THE MULTI FAMILY OFFICE

Executive Summary

Family Office BKMS

## CYPRUS and MALTA 2016: A brief Tax Comparison

**With effective implementation in Cyprus set in the beginning of 2017, the Common Reporting Standard (CRS), which underpins the Automatic Exchange of Information, will rely profoundly on local anti-money laundering requirements and efficient due diligence procedures. The main and deciding factor for CRS will be the person's Tax residency. Given the fact that the Tax Residency in Cyprus offers a comprehensive and reliable answer in regard to the CRS implications, BKMS provides a brief outline of the main Tax benefits linked to a Cypriot tax residency as well as the advantages in comparison with Malta.**

**Within a global, ever challenging financial environment, Cyprus now stands out as a certain player, to pave the way for businesses to thrive and innovate through financial reengineering, facing effectively the challenges of the Global Transparency and Exchange of Information.**

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| | CYPRUS | MALTA |
|---|---|---|
| **Corporate income tax Rate** | 12.5% | 35% |
| **Personal Income Tax** | Progressive tax rates 0% - 35%, With the first €19.500 exempt | Progressive tax rates 0% - 35%, With the first € 8.500 - €11.900 exempt depending on the civil status |
| **Employment Remuneration** | Annual income > €100.000 50% Exempt | Fully Taxable |
| **Standard VAT rate** | 19% | 18% |
| **Reduced VAT rate(s)** | 9%, 5% and 0% | 7% and 5% |
| **VAT registration threshold** | €15,600 | €7,000 |
| **VAT filing & payment** | Quarterly | Quarterly |
| **Capital gains tax rate(s)** | 20% on immovable property situated in Cyprus (exemptions apply) | 8%-10% WHT on Immovable property situated in Malta |
| **Capital Gains Tax on shares and securities** | No | Yes |
| **Tax residency requirements** | Management and control to be exercised in Cyprus | Management and control to be exercised in Malta |
| **Tax rate on dividends from local investments** | 0% | 35% (effectively 0% - 10% through refunds)<br>0% if under participation exemption[1] |
| **Tax rate on dividends from foreign investments** | 0% | 35% (effectively 5% - 10% through refunds)<br>0% if under participation exemption[1] |
| **Withholding tax on dividend payments to foreign shareholders** | 0% | 0% |

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| | CYPRUS | MALTA |
|---|---|---|
| **Tax rate on interest income** | 12.5% for active interest income<br>30% SDC for passive interest income | 35% (effectively 0% - 10% through refunds) for active interest income<br>0% for passive interest income |
| **Withholding tax on interest payments to foreign recipients** | 0% | 0% upon fulfilment of statutory conditions |
| **Tax deductibility of interest expense** | Yes | Yes if incurred for the production of taxable income |
| **Tax rate on royalty income** | 12.5% (on 20% of royalty income) | 0% for passive and 35% (effectively 0% - 10% through refunds) for active royalty income |
| **Withholding tax on royalty payments to foreign recipients** | 10% if the right/asset is used in Cyprus.<br>0% in all other cases. | 0% |
| **Tax deductibility of royalty expense** | Yes | Yes if incurred for the production of taxable income |
| **Taxability of disposal of shares by foreign shareholder** | No, as long as the company does not own Cyprus real estate | No if the company does not hold Maltese real estate or if its foreign shareholder company is not controlled by Maltese residents |
| **Taxation of partnership profits** | Taxed in the hands of each partner | Taxed in the hands of each partner except Limited Partnerships which are treated as companies |
| **Taxation of branch profits** | Treated as a company i.e. taxed at 12.5% | Treated as a company i.e. taxed at 35% |
| **Branch remittance tax** | 0% | 0% |
| **Stamp duty** | Yes | Yes |

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| | CYPRUS | MALTA |
|---|---|---|
| **Limited Liability Companies** | Yes | Yes |
| **Minimum shareholders** | 1 | 2 |
| **Minimum directors** | 1 | 1 |
| **Secretary** | Physical and legal entity | Only Physical Entity |
| **Registered office** | Yes in Cyprus | Yes in Malta |
| **Registration Time** | 7 – 10 days | 5 – 7 days |
| **Minimum Capital** | €1000 | €1500 EUR |
| **Restrictions to foreign investors** | No | Yes for holding Maltese real estate |
| **Thin Capitalization** | No | No |
| **Transfer pricing** | No | No |
| **CFC rules** | No | No |

Notes:

1. Participation exemption for participation holdings: Dividend received by a Maltese company or capital gains derived from the disposal of shares are tax exempt if they meet one of the following conditions:

   I. The holding is in a body of person's resident or incorporated in a country within the EU.
   II. The dividend has been subject to at least 15% foreign tax.
   III. The holding is not in a body of persons which derives more than 50% of its income from passive interest of royalties.
   IV. The holding in a body or persons not resident in Malta is not a portfolio investment and the body of persons not resident in Malta has been subject to tax of at least 5%.
   V. The profit or gain from the disposal of a participating holding in company resident or not resident in Malta is also exempt from Malta Tax.
   VI. The equity holding by the company registered in Malta in the body of persons not resident in Malta is not a portfolio investment, and for this purpose the holding of shares by a company registered in Malta in a body of persons not resident in Malta which derives more than 50% of its income from portfolio investments shall be deemed to be a portfolio investment; and
   VII. The body of persons not resident in Malta or its passive interest or royalties has been subject to any foreign tax at a rate of not less than 5%

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### ABOUT BKMS

**With over a decade worth of experience and a prominent network of international clients, BKMS has established a reputation that speaks for itself. BKMS is covering a broad spectrum of industries, taking into account the required accounting treatment and tax implications as well as the challenging international regulatory framework. Client Trust and loyalty are the very fundament of every commitment undertaken by BKMS. Adherence to a strict policy of professionalism therefore results in continuously successful developments. BKMS is regulated by Cyprus Securities and Exchange Commission Registration No 96/196.**

### MULTI FAMILY OFFICE SERVICES

**Administrative Services**

**Tax Planning**

**Wealth Planning**

**Corporate Consulting**

**Legal Services**


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