



4 Corporate Tax Systems

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4 Corporate Tax Systems

Owning an offshore company is entirely legal and can be a smart financial strategy for individuals and businesses looking to optimize their tax burden. In tax haven countries, corporate taxes can range from zero to low single digits, offering a stark contrast to the high tax rates imposed in many individuals' country of citizenship or domicile. These jurisdictions benefit by attracting significant capital inflows into their banks and financial institutions, which helps to strengthen their economies and build thriving financial sectors.

Globally, there are four main corporate tax systems, each offering unique opportunities for tax savings and business growth. Depending on [where your business is incorporated](#), you can take advantage of various tax breaks, streamlined regulations, and enhanced privacy protections. When deciding where to establish your business, it's crucial to consider how each system aligns with your financial and operational goals.

Some corporate tax systems require you to live outside the jurisdiction in which you incorporate your business, but even when not required, incorporating in a different jurisdiction from where you live or hold [tax residency](#) can offer strategic advantages. By doing so, you can protect your assets, reduce your tax liability, and position your business for long-term growth in a favorable regulatory environment. This strategic decision to plant your business flag in a low-tax or tax-free jurisdiction can unlock significant financial benefits and enhance your [global diversification strategy](#).

The Zero Tax Country



Zero tax countries, also known as tax havens, are countries that have no income tax or very low income tax rates. Some of the benefits of a zero tax system include attracting foreign investment and encouraging economic growth by making the country a more attractive location for businesses. Additionally, it can also attract wealthy individuals and entrepreneurs looking to minimize their tax burden.

However, zero tax systems also have drawbacks. One of the main criticisms is that they can facilitate tax evasion and money laundering by providing a haven for individuals and companies looking to avoid paying taxes in their home country. Additionally, zero tax countries may also have less revenue to fund government services and infrastructure, which can have a negative impact on the overall quality of life in the country.

Some countries choose to implement zero tax systems as a way to attract foreign investment and boost economic growth. In these countries, the government may rely on other forms of revenue, such as tourism or natural resources, to fund government services and infrastructure. Other countries may have a zero tax system as a way to attract wealthy individuals and entrepreneurs looking to minimize their tax burden.

It's worth noting that tax havens are not always the same with zero tax countries, some countries with low tax rate also considered as tax havens due to not having proper regulation to prevent tax evasion and money laundering.

Tax havens like Anguilla, Belize, the British Virgin Islands, Seychelles, Vanuatu, and others all offer what is essentially a flat zero tax.

Some will fall under different categories, but for the most part, zero tax countries are the easiest to identify because the tax rate will simply be zero.

The Low Tax Country



Low tax countries are countries that have lower income tax rates compared to other countries. Some of the benefits of a low tax system include attracting foreign investment and encouraging economic growth by making the country a more attractive location for businesses. Additionally, it can also attract entrepreneurs and wealthy individuals looking for a lower tax burden.

A lower tax system also helps to reduce the compliance cost for businesses and individuals, which makes it easier for them to manage their tax affairs. It also can create a more competitive business environment, which can lead to better products and services for consumers.

However, low tax systems also have drawbacks. One of the main criticisms is that they can lead to lower government revenue, which can make it harder to fund government services and infrastructure. Additionally, low tax countries may also attract companies and individuals looking to avoid paying taxes in their home country, which can lead to tax evasion and money laundering.

Some countries choose to implement low tax systems as a way to attract foreign investment and boost economic growth. In these countries, the government may rely on other forms of revenue, such as tourism or natural resources, to fund government services and infrastructure. Other countries may have a low tax system as a way to attract entrepreneurs and wealthy individuals looking for a lower tax burden. Additionally, some countries use it as a strategy to attract business and investment.

These are countries where the tax rate ranges up to roughly 12.5%. It isn't zero, but you can open your business up to several benefits by paying a small amount of tax, incorporating in a certain market, or qualifying for a tax treaty.

Countries that offer low-tax systems include Bulgaria, Cyprus, Montenegro, North Macedonia, Labuan (in Malaysia), and others. You can significantly reduce your tax burden by incorporating in a low-tax country where the rate is much lower compared to where you are now.

Tax Exempt Countries



Tax exempt countries are countries that provide tax exemptions for certain types of income or activities. These exemptions can be for specific industries, such as tourism or manufacturing, or for specific groups of people, such as expatriates or foreign investors.

Some of the benefits of a tax exemption system include attracting foreign investment and encouraging economic growth by making the country a more attractive location for businesses. Additionally, it can also attract entrepreneurs and wealthy individuals looking for a lower tax burden. Tax exemptions can also be used to promote specific industries or activities that the government wants to encourage, such as renewable energy or research and development.

Tax exemption policies basically create a different tax system for those who are operating outside the country. Hong Kong is a common example of a jurisdiction that grants tax exemptions to qualifying companies. Hong Kong tax rates range from 8.25% to 16.5%, but through the Offshore Profits Exemption Claim system you can follow a certain set of rules to potentially pay as little as zero in taxes on your Hong Kong corporation.

Similarly, if you run a company in Malta as a Maltese citizen, you're going to end up paying a very high corporate tax rate. But if you do not reside in the country, Malta has a system that could potentially reduce your corporate tax rate to as little as 5% or lower.

These are not international business companies (IBC), these are an onshore (or hybrid) jurisdiction where you can get a special deal that is unavailable to those running their business on the ground.

The Deferred Tax System



What exactly is deferred tax? Essentially, the government will allow your company to earn money in their country and pay nothing in taxes until you take the money out. If the money stays in the company and is being reinvested instead of being redistributed to shareholders or sent to other companies, you won't pay taxes.

Deferred tax countries may or may not be low tax countries. In many cases, they are not. Both Georgia and Estonia, for example, have deferred tax policies for offshore companies despite having moderate tax rates of 15% and 20%, respectively. Macedonia, on the other hand, has a low corporate tax rate of 10% and a deferred tax policy.

If you're in a situation where you need to have a business in the European Union and you're growing quickly and turning capital quickly, Estonia could be a good idea. Deferring tax would allow you to keep more money in the business to help it grow.

However, if you're running a cash flow business and just want the ability to take the money out, these countries aren't going to make as much sense. If you are not going to enjoy the benefit of that deferral, Georgia and even Macedonia won't make sense because you could pay a lower tax rate somewhere else. But if you can benefit from the deferral and there are other advantages that merit incorporating in a country with a higher tax rate, then countries like Georgia could make sense for you.

Now that you know the different types of corporate taxes, you can decide which system is best for you, for your company.