



ZABALDANO

AVOCATS

## TAXATION IN MONACO



The Principality of Monaco is known for its attractive tax system, both for residents and companies.

The main characteristic of the Monegasque tax system is the **absence of direct taxation** for residents and companies making most of their turnover in Monaco.

# Business Taxation

## *Corporate Income Tax*

### Scope of Corporate Income Tax:

Corporate Income Tax (hereinafter "CIT") was instituted in the Principality by Ordinance n°3.152 of March 19, 1964.

The following are subject to this tax:

- Companies, whatever their legal form, which carry out a commercial or industrial activity and which achieve more than 25% of their turnover outside Monaco;
- Companies whose activity consists in receiving revenues from the assignment or grant of patents, trademarks, processes or formulas and proceeds of copyright..

The legal form of the company is neutral with regard to the CIT. Only the nature of the activity and the location of the transactions determine the subjection to the CIT.

### Determination of taxable profit:

The taxable profit is determined on the basis of the overall result of transactions of all kinds carried out by the undertakings, less all charges.

The deduction of the remuneration of the owner or managers shall, however, be subject to the effectiveness of their work and the non-excessive nature of their remuneration.

### Tax rate:

The CIT rate is 25% for fiscal years beginning on or after January 1, 2022.

### Tax aid:

Companies created in the Principality that fall within the scope of the CIT and develop a genuinely new activity are exempt for a period of two years and benefit from a preferential regime for the following three years.

## *Value added tax and customs regulations*

Value added tax (hereinafter "VAT") is an indirect tax on consumption

### Territorial scope of VAT:

The Franco-Monegasque Customs Convention of 18 May 1963 established a customs union between France, Monaco and the territorial waters separating these two territories. Thus, although the Principality is a State outside the European Union, it is part of the European customs territory in order to ensure the application of the bilateral agreement of 18 May 1963.

### Material scope of VAT:

As in France, in Monaco, supplies of goods and services effected for consideration by a taxable person acting as such, independently, are subject to VAT.

Similarly, transactions outside the material scope of VAT, but expressly designated by law, are subject to VAT on Monegasque territory (self-supply of goods, imports, etc.).

Transactions normally exempt from VAT may become taxable at the option of the person carrying them out (transactions of banking and financial institutions, rental of bare buildings for industrial, commercial or professional use, etc.).

Finally, transactions contributing to the production and delivery of buildings are also taxable in Monaco.

### VAT rates:

VAT is levied on the same basis and at the same rates as on French territory (standard rate of 20% and reduced rates of 10%, 5.5% or 2.10%).

## *Registration and Stamp Duty*

Stamp duty is a tax that a taxpayer must pay for certain formalities, including papers for civil and judicial acts and documents that can be filed in court and relied upon.

Stamp duties are either fixed or according to the size of the paper used.

Registration fees are levied, on the occasion of the formality of registration, on transfers or civil or judicial acts.

The following are subject to registration, with mandatory deadlines:

- Notarial deeds;
- Judicial acts;
- Extrajudicial acts;
- Declarations of succession;
- Certain private deeds to be drawn up in triplicate on stamped paper.

On the other hand, certain acts are exempt from registration fees, in particular (non-exhaustive list) :

- Acts relating to public administration and the general interest;
- Civil status certificates and extracts being issued;
- Mortgage registration and transcription statements;
- Certificates of non-registration for hypothecs issued by the registrar.

Registration fees are either subject to a fixed fee of €10 or at a proportional rate of between 0.5% and 7.5%.

# Individual Taxation

## *Income Tax*

Monegasque residents are not liable for income tax in Monaco.

### French nationals:

Under certain conditions, pursuant to Article 7-1 of the Franco-Monegasque bilateral convention of 18 May 1963, French nationals domiciled in Monaco are subject to income tax in France, in respect of all their income, under the same conditions as if they had their domicile or residence in France.

However, the following remain outside the scope of Article 7-1 of the Tax Convention, and are therefore considered to have their tax domicile outside France:

- French Nationals who took up and maintained their main residence in Monaco before 13 October 1957, i.e. for at least five years on 13 October 1962;
- French Nationals born in Monaco and having constantly resided there since birth, regardless of the date;

Consequently, the above-mentioned persons must prove their situation by producing a certificate of residence issued by the Monegasque authorities or, when they are unable to produce such a certificate, by any other means of proof.

- French Nationals married to a Monegasque person or to a French National who is not covered by this provision ;

The dissolution of the marriage puts an end to this derogation, unless it is caused by the death of the spouse.

- French nationals living in Monaco, who do not personally meet the conditions to be placed outside the scope of article 7-1, but who are married to a person of foreign nationality, other than Monegasque, if their marriage was contracted before 1 January 1986;

- French nationals, belonging to the Sovereign House, regardless of the date of their moving to the Principality;
- French nationals having the status of civil servants, agents and employees of the public services of the Principality who established their domicile or habitual residence in Monaco after 13 October 1957 and before 13 October 1962.

### French nationals who also hold a foreign nationality, other than Monegasque :

Under the joint Franco-Monegasque advisory commissions of 6 and 7 July 1978, 12 July 1991 and 27 May 1993, it was accepted that persons with dual French and foreign nationality, other than Monegasque, may be considered to be domiciled for tax purposes outside France if:

- They do not satisfy any criterion allowing to characterize, within the meaning of French legislation, a tax domicile in France (personal criterion, economic criterion and professional criterion);
- They took up residence or habitual residence in Monaco before 29 December 1995 and have maintained their habitual residence since that installation;
- They had both French and foreign nationality on the date of transport from their domicile or residence in Monaco;
- They have retained the foreign nationality they held when they moved to Monaco;
- They submitted, by 31 December 1995 at the latest, all the documents justifying their situation to the tax authorities.

### Monegasque nationals:

Monegasque nationals domiciled in the Principality are domiciled in that State for tax purposes.

It should be noted that those holding both French and Monegasque nationality are considered to hold Monegasque nationality only.



## *Free transfer duties*

Inheritance or gift tax applies only to assets located in the territory of the Principality or with situs there, regardless of the domicile, residence or nationality of the deceased or the donor.

The level of taxation depends on the degree of kinship between the deceased (or donor) and the heir (or donee):

- Direct line : 0%
- Siblings : 8%
- Uncles, aunts, nieces and nephews : 10%
- Other relatives : 13%
- Non-relatives : 16%

Monaco's tax regime for inheritance and gifts is thus advantageous because it does not provide for any settlement of inheritance or gift tax in a direct line, i.e. between ascendants, descendants or spouses.

Prior to Bill No. 1049, adopted by the National Council on 27 July 2022 and published in the Journal de Monaco on 12 August 2022, the use of a trust under foreign law as a transmission tool prevented the application of this tax regime. Indeed, the concept of "direct line" was interpreted strictly by the Monegasque legislature.

From now on, the exemption from transfer duties free of charge applies to transfers inter vivos or upon death that take place within the framework of a trust under foreign law, subject to compliance with two conditions:

- Transfers concerning assets, rights or proceeds capitalized in Monaco ;
- A direct family link must exist between the grantor and the beneficiary.

## *Wealth, property and housing tax*

There is no wealth, property or housing tax in Monaco.

*ZABALDANO Avocats teams remain at your disposal to answer all your questions.*