2024 FINANCIAL STATEMENT REGULATIONS FOR SECURITIES DEALERS IN SEYCHELLES:

Tax Implications and Compliance Guidance

VICTORIA CHARTERED
CERTIFIED ACCOUNTANTS

www.accountingvcca.com

Table of Contents

INTRODUCTION

Understanding the 2024 Financial Statement Regulations for Securities Dealers in Seychelles: Tax Implications and Compliance Guidance

One of our goals is to develop our firm as subject matter experts for capital markets players in Seychelles and to help securities dealers navigate changes financial reporting regulations while staying tax compliant.

The Securities **(Financial Statements) (Amendment) Regulations, 2024**, effective **31 December 2024**, introduce significant changes to the financial and operational requirements for securities dealers in Seychelles. These updates primarily impact the minimum issued and paid-up capital thresholds, which have been revised upward for most categories of securities operations, with one exception—**Category (b): Investment Advisors,** whose requirements remain unchanged.

This article provides an overview of the amendments, explores their tax implications, and offers practical guidance for securities dealers to ensure compliance.

VICTORIA CHARTERED
CERTIFIED ACCOUNTANTS

"The essence of investment management is the management of risks, not the management of returns."

-Benjamin Graham

CHAPTER I

Key Changes Introduced by the 2024 Regulations

The Securities (Financial Statements) Regulations, 2008, have been amended in several ways to strengthen the financial framework for securities dealers. Key changes include:

1. Increases in Minimum Issued and Paid-Up Capital

The capital thresholds for securities dealers have been increased across various categories. Highlights include:

- **Securities Dealers:** Minimum capital increased from **US$50,000 to US$100,000.**
- **Investment Advisors: Minimum Capital** remains **unchanged** at **US$50,000.**
- **Securities Exchange:** Minimum capital increased from **US$150,000 to US$200,000.**
- **Clearing Agency:** Minimum capital increased from **US$100,000 to US$150,000.**
- **Other Licensed Security Facility:** Minimum capital increased from **US$50,000 to US$100,000.**

2. Capital Maintenance Requirements

The amended regulations introduce a new subregulation (2) to Regulation 20, requiring that securities dealers:

 Maintain the minimum issued and paid-up capital **at all times.**

 Hold the capital in a **bank account:**

- Licensed under the **Financial Institutions Act, 2004,** or
- Located in a jurisdiction **approved by the FSA.**

3. Transition Period

- Securities dealers licensed before the regulations take effect are granted an **18-month transition period** to comply with the new requirements.
- This provides entities sufficient time to restructure their capital and align with the updated thresholds.

CHAPTER II

Tax Implications of the Revised Capital Requirements

The increased capital requirements and maintenance rules carry important tax implications under Seychelles' tax framework. Below are the key areas securities dealers should consider:

1. Business Tax Implications

The **Business Tax Act (Cap 20)** governs how various financial transactions are taxed. The new capital requirements affect tax reporting and compliance in several ways:

a. Capital Contributions Are Non-Deductible

- Any additional capital injected to meet the revised thresholds is treated as a capital contribution.
- **Tax Implication:** Capital contributions are not deductible as an expense for business tax purposes because they are not considered operating expenses.

b. Debt Financing and Interest Deductions

- If the additional capital is raised through **loans**, the interest payments may qualify as deductible expenses under **Section 19** of the Business Tax Act.
- **Tax Implication:** Interest deductions may be limited if loans are obtained from **related parties**, triggering **transfer pricing** or **thin capitalization** rules.

c. **Impact on Taxable Income**

- Increased capital may lead to:
  - **Higher taxable profits**: If the additional capital supports business expansion, resulting in increased revenue.
  - **Depreciation deductions**: If the capital is used to acquire depreciable assets (e.g., office equipment or IT systems), deductions under **Section 16** and the **Third Schedule** may apply.

CHAPTER II CONTINUED

2. Withholding Tax Implications

The requirement to maintain capital in a licensed or approved bank introduces potential **withholding tax** obligations.

a. Interest Income on Deposited Capital

- If the capital earns **interest income** in Seychelles or approved foreign jurisdictions:
  - **Tax Implication**: Interest income is subject to **withholding tax**:
    - **For resident entities**: Withholding tax applies under **Section 63** (rates specified in the **First Schedule**).
    - **For non-resident entities:** Withholding tax applies unless reduced by a **double taxation agreement (DTA).**

b. Cross-Border Transactions

- Securities dealers maintaining capital outside Seychelles must:
  - Ensure compliance with **DTA provisions** to avoid double taxation.
  - Accurately document foreign income to claim tax credits for foreign taxes paid.

3. Economic Substance and Transfer Pricing

The increased capital thresholds align with Seychelles' broader emphasis on economic substance and compliance with **transfer pricing rules.**

a. Economic Substance Compliance

- Securities dealers must demonstrate **adequate economic substance** in Seychelles, including:
  - Maintaining sufficient **human resources** and **premises** to manage operations locally.
  - Conducting **key decision-making activities** in Seychelles.
  - Incurring **substantial operating expenses** within Seychelles.
- **Tax Implication**: Failure to meet economic substance requirements could result in:
  - **Denial of tax benefits.**
  - Additional scrutiny during tax audits.

b. Transfer Pricing Adjustments

- If the additional capital is sourced from **related parties** (e.g., parent companies), the Seychelles Revenue Commission (SRC) may review transactions to ensure compliance with **arm's length principles** under Section 54 of the Business Tax Act.
- **Tax Implication:** Discrepancies between actual and arm's length conditions could result in **taxable income adjustments.**

CHAPTER II CONTINUED

4. Passive Income Taxation

Under the **Business Tax Act**, any **passive income** (e.g., interest earned on capital deposits) is taxable. Securities dealers must:

- Accurately report passive income earned locally or abroad.
- Ensure proper documentation to claim **foreign tax credits** for taxes paid in other jurisdictions.

5. VAT and Input Tax Credits

Although the capital itself is not subject to VAT, securities dealers must consider the following:

a. VAT on Related Expenditures

- If the additional capital is used to purchase goods or services (e.g., IT systems, consulting services), dealers can claim **input tax credits** if they are VAT-registered.
- **Tax Implication**: Proper documentation (invoices, receipts) is necessary to support VAT claims.

b. VAT on Financial Services

- Securities dealers providing **exempt financial services** (e.g., securities trading) under the **VAT Act, 2010** must evaluate VAT implications on non-exempt supplies.

CHAPTER III

Practical Steps to Manage Compliance

To navigate the regulatory and tax implications of the 2024 amendments, securities dealers should take the following steps:

1. Assess Capital and Banking Arrangements

- Review current issued and paid-up capital against the revised thresholds.
- Ensure the capital is deposited in a compliant bank account as required by the regulations.

2. Plan for the Transition Period

- Use the 18-month transition period to gradually align with the new requirements.
- Develop a roadmap to raise additional capital, if necessary.

3. Strengthen Financial Reporting

- Maintain detailed records of capital contributions, interest income, and related transactions.
- Ensure financial statements comply with International Financial Reporting Standards (IFRS).

4. Ensure Economic Substance

- Align your business operations with Seychelles' economic substance requirements to avoid penalties and maintain tax benefits.

5. Monitor Withholding Tax and DTAs

- Work with tax advisors to ensure compliance with withholding tax rules and claim relief under DTAs where applicable.

6. Seek Professional Advice

- Engage accountants and tax specialists to help navigate the complexities of these changes and optimize your compliance strategy.

CONCLUSION

Proactive Planning is Key

The **Securities (Financial Statements) (Amendment) Regulations, 2024**, reflect Seychelles' commitment to building a resilient and transparent financial system. While the increased capital requirements strengthen the financial foundation for securities dealers, they also introduce new tax compliance challenges.

By understanding the tax implications and taking proactive steps, securities dealers can ensure compliance while optimizing their taxes.

Our Services

Taxation

Our services extend beyond financial audits, offering advisory and consulting support to enhance business processes.

Accounting/Bookkeeping

Accounting & Bookkeeping done right. We offer outsourced accounting solutions, bookkeeping services, and more.

Advisory Services

With 40+ years of executive experience, our skilled professionals offer risk advisory and forensic consulting services.

Consultancy

With expertise in finance, hospitality, retail, and more, we customize solutions to suit client requirements.

Audit & Assurance

Beyond financial audits, our services encompass advisory, risk assessment, internal control evaluation, and more.

+248 4373540
audit@accountingvcca.com
www.accountingvcca.com

VICTORIA CHARTERED
CERTIFIED ACCOUNTANTS