Ministry of Finance, Trade Investment and Economic Planning
Liberty House, P.O Box 313/ Victoria/ Mahé, Seychelles

# Press Release

**Seychelles remains committed to tax reforms to comply with the European Union standards**

**Friday 21st February 2020:** Seychelles is moving ahead with efforts to undertake the necessary tax reforms in the shortest possible delay to ensure that its tax system complies with international standards and does not inadvertently pose a threat to that of other jurisdictions.

These efforts had already started to tackle tax deficiencies highlighted by the European Union (EU) and is being reinforced now that Seychelles has been added to the EU list of non-cooperative jurisdictions for tax purposes, for not having implemented the necessary tax reforms by the end of December 2019, as agreed by the Government. The list was released by the Council of European Union on Tuesday February 18, 2020,

Seychelles was first assessed by the EU Code of Conduct Group on Business Taxation (CoCG) in 2017. This was done in parallel with the Organisation for Economic Co-operation and Development's (OECD) Base Erosion and Profit Shifting (BEPS) review. Subsequently, the country has cooperated to amend ten tax regimes considered to be potentially harmful, out of which nine are no longer considered potentially harmful. The tenth, which was purely an EU requirement in respect of manufacturing activities under the International Trade Zone (ITZ), was recently amended in December 2019, in order to be compliant.

It is to be noted that in a letter received on February 1, 2019, the CoCG identified the territoriality of Seychelles' tax regime as a "new measure" giving rise to potential harmful effects under the CoCG criteria, and gave a December 31, 2019 deadline for this to be remedied. The domestic tax system only taxes activities conducted in Seychelles, and does not tax active overseas businesses, nor the receipt of proceeds of those overseas businesses in the form of dividends, interest, royalties or other forms of passive income. It was only in September 2019 that the EU released formal guidance on foreign source income exemption, which was subsequently revised in December 2019.

As part of its efforts to undertake necessary reforms, Seychelles has been in dialogue with representatives of the CoCG since last year, which has resulted into an understanding that one way to address the EU's concerns is to ensure that the Seychelles territorial tax regime only applies to entities that can demonstrate that they have sufficient 'economic substance', which means the eligibility requirement to benefit from the exemption of business tax on the foreign income will be explicit link to some real activity in the jurisdiction.

To this end, the Government is in the process of introducing more detailed substance rules, with tests that are in line with international best practice. This would result in Seychelles moving to taxing the worldwide profits of its resident persons, where these persons do not sufficiently demonstrate that they are conducting activities in Seychelles, when compared to the amount of foreign income they are generating. Such an approach would be consistent with CoCG's guidelines on foreign income exemption regimes published on December 5, 2019.

The Ministry of Finance, Trade, Investment and Economic Planning (MoFTIEP) had requested an extension to implement the afore-mentioned reforms by June 30, 2020, to ensure necessary consultation on the guidelines with the relevant stakeholders. The extension request was not approved in spite of Seychelles' commitment to comply with the standards by a set deadline.

To note that Seychelles is following the guidance set out in the OECD's 'Action 5' Report on Harmful Tax Practices and now aims to implement the said reforms by end of March 2020. The international financial services sector is fully on board and currently in discussion with the Government on the final policy proposal, to ensure that Seychelles adheres to the EU requirements before the end of March 2020.

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