st, 2nd, 3rd and 4th categories.

Tax is levied on the aggregate of the income categories in each year less listed deductions and allowances

1st category (employment and pension) income includes all types of remuneration paid or made available in cash or in kind with respect to employment, e.g. salaries, wages, bonuses, commission, subsidies, prizes, emoluments, tips and fringe benefits.

Article 2, 3 & 4 of the IRPS Code

The following are also considered employment income:

- remuneration paid to members of corporate bodies of corporate persons and comparable entities;
- amounts that individual entrepreneurs report as remuneration for their work or work carried out by members of their household;
- allowances for errors payable to persons whose work involves handling cash, to the extent that they exceed 5% of the employee's fixed monthly remuneration;
- expense allowances and other amounts received for the use of the employee's own vehicle for the employer's purposes, in the proportion that the total of these amounts exceeds the limit of the amounts established for state employees earning the equivalent or similar fixed salaries;
- amounts for travel, mission and representation expenses for which accounts have not been presented by the end of the financial year;
- any indemnification arising from the establishment, termination or alteration of the employment legal relationship, including amounts relating to the violation of contractual conditions or changing the work location; and
- bonuses originating from or by reason of the provision of services and paid by persons other than the employer.

2.2 Tax Tables

Monthly tax tables applicable to the current tax year.

A Monthly Income Bracket (MT)				C Tax rate	B Value per Dependent (MT)				
Lower bracket	Upper bracket				0	1	2	3	4+
From	0.00	up to	20 249.99	0%	No Tax	No Tax	No Tax	No Tax	No Tax
From	20 250.00	up to	20 749.99	10%	0	No Tax	No Tax	No Tax	No Tax
From	20 750.00	up to	20 999.99	10%	50	0	No Tax	No Tax	No Tax
From	21 000.00	up to	21 249.99	10%	75	25	0	No Tax	No Tax
From	21 250.00	up to	21 749.99	10%	100	50	25	0	No Tax
From	21 750.00	up to	22 249.99	10%	150	100	75	50	0
From	22 250.00	up to	32 749.99	15%	200	150	125	100	50
From	32 750.00	up to	60 749.99	20%	1 775	1 725	1 700	1 675	1 625
From	60 750.00	up to	144 749.99	25%	7 375	7 325	7 300	7 275	7 225
From	144 750.00	and above		32%	28 375	28 325	28 300	28 275	28 225

Note that if the value per dependent is “no tax“, then the employee will not pay tax on the taxable income. See example 3 below.

2.3 How to calculate using the tax tables above:

1. Determine the income bracket in column **A** where the gross monthly salary falls within the range specified. Subtract the minimum range (lower bracket) from the gross monthly salary.
2. The value found in the previous paragraph (1) shall be multiplied by the rate in column **C**.
3. The figure recorded in the previous paragraph is added to the amount in column **B** depending on the number of dependents of the taxpayer. In the case that the amount found is represented by a hyphen (-), there will be no tax paid.

An individual with two dependents earning a remuneration of MZN 55,000

1. Subtract the minimum limit (lower bracket) of the applicable range:
 $55\,000 - 32\,750 = 22\,250$

2. Apply the rate:

$$22\,250 * 20\% = 4\,450$$

3. Add the value of applicable range according to number of dependents:

$$4\,450 + 1\,700 = 6\,150$$

2.4 Non-Resident

According to Article 57 of the Mozambique Tax Code, the Non-resident employees are taxed at a flat rate of 20%.

From the month the employee becomes resident, the normal tax tables will apply.

It is the employer's responsibility to make sure that employees who are taxed as non-residents qualify to be classified as non-residents.

3. Benefits In Kind

Article 28 of the IRPS Code

Fringe benefits must be quantified in Meticals and according with the following rules, which must be successively applied:

- by the official price;
- by the official acquisition quotation;
- by the market value, in competition conditions.

Taxable fringe benefits include:

- housing allowances or their equivalent or the use of a house supplied by an employer, except if the house is owned by the employer and it is located within the business compound of the enterprise;
- allowances that result from the personal use by an employee (or member of a corporate body) of a motor vehicle that generates expenses for the employer, under a written agreement between the employee (or member of a corporate body) and the employer about the use of such motor vehicle;
- the amounts spent by an employer on travel and stays for pleasure or comparable purposes and which are not associated with the employee's employment duties;

- taxes and other legal levies owed by the employee that the employer pays.

The benefits and other privileges given by an employer to any person belonging to the employee's household or with whom the employee is connected by ties of kinship or affinity will be considered employee's income.

The valuation of taxable benefits in kind is based on official prices. Where this is not possible, the valuation is according to listed criteria, in successive order, the last of which is the market price.

Special valuation rules apply to:

- the rent-free use of a dwelling not owned by the employer within a business compound, which is valued at either the actual rental cost to the employer or, if there is no such cost, the market rent, limited to one sixth of the taxpayer's employment income;
- the free use of a company car at the company's expense under a written agreement with the employee, which is valued at 3% of its purchase price or production cost annually; and
- loans granted by the employer free of interest or at an interest rate lower than the central bank's prevailing rediscount rate, which are valued at the difference between such rates of interest.

The interest rate of reference is the rate that corresponds to the type of transaction in question and the discount rate of the Central Bank published by Notice of the bank at the beginning of each calendar year.

Fringe Benefit = Principal x (interest rate of reference - interest rate borne by the beneficiary)

4. Exempt Income

Article 6 & 7 of the IRPS Code

The following do not constitute taxable employment income:

- payments made by employers to compulsory social security schemes for the sole purpose of ensuring retirement, invalids or survival benefits;
- Medical insurance, personal accidents or life insurance which exclusively guarantee death or disability risks, provided that the same are granted based on objective and equal criteria to all permanent employees of the company and that the insurance agreements are entered into with Mozambican resident insurance companies;
- benefits that are attributable to the use and enjoyment of leisure and social facilities supplied by the employer, under certain conditions such as; Day-nurseries, kinder gardens, canteens, libraries, schools, prevention and medical and medication assistance to HIV

positive persons, provided these represent a benefit for the employees of the company and their families and for general and not individualized use;

- payments related exclusively to the professional training of employees, where this training is carried out either by the employer or by public bodies or entities whose competence in the fields of professional training and retraining is recognized by the competent Ministries; and
- Compensations for dismissal with just cause received by the employee, resulting from the termination of the employment contract by the initiative of the employer or employee.

Under a minimum net income rule, an exemption from tax applies if the taxpayer's taxable income in the year does not exceed 36 times the highest minimum salary. Any excess is subject to tax under the general rules.

In a household with several income earners, the 36 times the highest minimum salary exemption is computed for each income earner.

5. Annual Income – including Bonus

Number 4 and 5 of Article 3 of the Ministerial Diploma 109/2008 of 27 November provides the following:

- Number 4 relates to the autonomous taxation of holiday bonuses and other equivalent allowances as well as 13th and 14th cheques.
- Number 5 provides that when the allowances referred to in the preceding paragraph are paid in portions, for each payment, the proportionate share of tax is calculated on the same rule above.

Thus, number 4 provides for the autonomous calculation of tax on the specified amounts. Number 5 provides that where an allowance is paid in more than one payment (portion), the proportionate share of tax must be calculated for the additional portions paid using the autonomous calculation for the specific allowance.

An allowance is seen as a 13th cheque, 14th cheque, Holiday bonus or any equivalent allowance.

5.1 Normal Periodic earnings

Periodic earnings in Mozambique are seen as earnings equivalent to an employee's monthly basic

salary, and should be taxed separately, using the exact same formula used to calculate the tax on normal income. Thus, where an employee earns multiple earnings equivalent to an employee's monthly basic salary in one month, those earnings should not be added together, and must be taxed separately.

Employee with no dependants

	January	February	March
Basic Salary	90 000	150 000	150 000
Tax on Basic Salary	14 688	30 055	30 055
13 th cheque		-	150 000
Tax on 13th cheque		-	30 055 <i>taxed separately</i>
14 th cheque	-	-	150 000
Tax on the 14th cheque	-	-	30 055 <i>taxed separately</i>
Total Tax for the month	14 688	30 055	90 165

Note that if an employee gets a dependant in a period after an earning (e.g. bonus) was paid to an employee, the tax should not recalculate for the earning paid out in the previous month.

5.2 Periodic earnings paid in portions

According to paragraph 5 of Article 3 which was approved by the Ministerial Diploma no 109/2008; in a case where the periodic income is paid in portions, we should aggregate all the portions paid in order to determine the tax on the full amount. The tax for the month will be the difference the tax already paid and the tax on the aggregated earning.

Employee with no dependants

Leave Subsidy is paid in two portions, 1st portion in January and 2nd portion in March.

	January	February	March
Basic Salary	90 000	150 000	150 000
Tax on Basic Salary	14 688	30 055	30 055

13th cheque part 1	90 000	-	-
Tax on 13th cheque part 1	14 688	-	-
13th cheque part 2	-	-	60 000
Tax on 13th cheque part 2	-	-	15 368
Total Tax for the month	29 376	30 055	45 423

The condition for an earning to be paid separately is that it should be equivalent to the monthly basic salary. An earning is not taxed separately because it is earned once a year, but because it is equivalent (equal in value) to the employee's monthly basic salary.

6. Social Security (INSS)

Social security contributions are payable monthly by employees to the National Social Security Institute under Social Security Law 4/2007 of February 2007 and Decree 53/2007 of 3 December 2007.

Social security contributions are calculated on monthly earnings of employees (excluding subsidies) with no ceiling.

The rate of contribution is for an employee is 3% of gross income and employers contribute 4%. Employers must withhold from the salary paid the contributions due by their employees.

Payment is due on the 10th of the month after the contributions were made.

The requirement to join the social security system does not apply to workers who are foreign residents to serve in Mozambique, provided that they prove they are covered by a system of another country.

The basis of the contribution consists of:

- Basic salary;
- Seniority bonus;
- Management bonus;

- Productivity and attendance compensation paid on a regular basis;
- Compensation for replacement;
- Remuneration paid for night work;
- Other bonuses, subsidies, commissions and other benefits of a similar nature paid on a regular basis.

INSS contribution made by an employees is not tax deductible.

For more information on the INSS visit <http://www.inss.gov.mz/>

7. Relação Nominal

According to the Ministerial Diploma No. 104/2015 of 27 November 2015, the companies must submit employee list - list of employees on company business to the Ministry of Labour, Employment and Social Security by April 30 of each year.

The Nominal lists should reflect the information presented on the payrolls for the month of March.

Completion and submission of the Nominal list can also be done online through an application called Sistema de Gestão de Folha de Relação Nominal available on the website of the Ministry of Labour, Employment and Social Security.

For more information visit <http://www.mitess.gov.mz/>

8. Imposto Pessoal Autárquico (IPA) – Municipal Personal Tax

The Municipal Personal Tax is the minimum contribution of each resident to the public expences of the municipality. It is due by all persons, national or foreign, between the ages of 18 and 60 who

is resident in a municipality.

In the case of IPA taxpayers who are simultaneously taxpayers of the IRPS – 1st category, the IPA is usually collected by withholding the amount on the respective salaries processed by the employer.

8.1 Applicable Rates

The applicable rates are available from the local municipality. Usually a fixed rate.

Employee contribution. Employer doesn't pay.

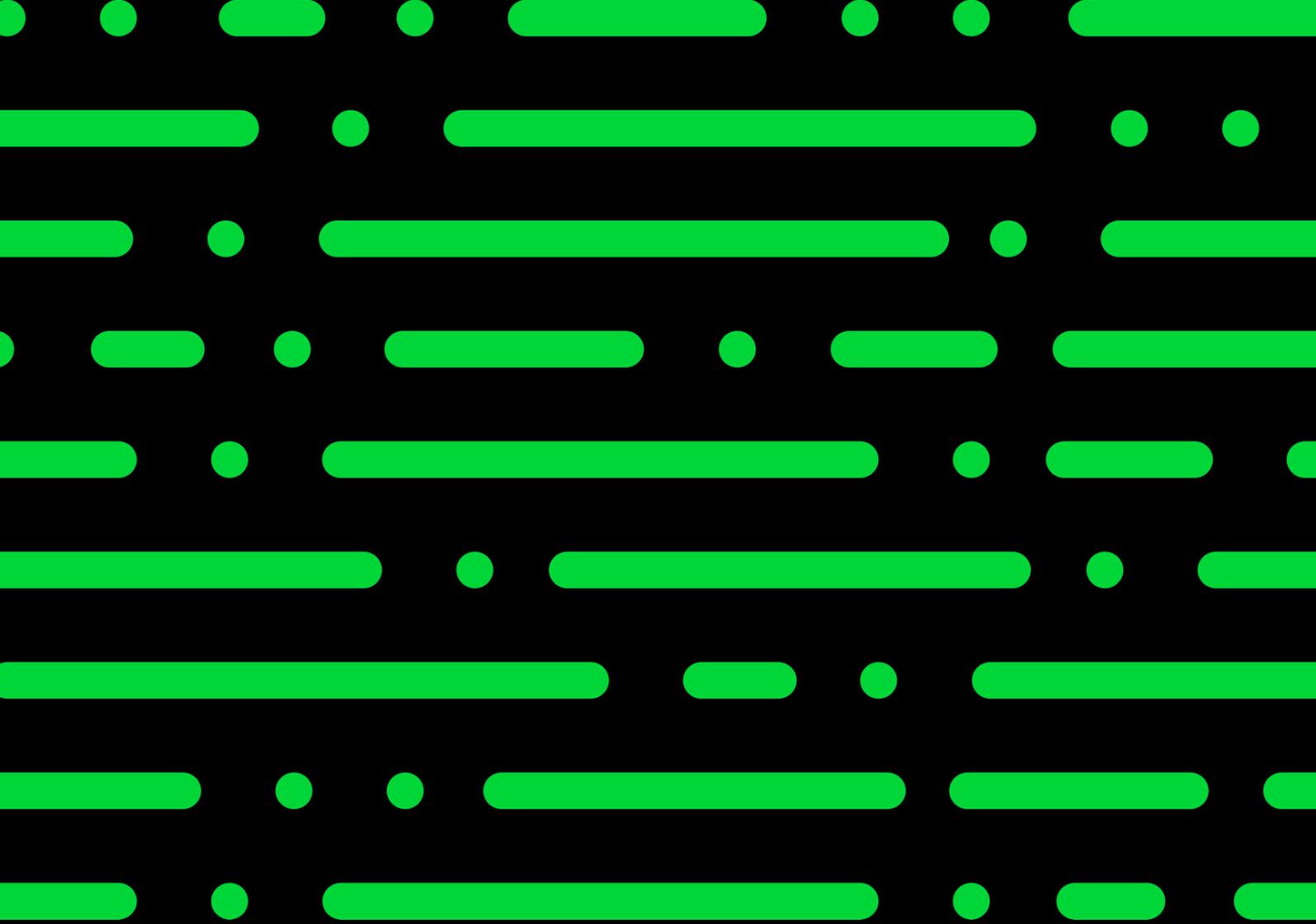
8.2 Payment of IPA

The IPA is paid in cash in one instalment from January 2 to December 31 of each year, in the Receiving of the Municipal Council or in the Administrations of the Municipal Districts.

For more information visit <http://www.portaldogoverno.gov.mz/por/Empresas/Impostos-e-Taxas>

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