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Monaco

Tax

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This country-specific Q&A provides an overview of tax laws and regulations applicable in Monaco.

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Monaco: Tax

1. How often is tax law amended and what is the process?

Monegasque tax law is very stable and is amended from time to time – Monaco legal provisions ruling Monaco corporate income tax (i.e. "impôt sur les bénéfices") ("CIT") are amended from time to time to be in line with French corporate income tax rules and BEPs provisions.

The Principality of Monaco (hereafter "Monaco") is a hereditary constitutional monarchy with a Prince (executive body), a single chamber legislature (National Council) and an independent judicial system.

Legislation must be either proposed by the Government (draft law – "projet de loi") or the National Council (proposed law – "proposition de loi"). The laws initiated by the Government must be approved by the Prince before National Council's vote. The laws initiated by a member of the National Council must be passed by the National Council and then approved by the Minister of State (the Minister of State shall render its reasoned decision within six months). Once approved, the text is enacted by the Prince and becomes a law on the day following its publication in the Official Gazette ("Journal de Monaco").

The Supreme Court ("Tribunal Suprême") has the power to declare that any provision of law is unconstitutional and thus cancel it. Judicial case law decisions are also made by the courts (jurisdictions of first instance, Court of Appeal, Court of Revision) to determine or clarify tax law.

2. What are the principal administrative obligations of a taxpayer, i.e. regarding the filing of tax returns and the maintenance of records?

Individuals are neither subject to personal income tax nor wealth tax and are therefore not subject to any annual tax compliance obligation in this respect.

Taxpayers subject to CIT (i.e. entities or individuals carrying on a business activity subject to CIT) must file a CIT return with the Monaco tax authorities within 3 months following the end of the financial year, or before April 1st, for financial year aligned with the civil year (article 23-2 of the Ordinance n°3.152).

In addition, taxpayers are required to maintain adequate records for at least:

- 5 years for entities not subject to CIT in Monaco;
- 10 years for entities subject to CIT in Monaco.

3. Who are the key tax authorities? How do they engage with taxpayers and how are tax issues resolved?

The Monaco tax authorities ("MTA") are the key regulatory authorities responsible for administering the tax system.

It is rather easy to liaise with the MTA and set up an inperson meeting. The MTA can issue private tax ruling upon request within a reasonable time (approx. one month), depending on the circumstances of the case.

4. Are tax disputes heard by a court, tribunal or body independent of the tax authority? How long do such proceedings generally take?

In most of circumstances, tax matters are solved amicably with the MTA, unless there is a true and actual question of law that requires the intervention of the judge.

In case of a contentious tax claim, MTA's definitive decisions (regarding a tax reassessment or a tax claim) can be appealed before local courts (First instance Judge, Court of Appeal, Court of Revision), which overall can take between 3-4 years up to the Court of Revision.

5. What are the typical deadlines for the payment of taxes? Do special rules apply to disputed amounts of tax?

The payment of CIT is made as follows:

- payment of 4 CIT instalments throughout the year (February, May, August and November). Each instalment amounts to 20% of CIT paid in respect of the previous financial year ;
- the payment of the outstanding CIT balance is made spontaneously upon the filing of the CIT return. If the CIT instalments paid throughout

the year exceed the CIT due, excess CIT paid will be offset against CIT due in respect of the 2 following fiscal years.

6. Are tax authorities subject to a duty of confidentiality in respect of taxpayer data?

Monaco tax legislation provides for strict confidentiality and non-disclosure rules regarding taxpayer information. However, in some cases other Monegasque authorities can receive taxpayer information.

Monaco has entered into a number of double tax treaties and exchange of tax information agreements under which the Principality will exchange tax information on a government-to-government basis in certain situations.

Monaco is a signatory of the Multilateral Competent Authority Agreement and the Common Reporting Standard ('CRS MCAA') and fully implemented the OECD's standards for automatic exchange of information.

As regards the Common Reporting Standard

Monaco applies the Common Reporting Standard (CRS) developed by the OECD and signed the Multilateral Convention on Mutual Administrative Assistance in Tax Matters (MAAC), which is the legal basis for Automatic Exchange of Information on 13 October 2014. Monaco also signed on 15 December 2015 the Multilateral Competent Authority Agreement for the Automatic Exchange of Financial Account Information (MCAA) in order to demonstrate his willingness to comply with the leading international standards in this area.

At the European level, Monaco signed the Amending Protocol to the 'Agreement between the European Community and the Principality of Monaco providing equivalent measures to those of the Council Directive 2003/48/CE' on 12 July 2016. This Protocol enables automatic exchanges of information between EU member States and Monaco.

Monaco has ratified the 3 above-mentioned agreements and convention in December 2016. These agreements were transposed by Sovereign Ordinance on 20 December 2016 and entered into force on 1 January 2017.

Therefore, the consequences are the following:

- For residents of Monaco (except for French nationals): no information regarding their accounts held in Monaco will be exchanged. Monaco will receive information about any accounts they hold in jurisdictions

participating in automatic exchange of information with Monaco;

- For residents of another jurisdiction with which Monaco has agreed to exchange information: Information about any financial accounts they hold in Monaco will be sent to the tax authorities of their tax residence.

As regards the public register of beneficial ownership

The following legal persons and entities are required to declare their beneficial owners in the "Register of Beneficial Owners", which is annexed to the Trade and Industry Register: (i) commercial companies and economic interest groups that are registered in the Trade and Industry Register, (ii) non-trading companies that are registered in the special register held by the Trade and Industry Register service.

The register is filed with the Business Development Agency: (i) when applying for registration with the Trade and Industry Register or at the latest within 15 days of delivery of the receipt, (ii) within 30 days of any fact or action requiring the rectification of, or addition to, the information mentioned therein.

Under article 46 of Law n°1.503 of 23 December 2020, information contained in the Register of Beneficial Owners are accessible to accredited agents of MTA to fight against money laundering and the financing of terrorism and corruption.

Any other person can access more limited information (name, month and year of birth, country of residence, nationality of the beneficial owner, the nature and extent of the beneficial interests held) upon a request to the Trade and Industry Register Department which informs the relevant legal entity which has two months to request a restriction of access to all or part of this information. The individuals may only consult the Register of Beneficial Owners on site subject to the payment of a fee of 500 euros.

7. Is this jurisdiction a signatory (or does it propose to become a signatory) to the Common Reporting Standard? Does it maintain (or intend to maintain) a public register of beneficial ownership?

Question answered above

8. What are the tests for determining residence of

business entities (including transparent entities)?

Monaco has no legal definition of 'residence' for CIT purposes. However, an enterprise is generally deemed as a Monegasque resident if its head office, its place of effective management or its main establishment is located in Monaco.

9. Do tax authorities in this jurisdiction target cross border transactions within an international group? If so, how?

As a matter of principle, intercompany transactions involving a Monaco entity must be "arm's length" and therefore reflect market conditions set in comparable transactions between unrelated entities.

Article 9 of the Sovereign Ordinance n°6.713 expressly provides that the MTA may use the country-by-country reporting to check if the transfer pricing policy of an eligible international group is compliant with the transfer pricing rules (see our comments below under Section 9).

In addition, as a consequence of the Monaco's BEPS commitments and in particular as regards Action 13 (see our comments below on Section 11), the MTA have been recently more active in controlling intercompany transactions to ensure that no profit is artificially transferred abroad by companies subject to CIT.

10. Is there a controlled foreign corporation (CFC) regime or equivalent?

As regards Transfer pricing

- Under Article 14 of the Ordinance n° 3.152, the commercial or financial relations that a Monegasque company has with any non-resident natural or legal entity must be carried out under arm's length conditions. In the absence of specific elements making the tax reassessment possible, taxable income is determined by comparison with taxable income of similar companies that operate normally. In case of tax reassessment on this topic, the transactions are added back for CIT purposes in the Monegasque company's accounts for an arm's length amount.
- No specific legal provisions rule advance rulings or pricing agreements which remain possible in practice.
- As part of the implementation of the OECD's

BEPS Action 13, Monaco signed the Multilateral Agreement between Competent Authorities on the exchange of country-by-country declarations dated 2 November 2017 and adopted two Ordinances n° 6.712 and 6.713 of 14 December 2017 related to the exchange of the Country-by-Country Report (CbCR).

The CbCR is produced by the ultimate parent entity ("entité mère ultime") or a surrogate parent entity designated by the parent entity ("Entité mère de substitution") of multinational enterprise groups ("groupe d'entreprises multinationales") with consolidated annual revenue of more than 750 M€ before tax.

Consequently, Monaco requires Monegasque "constituent companies" belonging to such multinational enterprise groups to report to the MTA whether they are the ultimate parent entity or the surrogate parent entity, at the latest on the last day of the Group's reportable financial year (Article 4 of Ordinance n° 6.713). Failing such requirement, the Monegasque company is subject to a penalty of 750 € (Article 11 of Ordinance n° 6.713).

The CbCR shall be submitted to the MTA each year, within 12 months after the last day of the financial year (Article 6 of Ordinance n° 6.713).

The CbCR includes:

- Aggregate information on revenues, profit before tax or loss before tax, income tax paid, income tax payable, share capital, retained earnings, staff and tangible assets other than cash or cash equivalents, for each of the jurisdictions in which the Group operates;
- The identity of each entity belonging to the Group, specifying the jurisdiction of residence for tax purposes of the entity and the nature of its activity.

A CbCR is drawn up for each country in which the Group has constituent entities.

Under Article 12 of Ordinance n° 6.713, in the event of failure to file the CbCR within the timeframe set above, the penalty shall be:

- 10 000 € if the report is not sent on time;
- 50 000 € if the declaration is sent within 30 days after the receipt of a formal notice sent via registered letter with acknowledgment of receipt;
- 100 000 € if the situation has not been regularized after this

Inaccuracies and missing information lead to a penalty of 150 € (250 € if the entity fails to regularize within 30 days after the receipt of a formal notice sent via registered letter with acknowledgment of receipt (Article 13 of Ordinance n° 6.713).

As regards CFC rules

There are no CFC rules in Monaco.

As regards Thin cap rules

Maximum interest rate Under Article 9.1.3° of Ordinance n° 3.152, the deduction of interest paid by a Monegasque company to its shareholders is allowed up to a maximum interest rate equal to the marginal lending facility rate of the European Central Bank, plus 200 basis points. In addition, interest paid by a Monegasque company to its controlling shareholders (who "in law or in fact" control the company) are not deductible when the aggregate sum of the shareholders' loans exceed equal to 50% of the borrower's share capital (Article 9.1.3° of Ordinance n° 3.152).

Net financial expenses limitations

Limitation to financial expenses allowances applies to loans borrowed from both related and un-related parties (Ordinance n° 7.334 dated 1 February 2019).

(a) General Limitations

Net interest expenses are deductible from the CIT basis up to the highest of (i) 3 M€ per fiscal year (or, if applicable, for the 12-month period) or (ii) 30% of the taxable result, including net interest expenses, amortization and provisions allowances as well as capital gains and losses (« Tax EBITDA »), and before offset of tax losses carried forward.

Excess net interest expenses can be carried forward with no time limitation and are deductible under the same conditions.

The tax deduction capacity that has not been used can also be carried forward over the 5 following fiscal years.

(b) Thin-capitalization limitations

This limitation applies to loans from related entities, when the borrower is deemed thin-capitalized.

Monegasque thin capitalization rules apply to all loans granted to the borrowing company by any related party: affiliation links are deemed to exist between two entities (i) if one entity holds directly or through an interposed

entity the majority of the share capital of the other or exercises de facto the decision power, or (ii) where both entities are under the control of a third entity (e.g. sister companies).

When the average yearly amount of proceeds granted by a related entity exceeds a debt/equity ratio of 1,5:1, the entity is deemed thin-capitalized: net interest expenses accrued on related party loan are deductible up to the highest of (i) 1 M€ per fiscal year (or, if applicable, for the 12-month period) or (ii) 10% of its Tax EBITDA.

Excess net interest expenses can be carried forward for 1/3 of their amount (2/3 are lost) and are deductible under the same conditions, with no time limitations.

The tax deduction capacity that has not been used is however definitely lost.

11. Is there a transfer pricing regime? Is there a "thin capitalization" regime? Is there a "safe harbour" or is it possible to obtain an advance pricing agreement?

Question answered above

12. Is there a general anti-avoidance rule (GAAR) and, if so, how is it enforced by tax authorities (e.g. in negotiations, litigation)?

There is no GAAR in Monaco.

13. Is there a digital services tax? If so, is there an intention to withdraw or amend it once a multilateral solution is in place?

There is no digital services tax in Monaco.

14. Have any of the OECD BEPS recommendations, including the OECD's recent two-pillar solution to address the tax challenges arising from digitalisation of the economy, been implemented or are any planned to be implemented?

Monaco undertook to apply the following 4 BEPS Actions: Actions 5 and 6 on the prevention of harmful practice and tax treaty abuses, Action 13 on transfer pricing documentation and Action 14 on dispute resolution.

In this context, Monaco implemented the following

measures:

- Signature of the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent BEPS which entered into force on 1 May 2019;
- The Sovereign Ordinances n° 6.712 and 6.713 implemented the country- by-country reporting applying to international groups of companies whose turnover on a consolidated basis exceeds 750 M€.

To date, no BEPS recommendations regarding the OECD's recent two pillar solution to address the tax challenges arising from digitalization of the economy have been implemented in Monaco. To our knowledge, no-draft tax legislation has been proposed in this respect.

15. How has the OECD BEPS program impacted tax policies?

Monaco undertook on 17 May 2016 to adopt all the mandatory measures of BEPS and to apply them in a consistently manner.

To date, Monaco is also working on the implementation of Action 5 and continues to implement the other 3 mandatory actions.

Regarding Action 14 on dispute resolution, OCDE has published on January 24, 2022, a report which reflects the outcome of the stage 2 peer monitoring of the implementation of the Action 14 Minimum Standard by Monaco. According to this report, Monaco meets the Action 14 Minimum Standard.

16. Does the tax system broadly follow the OECD Model i.e. does it have taxation of: a) business profits, b) employment income and pensions, c) VAT (or other indirect tax), d) savings income and royalties, e) income from land, f) capital gains, g) stamp and/or capital duties? If so, what are the current rates and how are they applied?

Monaco is pursuing the policy set out by H.S.H. Prince Albert II on transparency and exchanges of information for tax purposes. Like the countries of G20, Monaco has for several years played an active role in international movement to strengthen standards and increase exchange of information between countries.

Monaco's regulations comply with the highest international standards on tax matters in order to secure

its economic development model in an environment of increase of international cooperation.

As regards business profits: Monaco CIT ("impôt sur les bénéfices") is levied at 25 % for financial years starting as from 1 January 2022.

As regards capital gains: As a general rule, capital gains realised by enterprises subject to CIT are taxed to CIT as regular income (Article 8,1 of Ordinance 3.152).

However, the following incentive schemes may apply:

- Capital gains realized upon the sale of fixed assets are exempt from CIT if the company undertakes to reinvest, within a three-year period as from the end of the financial year in which the capital gains were realized, a sum equal to the amount of the capital gains increased by the cost price of the assets sold, in certain qualifying fixed assets (e.g. except for lavish ones). The capital gains reinvested are deducted from the cost price of the new asset in order to compute its depreciation and possible future capital gain from its sale. Finally, this provision can apply to the sale of shares provided they constitute fixed assets (i.e. (i) if they offer full ownership of at least 20% of the capital of an unrelated company, or (ii) if the shareholding is below 20% if they have been held for at least two years as of the sale date) (Article 10 of Ordinance n° 3.152) ;
- Under certain conditions, capital gains realized on goodwill ("fonds de commerce")(tangible and intangible assets) and recorded at the time of the sole trader's death(individual) or at the time of the business' sale or termination, are exempt from CIT provided the business is continued by certain persons including the sole trader's heirs in direct line or surviving spouse (Article 11,1 of Ordinance No. 3,152).
- Capital gains deriving from the sale of fixed assets upon the termination of the business may benefit from the following incentive schemes: (i) only 50% of the capital gains are taxable if such events occur less than five years after the creation or acquisition of the business, and (ii) only 20% of the capital gains are taxable if such events occur after this five year period (Article 11,3 of Ordinance 3.152).
- Capital gains realized by enterprises that are not subject to CIT or by non- resident companies are tax.

As regards employment income

Employers are subject to the following social charges assessed on an employee's monthly gross salary:

- Contribution for sickness benefits, family allowances and the salary guarantee fund at a rate of 14.45%, limited to 9 100 € per month (from October 2022);
- Contribution for pension benefits at a rate of 9.05%, limited to 5 504 € per month (from October 2022);
- Contribution for unemployment benefits at a rate 4.05%, limited to 14 664 € per month (from October 2022).

Moreover, employers must insure their employees against the risks of vocational hazards (Law n°636 of 11 January 1958).

Employee Tax or Contribution: Employees are subject to the following social charges assessed on their gross salary:

- Contribution for pension benefits at a rate of 6.85%, limited to 5 504€ per month (from October 2022);
- Contribution for unemployment benefits at a rate of 2.40%, limited to 14 664 € (from October 2022).

In addition, and as already mentioned, in Monaco, there is no withholding tax on employment income and pensions paid to a non-Monaco and no personal income tax is due for Monaco resident individuals.

As regards royalties: No withholding tax applies to royalties and rent paid to domestic /foreign licensors.

At the level of the licensor, it is reminded that companies whose activity carried out in Monaco consists in receiving income from (i) the sale or licensing of patents, trademarks, manufacturing processes or formulas, or (ii) literary or artistic copyrights, irrespective of whether their turnover is realized in Monaco or abroad, are subject to CIT (see Section 2.1.2).

As regards transfer taxes: In Monaco, transfer taxes are levied on the declared value of real estate property or any associated rights or on its/their fair market value if it is higher. Transfer taxes are due by the purchaser (article 30 of Ordinance of 24 April 1828).

Real estate: Under Law n°580, as amended, the sale of Monegasque real estate properties or associated rights is subject to registration duties amounting to 4.75% (from October 2023, 4.5% before) when the purchaser is either a natural person or a Monegasque civil company ("société

civile") other than public limited company ("société anonyme" or "société en commandite"), the share capital of which is exclusively held by individuals, the identity of which is disclosed to the Monegasque tax authorities and which assets include Monegasque real estate property or any associated rights ("Qualifying Monegasque Civil Company").

Otherwise, a 7.5% tax applies when the purchaser is considered as an "opaque" company (i.e. when the purchaser is a Monegasque or foreign corporation or a non-qualifying civil company) (Articles 12, 1° and 13 bis of Law n° 580 of 29 July 1953). This 7.5% tax is increased to 10% if the purchaser is an "opaque" legal entity whose beneficial owners are not either a natural person or a legal entity who deposited the annual declaration of a change or a non-change in its beneficial ownership at the date of the purchase (Article 16 of Law 580 of 29 July 1953).

The purchaser will also have to pay notary fees at the rate of 1.5%.

In addition, the sale of shares in Qualifying Monegasque Civil Company are subject to a transfer duty amounting to 7.5% computed on the portion of the transfer price (or market value if higher) related to these properties (Article 13 bis, 7° of Law n° 580 of 29 July 1953). This 7.5% transfer duty is reduced to 4.75% (from October 2023, 4.5% before) when the purchaser is either a natural person or a Qualifying Monegasque Civil Company (Article 12, 1° of Law n° 580 of 29 July 1953). This 7.5% transfer duty is increased to 10% when the purchaser is an "opaque" legal entity whose beneficial owners are not either a natural person or a legal entity who deposited the annual declaration of a change or a non-change in its beneficial ownership at the date of the purchase (Article 16 of Law 580 of 29 July 1953).

In any case, the sale of shares in a legal entity other than a Qualifying Monegasque Civil Company, triggering a change of ultimate economic beneficial owner(s), must be disclosed to the Monegasque tax authorities and may give rise to a 4.75% (from October 2023, 4.5% before) duty levied on the full fair market value of Monegasque real estate properties (see below).

Others: Under Law n°1.381, any so-called "opaque" entity owning Monaco based property or real property rights shall appoint a tax representative in order to declare annually a change or a non-change in its beneficial ownership (Qualifying Monegasque Civil Companies are not subject to this filing obligation).

Any change of beneficial owner is subject to a 4.75%

(from October 2023, 4.5% before) duty levied on the full fair market value of the underlying property. By exception, a 50 euros (from October 2023, 10€ before) nominal duty applies if the change of beneficial owner takes place between spouses or between lineal relatives.

As regards real property taxes: There are no real property taxes in Monaco.

As regards taxes on Movable Property:

Transfers for consideration of a going concern ("fonds de commerce") are subject to a 7.5% transfer tax (Article 14 of Law 580 of 29 July 1953).

Transfers of shares are subject to a 1% transfer tax (Article 9, 6° of Law n° 580 of 29 July 1953).

Sales of precious metals are subject to a specific tax amounting to 11% computed on the sale price. Non-resident sellers are exempt (Ordinances n°6.163 of 12 December 1977, n°4.731 of 21 February 2014 and n°6.810 of 22 February 2018 which increased the rate from 10% to 11% as from 1 January 2018).

As regards fixed asset taxes: There are no fixed asset taxes in Monaco.

As regards taxation on income from land: no taxation for individuals (non-French nationals) and subject to CIT for entities subject to this tax in Monaco, subject to the application of the capital gains regime if applicable (see our comments above).

As regards miscellaneous taxes: Not applicable.

As regards VAT: All persons regularly making paying business transactions are subject to VAT.

French and Monegasque territories, including their territorial waters, form a customs union organized by the France-Monaco customs agreement of 18 May 1963. French customs regulations apply directly in Monaco.

Monaco is incorporated into European customs territory (although it remains a third country with regard to the EU). Goods and services in the Single European Market can thus be accessed from Monaco.

17. Is business tax levied on, broadly, the revenue profits of a business computed in accordance with accounting principles?

Taxable income is calculated based on the accounting income, i.e. including operating income, financial income

and extraordinary income such as capital gains, subject to certain book-to-tax adjustments, including tax incentives schemes.

18. Are common business vehicles such as companies, partnerships and trusts recognised as taxable entities or are they tax transparent?

What entities are transparent for tax purposes and why are they used? As previously mentioned in Section 1 above, CIT was introduced in 1963 in Monaco and only the following entities are subject to CIT in Monaco:

- Companies of any legal status that carry out industrial or commercial activities, directly or by interposed person, if at least 25% of the turnover is generated outside Monaco ;
- Companies whose income relates to the sale or licensing of patents, trademarks, processes, or formulas and to royalties from intellectual property rights.

In addition, Administrative offices ("Quartiers généraux") are also subject to CIT, but this tax is applied according to the specific terms relevant to their situations. The CIT is determined by a flat rate, generally equal to a certain percentage of their total annual operating expenses. Generally, Administrative offices are taxed on 8% of the annual operating expenses such as personnel expenses, travel expenses provided they do not carry out any commercial or industrial activity.

The legal form of an enterprise is irrelevant with regards to the application of the CIT. As a consequence, companies whatever their legal form (partnership such as civil companies or limited liability companies such as 'Société Anonyme Monégasque' (SAM) or 'Société à responsabilité limitée' (SARL)) that carry out civil activities will not be in the scope of the CIT. Since there is no personal income tax in Monaco for Monegasque resident individuals (with some specific tax rules for French nationals), the profits made by these 'civil companies' are not taxed in Monaco either at the level of the company itself or at the level of its Monaco resident shareholders.

Such 'civil companies' are used as single family office, for the acquisition of real estate properties located in Monaco and/or in France and for any activity which is not an industrial or a commercial one.

19. Is liability to business taxation based on tax

residence or registration? If so, what are the tests?

Resident companies are subject to CIT on their worldwide income, including capital gains, derived from a commercial or industrial activity carried out in Monaco.

Under Article 1.2 of the Ordinance n°3.152, the corporate tax base of Monegasque companies subject to CIT does not include foreign source income deriving from : (i) a foreign permanent establishment, (ii) a 'complete commercial cycle' outside Monaco and (iii) operations conducted outside Monaco through foreign dependent intermediaries lacking a distinct legal personality which have the authority to conclude contracts in the name of the Monegasque companies.

As previously mentioned in Section 7, Monaco has no legal definition of 'residence' for CIT purposes. However, an enterprise is generally deemed as a Monegasque resident if its head office, its place of effective management or its main establishment is located in Monaco.

20. Are there any favourable taxation regimes for particular areas (e.g. enterprise zones) or sectors (e.g. financial services)?

In Monaco, there is no special tax regime for certain economic zones. To be noted that Holding companies which activity is exclusively confined to participations management are forbidden in Monaco. However, in addition to the special rules for Administrative offices (see our comments above on Section 15), Monaco has the two following categories of tax relief:

Business startup regime

Companies established in Monaco that fall within the scope of CIT that carry out a genuinely new business are exempt from CIT for a two-year period and subsequently benefit from a favorable regime for the following three years, i.e.,

- First and second years: CIT exemption;
- Third year: the CIT is computed on 25% of the taxable income;
- Fourth year: the CIT is computed on 50% of the taxable income;
- Fifth year: the CIT is computed on 75% of the taxable income; and
- As from the sixth year, the CIT is computed on 100% of the taxable income.

Tax credit for research and development

Companies subject to CIT can deduct research and development ("R&D") expenses incurred during the fiscal year.

In addition, they may optionally receive a R&D tax for eligible R&D expenses incurred during the fiscal year. Such R&D tax credit amounts to 30 % for the fraction of the eligible expenses below 100 M€ and 5 % for the fraction exceeding this amount and is capped at 10 M€.

Ordinance no 8.847 of 27 September 2021 introduced a deduction limit and a time limit for the Monegasque R&D tax credit carryover for fiscal years beginning on January 1, 2021.

This R&D tax credit is chargeable against CIT up to half the amount of tax for the fiscal year in which the R&D expenses were incurred and for the 5 subsequent years.

The R&D expenses eligible for this R&D tax credit are notably: depreciation charges on fixed assets other than buildings allocated to carrying out scientific and technical research operations relating to researchers, depreciation, charges on patents acquired for carrying out research operations.

21. Are there any special tax regimes for intellectual property, such as patent box?

There are no specific or incentive tax regime for intellectual property.

22. Is fiscal consolidation permitted? Are groups of companies recognised for tax purposes and, if so, are there any jurisdictional limitations on what can constitute a tax group? Is there a group contribution system or can losses otherwise be relieved across group companies?

There is no group relief available in Monaco for tax purposes. Companies subject to CIT will be taxed individually in accordance with their own taxable result.

23. Are there any withholding taxes?

No there is no withholding tax levied by Monaco on any kind of income.

24. Are there any environmental taxes payable by

businesses?

No there are not such taxes in Monaco.

25. Is dividend income received from resident and/or non-resident companies taxable?

Under the parent-subsidiary regime, dividends received by Monegasque companies from their Monegasque or foreign subsidiaries are exempt from CIT, provided that the recipient holds at least 20% of the share capital of the distributing company for at least 2 years.

The aforementioned exception is only partial, a service charge computed on the gross dividend (net dividend income and foreign tax credits if applicable) being added back to the recipient's taxable income. The rate of this service charge depends on the recipient's holding:

- 20% if, at the date of the payment of the dividend, the recipient holds less than 35% of the share capital of the distributing company;
- 10% if the recipient holds at least 35%; and
- 5% if the recipient holds at least 50%.

Such service charge cannot exceed the aggregate sum of business expenses.

Therefore, any tax paid abroad upon such foreign source dividends (e.g., withholding taxes levied abroad) does not grant a tax credit to be offset against Monegasque CIT.

On the contrary, in case conditions of the parent subsidiary regime are not met, dividends are subject to Monegasque CIT and any tax paid abroad grants a tax credit that can be offset against Monegasque CIT related to such dividends. For the computation of the Monegasque CIT, the amount of the foreign tax

(withholding tax) must be, in such case, added to the gross amount of the dividends.

26. What are the advantages and disadvantages offered by your jurisdiction to an international group seeking to relocate activities?

Monaco warrants a stable and attractive legal and fiscal framework particularly suited to international group, considering notably attractive corporate income tax provisions, the absence of withholding tax applicable to cross-border payments of dividend, interest and royalties and the income tax exemption of directors and employees in Monaco since the Principality does not provide for any individual income tax. Labor law is also rather "liberal". We also note the possibility for Directors of obtaining advantageous social security insurance under inexpensive conditions.

Overall, Monaco benefits from a sophisticated ecosystem and a central location within Europe, a strong political and financial stability, together with efficient and rather accessible authorities (including the tax authorities with the possibility to request 'tax ruling').

From a tax perspective, the main disadvantage results from the rather poor double tax treaty network of Monaco with OECD countries, although Monaco signed a double tax treaty with Luxembourg and Malta providing for favourable provisions in view of eliminating double taxation.

From a legal perspective, main disadvantages include rather burdensome business implementation process considering that the setting up of a business in Monaco is subject to a prior governmental authorization, together with strict regulations in some areas such as immigration law.

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