



# Malta's Tax System



# Built Differently

To Make the Difference

With over half a century of dedicated experience, CLA Malta is committed to your financial success. Learn more about our services. We invest time in understanding your unique goals, ensuring personalised strategies to get you where you want to be.



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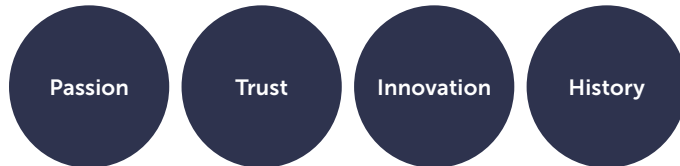
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# CLA Malta

**CLA Malta stands out from the rest. We are built differently and structured to provide innovative and client-first services in taxation, legal advisory, and corporate support to various industries.**

Our philosophy is rooted in creating a collaborative environment where our team and clients prosper, guided by our core values of flexibility, engagement, and dedication.

With half a century of expertise, CLA Malta is dedicated to providing top-tier service, ensuring efficiency, and driving businesses towards success.



We're passionate about staying adaptable and ensuring active participation from everyone to accomplish all goals.

Drawing from our extensive knowledge, we support local businesses' growth and assist international companies in establishing and succeeding in Malta.

At CLA Malta, building your success is not just our priority.  
**It's our passion.**

# CLA Global

**CLA Global Limited (CLA Global)** was founded by CliftonLarsonAllen LLP and Evelyn Partners.

The organisation offers one of the largest financial outsourcing services and private client and wealth advisory platforms of any global accounting organisation. Moreover, it hosts a culture of diversity and inclusion that uses combined strengths as its greatest competitive advantage.

Professionals in its member firms support clients by speaking their language and serving as their eyes and ears from a business, regulatory, and tax perspective — so they can help them cross borders confidently and efficiently.





# Corporate Taxation

**The corporate income tax rate for a company incorporated in Malta is 35%. However, the effective tax rate incurred by a registered foreign shareholder could be lowered significantly if a refund is claimed upon the distribution of dividends (or bonus shares) by such company.**

As from 1 January 2017, the effective tax rate can be reduced further when entities opt (on an annual basis) to deduct a notional amount of interest that is determined with reference to the value of the company's risk capital, which is primarily made up of its equity. This has to be accepted by the shareholders of the company given that in turn they would be deemed to have earned an equivalent amount of notional interest income. In the hands of non-residents, such income would not be chargeable to tax.

The rate of the tax refund which could be claimed by a shareholder could vary due to factors such as:

- the nature of the underlying profits out of which the dividend has been distributed, and
- the application of double taxation relief by the Maltese distributing company on the profits distributed

Generally, a shareholder would become entitled to 6/7ths of the tax due in Malta originally suffered by the Maltese company on the profits being distributed as dividends.

When the dividends being distributed are derived from profits consisting of passive interest or royalties, the refund is reduced to 5/7ths of the tax due in Malta. Distribution of dividends derived from profits which would have been allocated to the Foreign Income Account and in respect of which the company would have claimed double taxation relief, would entitle the shareholder to a 2/3rds refund of the tax due in Malta. A 100% tax refund is also possible upon the distribution of dividends consisting of income derived from particular investment.



# The Two-Tier Structure

A double-tier structure converts the tax refund which would be taxable as other income in all countries into dividends. Although highly convenient for trading situations, such a structure can also be applied to investment, rental, intellectual property and captive insurance operations.

This scenario incorporates a two-tier structure whereby MaltHold (essentially a passive holding company) holds shares in MaltOp (a trading company). By having a two-tier structure in Malta, the 6/7ths tax refund is not received by the foreign shareholder but rather by MaltHold.

This ensures that both the profits originally gained by MaltOp and distributed to MaltHold and the tax refund received by MaltHold will be parked in Malta and not taxable at the shareholders' personal level.

1

The Maltese company raises income from its commercial activities and initially suffers 35% tax on these profits

2

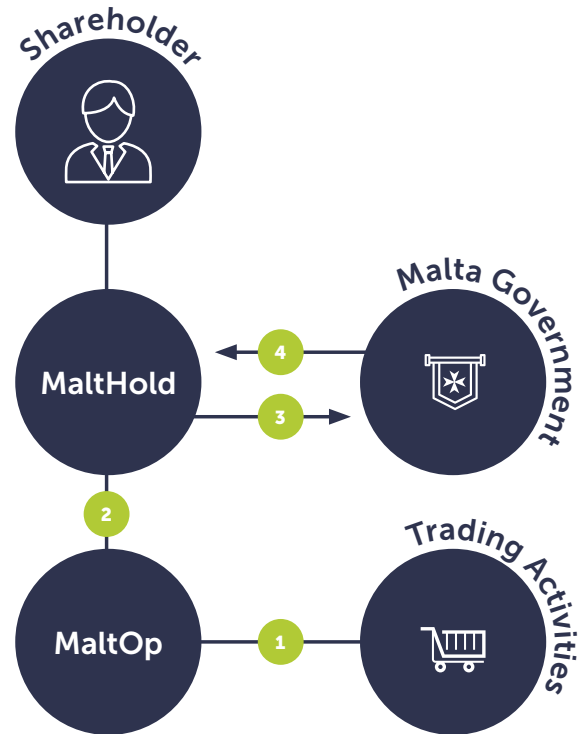
The Maltese company distributes the remaining profits (i.e. the 65%) to the other Maltese corporate shareholder as dividends

3

The shareholder files a claim for tax refund to the Maltese tax authorities requesting a refund on part of the 35% initially suffered either of 6/7ths, 5/7ths, 2/3rds or 100%

4

The Maltese tax authorities are bound to pay the refund within a reasonable timeframe by a bank transfer to the shareholder company in Malta



# Fiscal Consolidations

By virtue of Legal Notice 110 of 2019, Malta has implemented fiscal unity rules, allowing for the first time the establishment of a tax group for Maltese income tax purposes. These rules, entitled 'The Consolidated Group (Income Tax) Rules, 2019' are set to come into force as from year of assessment 2020. Should the standard criteria for the formation of a fiscal entity be met, numerous benefits shall follow, a couple of the main of which include:

- a) The fact the principal taxpayer (i.e. the parent company) will assume all the rights, duties and obligations under the Income Tax Act relative to that fiscal unit. Amongst other aspects, this shall entail that almost all transactions which occur between companies forming part of the fiscal unit will be deemed as if they have not occurred, and the duty to file the income tax return shall fall solely upon the taxpayer.
- b) A cash flow advantage which emerges in respect to the operation of the partial shareholder tax refunds. Through the operation of these rules, a fiscal unit shall pay only the effective tax, which essentially amounts to the difference between the corporate tax payable by the subsidiary and the refunds which may be claimed by its shareholder.

Overall, the establishment of these rules seek to increase the principles of economic efficiency and administrative convenience embraced by the Maltese tax system.

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*Possibility to file a single income tax return for a group of companies.  
A cash flow advantage in respect to the operation of the partial shareholder tax refunds.*

# Dividends and Capital Gains taxed at 0%

**Generally double taxation treaties provide that any gains derived by a Maltese company from the sale of shares in a subsidiary are taxable in Malta. However, the participation exemption regime grants a 100% tax exemption to companies registered in Malta from the taxable income and/or capital gains derived from a participating holding or from the disposal of such holding.**

Quite significantly, the participation exemption regime exempts from tax any dividends derived by a Maltese registered company from a foreign participating holding which is not in the EU list of non-cooperative jurisdictions for Tax purposes. In 2013, the exemption was extended to cover the gains or profits derived from the transfer of holdings in companies and partnerships en commandite, the capital of which is not divided into shares and which are resident in Malta.

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*The Maltese Participation Exemption makes the possibility of a 0% tax rate a reality.*

*Income from foreign permanent establishments is also exempt in Malta.*

The tests which must be satisfied in order for the participation exemption to apply:

1

The dividends or the capital gains must be derived from a participating holding.

A participating holding involves holding of equity shares by a Maltese registered company in a resident / non-resident company in respect of which at least one of the following conditions is satisfied:

- the Maltese registered company owns at least 5% of the equity shares
  - the Maltese registered company has the option to acquire the remaining balance of the equity shares
  - the investment of the Maltese registered company amounts to €1,164,700 or more and is kept for an uninterrupted period of at least 183 days
  - the Maltese registered company is entitled to first refusal in the event of the proposed disposal, redemption or cancellation of the remaining balance of the equity shares
  - the Maltese registered company is entitled to sit on the Board
- or
- the holding of shares by the Maltese registered company is for the furtherance of its business and the shares are not held for trading purposes

Participations in certain types of partnerships may also be deemed to be a 'participating holding'.

2

The second test for the application of the participation exemption in respect of dividend income (not in respect of capital gains) requires the satisfaction of any of the following conditions:

- the participating holding is resident or incorporated in an EU member state
- or
- the participating holding is subject to tax at a rate of at least 15%
- or
- the participating holding has 50% or less of its income derived from passive interest or royalties

If none of the above three conditions are met, then the participation exemption in respect of dividend income applies only as long as the investment in the non-resident company is not held as a portfolio investment and the passive interest or royalties derived by the latter company would have been subject to tax at a rate of at least 5%.

As from 1 January 2021, this no longer applies to dividends derived from a participating holding that is resident in one of the non-cooperative jurisdictions provided in the EU list for a minimum period of 3 months during the year.

This will not apply if it is proved that such holding maintains sufficient significant people functions in that jurisdiction that is adequate and appropriate with the trading activity carried on in that jurisdiction and the income derived therefrom.

# Uses of Maltese Companies

## 1 • Malta Intellectual Property (IP) Company

Maltese IP companies deriving royalty income are subject to numerous tax benefits. Firstly, if the royalty income in question is of an active nature (derived directly or indirectly from trade) this would be subject to an effective corporate tax rate of only 5%. On the other hand, if the royalty income is of a passive nature (not derived directly or indirectly from trade) this would be subject to an effective corporate tax rate ranging between 0% and 10%.

A tax deduction relevant to IP was introduced recently through legal notice 208 of 2019 in favour of patent boxes. The deduction shall be applicable to qualifying income derived from qualifying intellectual property (IP) on or after 1 January 2019. The Maltese legislators' intention behind it is to encourage and attract local research and development (R&D) and motivate businesses to locate IP in Malta.

## 2 • Malta iGaming Company

Besides experiencing an effective corporate tax rate of only 5% (the lowest in Europe), Maltese iGaming and iBetting companies also enjoy very low gaming taxes and license fees. International statistics continuously show that Malta remains the number one iGaming jurisdiction in Europe. Such status was only possible because Malta ensures to offer the right blend between low cost incentives and guaranteeing high EU standard recognition at the same time.

## 3 • Malta Trading Company

Maltese trading companies pay taxation on their world-wide income at an effective corporate tax rate of 5%, which is the lowest in Europe. In addition, Maltese trading companies also experience the following benefits:

- Access to an extensive network of double taxation agreements
- No particular substance requirements
- Trading losses may be transferred between group companies
- Fast company formation process.

## 4 • Malta Shipping Company

The use of Maltese shipping companies for flagging or re-flagging ships or yachts is subject to considerable fiscal and non-fiscal benefits.

As of 1 April 2018, Malta finally re-introduced the Tonnage Tax Scheme, strengthening our tonnage tax principles, whilst also promoting the registration of ships in Malta and Europe. The scheme provides that:

- Any income, profits or gains which derive from shipping activities carried out by a licensed shipping organisation may be exempt from tax, provided that the registration fees and tonnage taxes are duly paid
- A flat rate will be paid in accordance to net tons, where the regime specifies the standard rates applicable
- The inapplicability of the Social Security Act, provided that those involved are operating as officers of employees with a licensed shipping organisation, and are not resident in Malta
- No duty is chargeable with respect to the sale or other transfer of a tonnage tax ship or any share thereof.

## 5 • Malta Aviation Company

The following are among the various fiscal incentives available in this sector one can find that:

- income derived by non-Maltese resident operators from the ownership, leasing or operation of aircrafts or aircraft engines used in international aviation business, such as transport of passengers or goods, will not be taxed in Malta unless such income is actually received in a Maltese bank account. This will apply despite the fact that the aircraft may be registered and/or is operated in/from Malta
- should any Maltese tax be incurred, eventually should any tax be due in Malta, this may be lowered to an effective tax rate of 5%, via our tax refund system
- Malta offers a considerable cash flow advantage by manifesting accelerated tax depreciation rates for the aviation sector (6 years for the aircraft and engines and 4 years for interiors). For aircraft acquired on or after 1 January 2018, the accelerated tax depreciation rates shall be 4 years for the aircraft, engines and interiors.



# Personal Taxation

There are also a substantial amount of benefits, from a private client perspective. Apart from the obvious Mediterranean indulgence; Malta offers highly attractive personal tax schemes. Mainly in the case of non-Maltese nationals, Malta levies no taxation on worldwide income but only on locally sourced income as well as foreign income received in Malta. With effect from 1 January 2018, non-Maltese nationals will be subject to a minimum tax of €5000 annually in Malta. Additionally, one may also benefit from various schemes such as the Global Residence Programme, the Residence Programme, the Highly Qualified Persons Scheme, the Malta Retirement Programme, the Qualifying Employment in Innovation and Creativity Scheme, and the Maritime and Oil and Gas Services Scheme which involves a flat tax rate of 15% on applicable income.

## Malta Double Tax Treaties

Albania	Germany	Lithuania	Singapore
Australia	Greece	Luxembourg	Slovakia
Austria	Guernsey	Malaysia	Slovenia
Azerbaijan	Hong Kong	Mauritius	South Africa
Bahrain	Hungary	Mexico	Spain
Barbados	Iceland	Moldova	Sweden
Belgium	India	Montenegro	Switzerland
Bulgaria	Ireland	Morocco	Syria
Canada	Isle of Man	Netherlands	Tunisia
China	Israel	Norway	Turkey
Croatia	Italy	Pakistan	UAE
Cyprus	Jersey	Poland	United Kingdom
Czech Republic	Jordan	Portugal	United States of America
Denmark	Korea	Qatar	Uruguay
Egypt	Kuwait	Russia	Vietnam
Estonia	Latvia	Romania	
Finland	Lebanon	San Marino	
France	Libya	Saudi Arabia	
Georgia	Liechtenstein	Serbia	

...and others in the pipeline.

# Malta

Malta is an archipelago in the centre of the Mediterranean Sea. It is a nation dotted with historical sites related to a succession of rulers including the Romans, Moors, Knights of Saint John, French and British. It has numerous fortresses, megalithic temples and the Hypogeum dating to circa 4000 B.C.

Malta is the largest island and the cultural, commercial and administrative centre. The island offers plenty of specialist activities both at sea and on land varying from learning English or a new skill, to discovering its history or getting fit. And if this were not enough, Malta's two sister islands, Gozo and Comino, can be a pleasant change-of-scene or alternative destinations in themselves.

Malta is a republic island whose strong ties with the United Kingdom, having formed part of the British colony, is a Member of the Commonwealth of Nations. Malta has been a member of the European Union since 2004 and it later also joined the Eurozone in 2008.



### Currency

Euro



### Capital City

Valletta - UNESCO World Heritage Site & European Capital of Culture for 2018



### Language

Maltese and English



### Climate

Guaranteed 300 days of sunshine



### Accessibility

Direct flights to & from all major cities in Europe & beyond. Mediterranean cruise liners regularly include Valletta as one of the ports on their itinerary



# Malta - An Ideal Destination



Malta's economy is among the **strongest** in Europe with minimal unemployment levels (Moody's, S&P and Fitch) and a **low** company income tax system.



Malta has **NO** real-estate taxes, **NO** inheritance taxes and **NO** taxes on foreign income and gains.



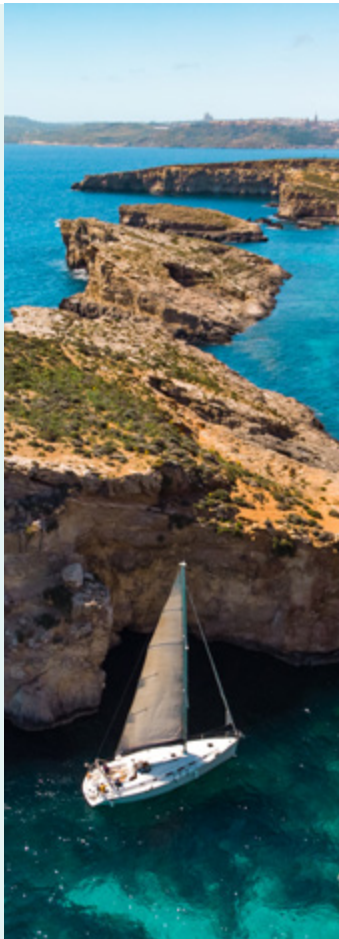
Malta is the **2nd safest country** in the world (UN World Risk Report, 2019)



A **high level** educational system with **international recognition**.



Malta is part of the **EU, Schengen Area, Euro Zone** and **Commonwealth**.



**Top Quality medical services hub in Europe**



**Malta Housing prices up by 5.2% in Q3 of 2022 when compared with Q3 2021**



**Renowned for top Mediterranean cuisine and availability of high level restaurants**



**Possibility of chartering yachts and visiting countries in the Mediterranean**





## Industry Experts



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### Your Success is Our Mission

At CLA Malta, we offer a wide range of services designed to support your financial journey. No matter your needs, we have the expertise to help. Discover all we have to offer and find the right solution for you.



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## Malta

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