Cyprus:

Tackling aggressive tax planning is key to improving the efficiency and fairness of tax systems, as acknowledged in the 2020 euro area recommendation. Spill-over effects of taxpayers' aggressive tax planning strategies call for coordinated national action to complement Union legislation. The economic evidence suggests that Cyprus' tax rules are used for aggressive tax planning purposes. Cyprus has taken steps to address this by implementing international and European initiatives and taking some additional national measures.

However, features of the system such as the absence of withholding taxes on outbound dividend, interest and royalty payments by Cyprus-based companies to third country residents, and the corporate tax residency rules, may continue to facilitate aggressive tax planning. The Notional Interest Deduction scheme needs to be closely monitored. Finally, the 'Scheme for Naturalisation of Investors in Cyprus by Exception' and the 'Residence by Investment Scheme' have been listed by the OECD as having a potentially high risk for being misused.

Step up action to address features of the tax system that facilitate aggressive tax planning by individuals and multinationals. Improve the efficiency and digitalisation of the judicial system and the public sector.

Hungary:

Tackling aggressive tax planning is key to improve the efficiency and fairness of tax systems. Spill-over effects of taxpayers' aggressive tax planning strategies between Member States call for a coordinated action of national policies to complement EU legislation. Hungary has taken measures against aggressive tax planning by implementing previously agreed international and European agreed initiatives, but the absence of withholding taxes in Hungary on outgoing income to offshore financial centres could provide an escape route for profits to leave the EU without paying their fair share of taxes.

While the outgoing income flows such as royalties, interest and dividends towards offshore financial centres were relatively small in 2013-2017, Hungary records volatile and relatively high capital inflows and outflows through special purpose entities suggesting potential vulnerability to aggressive tax planning practices.

Strengthen the tax system against the risk of aggressive tax planning.

Ireland:

Tackling aggressive tax planning is key to improve the efficiency and fairness of tax systems, as acknowledged in the 2020 euro area recommendation. Spillover effects of taxpayers' aggressive tax planning strategies between Member States call for a coordinated action of national policies to complement Union legislation. Ireland has taken steps to address aggressive tax planning practices by implementing international EN 7 EN and European agreed initiatives and taking some additional measures at national level.

However, the high level of royalty and dividend payments as a percentage of GDP suggests that Ireland's tax rules are used by companies that engage in aggressive tax planning, and the effectiveness of the national measures will have to be assessed.

Broadening the tax base would make revenue more resilient to economic fluctuations and idiosyncratic shocks and strengthen the functioning of automatic stabilisers. The high concentration of corporate taxes, with the top ten firms accounting for 45% of corporate taxes, their volatility and potentially transitory nature, along with their rising share in total tax proceeds (record of 18,7% in 2018) underline the risks of relying excessively on these receipts for the financing of permanent current expenditure

Broaden the tax base. Step up action to address features of the tax system that facilitate aggressive tax planning, including on outbound payments. Ensure effective supervision and enforcement of the anti-money laundering framework as regards professionals providing trust and company services.

Luxembourg:

Luxembourg faces significant money laundering risks in view of the high inflows of foreign direct investments and the presence of complex legal structures with foreign sponsors. These risks are reflected in the national risk assessment, particularly in relation to professionals engaged in the provision of services to companies and trusts or investment services.

Weaknesses in the application of the anti-money laundering framework by these professionals result in inadequate risk analyses and a low level of reporting of suspicious activities. The intensity of supervision of these professionals is inadequate to remedy these shortcomings. A national register of beneficial owners has been set up for companies to limit secrecy and identify beneficial owners. The quality of the information provided and the effectiveness of the register needs to be monitored over time.

(21) Tackling aggressive tax planning remains key to improving the efficiency and fairness of tax systems, as acknowledged in the 2020 euro area recommendation. Spillover effects of taxpayers' aggressive tax planning strategies between Member States call for a coordinated action of national policies to complement Union legislation. Luxembourg has taken steps to address aggressive tax planning practices by implementing previously agreed international and European initiatives, but the high level of dividend, interest and royalty payments as a percentage of GDP suggests that the country's tax rules are used by companies that engage in aggressive tax planning.

The majority of foreign direct investment is held by 'special purpose entities'. The absence of withholding taxes on outbound (i.e. from EU residents to third country residents) interest and royalty payments, and the exemption from withholding taxes on dividend payments under certain circumstances, may lead to those payments escaping tax altogether, if they are also not subject to tax in the recipient jurisdiction. Luxembourg has tabled a draft law introducing the non-deductibility of interest and royalty payments to jurisdictions included in the EU list of non-cooperative jurisdictions for tax purposes, in line with its commitment to introduce defensive measures vis-à-vis those jurisdictions.

Malta:

Tackling aggressive tax planning remains key to improve the efficiency and fairness of tax systems. Spillover effects of taxpayers' aggressive tax planning strategies between Member States call for a coordinated action of national policies to complement EU legislation. Malta has taken steps to address aggressive tax planning practices by implementing previously agreed international and European agreed initiatives, but the treatment of resident non-domiciled companies as well as the investor-citizenship and investor-residence schemes, which do not even require an individual to be resident for tax purposes in Malta, pose a risk of double non-taxation for both, companies and individuals.

Complete reforms addressing current shortcomings in institutional capacity and governance to enhance judicial independence. Continue efforts to adequately assess and mitigate money laundering risks and to ensure effective enforcement of the antimoney laundering framework. Step up action to address features of the tax system that facilitate aggressive tax planning by individuals and multinationals.

Netherlands:

Although the Netherlands has taken steps to address aggressive tax planning practices by implementing previously agreed international and European initiatives, the high level of dividend, royalty and interest payments made via the Netherlands suggests that the country's tax rules are used by companies that engage in aggressive tax planning. A large proportion of the foreign direct investment stock is held by 'special purpose entities'.

The absence of withholding taxes on outbound (i.e. from EU residents to third country residents) royalties and interest payments from EU residents to third country residents may lead to those payments escaping tax altogether, if they are also not subject to tax in the recipient jurisdiction.

The newly adopted reform on conditional withholding taxes on royalty, and interest payments in case of abuse or payments to low-tax jurisdictions, which will be implemented as of 1 January 2021, is a positive step towards decreasing aggressive tax planning. The effectiveness of the reform should be monitored closely.

(24) A number of Dutch financial institutions have recently been involved in money laundering affairs. These cases highlight the need, despite recent efforts, to further strengthen the supervision of financial institutions and to investigate and prosecute money laundering cases.

Outside the financial sector, the openness of the Dutch economy to foreign direct investments and the country's complex legal structures also pose significant money laundering risks. The misalignment between the low reporting of unusual transactions by trust and company service providers and tax advisers and their high risk exposure calls for commensurate supervision. Given the extensive presence of complex legal structures, the well-functioning of the beneficial ownership register is key to avoiding the misuse of such entities, but the register has not been set up yet.

Take steps to fully address features of the tax system that facilitate aggressive tax planning in particular on outbound payments, notably by implementing the adopted measures and ensuring its effectiveness. Ensure effective supervision and enforcement of the anti-money laundering framework.