

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.



	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) 0% if under participation exemption ¹
Tax rate on dividends from foreign investments	0%	35% (effectively 5% - 10% through refunds) 0% if under participation exemption ¹
Withholding tax on dividend payments to foreign shareholders	0%	0%

	CYPRUS	MALTA
Tax rate on interest income	12.5% for active interest income 30% SDC for passive interest income	35% (effectively 0% - 10% through refunds) for active interest income 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. 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

	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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