



Malta has a rapidly growing financial services sector that rivals some of the most established economies in the world, making it an extremely attractive place to do business.

Malta offers huge incentives to the business community, including those based offshore or overseas, as taxation for businesses is one of the most generous in Europe. Corporate tax is set at a rate of 35% but this can usually be reduced to a rate of 5% or in some situations to 0%. This is down to an efficient tax refund system, where the repayment of a tax refund by the Maltese tax authorities usually takes on average just 14 working days. This provides the shareholders of a company with a higher level of assurance that their dividend income will not be subject to any double taxation.

THE FULL IMPUTATION SYSTEM

Malta utilises the full imputation system of company taxation where corporate profits are taxed to the company at the rate of 35%. However, when dividends are distributed to individuals out of taxed profits, the dividend provides an imputation credit on the tax paid by the company on the profits that have been distributed.

Example: Using a company which makes taxable profits of €1,000, the below steps and tax amounts would be applicable:

Taxable profits of company	1,000
Corporate tax thereon at 35%	350
Profits after tax	650

The company distributes all the post-tax profits to its Shareholder. In this case, where the individual is resident in Malta, the company is obliged in terms of the provisions of the Income Tax Act, to issue a dividend warrant which must contain the following information:

Dividend Warrant

Deemed gross dividend	1,000
Tax at source (imputation credit)	350
Net dividend	650

In Malta the highest tax rate which individuals suffer is also 35%. Should the Shareholder include a dividend on his tax return, the following would be declared:

Tax Return - Maltese Resident

Deemed gross dividend	1,000
Tax charge at 35% (marginal tax rate)	350
Imputation credit	(650)
Tax Payable	0

The imputation credit is put against the tax charge on the dividend in the hands of the individual. This system eliminates the economic double taxation that arises when the classical system is in operation. Under the full imputation system of company taxation, corporate profits are taxed only once.

Under the Malta Income Tax Act, individual shareholders are not obliged to declare dividends received from Maltese companies as the dividend is already covered by the imputation credit of 35%, which is equivalent to the maximum rate of tax that an individual would pay in Malta.

The rates of tax chargeable on an individual's income is progressive, starting at 15% and reaching up to a maximum of 35%. If the Shareholder receiving the dividend is not chargeable at the maximum rate of tax as his income is low, then he will be entitled to a tax refund of the difference between the amount that has been paid and that which should be paid.

THE 2/3RDS TAX REFUND

Maltese income tax provisions provide for a third type of refund, under which the followings conditions apply:

- The company may claim double tax relief;
- The company may claim a Flat Rate Foreign Tax Credit on income arising outside Malta; and
- There are no limitations on the classification income of income allocated to the FTA (or MTA).

Worked Example:

Company Net Foreign Income	EUR	100
Flat rate foreign tax @ 35%	EUR	(35)
Chargeable income	EUR	125
Tax @ 35%	EUR	43.75
Flat Rate Foreign Tax Credit (FRTC)	EUR	(25)
Malta tax due	EUR	18.75

Shareholder:

Malta tax	EUR	18.75
2/3 refund	EUR	(12.50)

THE FULL TAX REFUND

The last type of refund available via the Maltese tax system is a 100% tax refund, under which the following conditions apply:

- Income is derived from a participating holding; and
- There may be applicable anti-abuse provisions.

Worked Example:

Company dividends from Participating Holding	EUR	100
Tax @ 35%	EUR	(35)
Profits after tax	EUR	65

Shareholder:

Net dividend	EUR	65
Tax @ source (35)	EUR	(35)
Gross dividend	EUR	100
Tax on dividend	EUR	35
Full Imputation Credit (35)	EUR	(35)
100% refund	EUR	(35)

In addition, Malta does not impose any withholding taxes on dividends, interest and royalties, and does not have any Transfer Pricing or CFC legislation.

OUR SERVICES

COMPANY FORMATION & ADMINISTRATION | STATUTORY SERVICES | PROVISION OF OFFICERS
BOOKKEEPING & ACCOUNTING | VAT REGISTRATION & ADMINISTRATION

ABOUT SENTIENT

Sentient International is a privately owned group of independent, modern corporate and trust service providers, who between them have a solid track record of over 35 years.

Providing bespoke international business solutions to a broad spectrum of international clients, not only do we offer a wide range of services that are efficient, flexible and cost effective, our team of professionals offer complete in-house expertise as well as experience within a number of industry sectors.

We are committed to providing the highest level of customer care and ensure that the services we provide are delivered professionally, reliably and with complete integrity. We are proud to be more than just a company service provider.

SENTIENT INTERNATIONAL LIMITED

Registered office: Bohemia Business Hub, 148 Independence Avenue, Mosta, MST 9024, Malta
Authorised to act as a Company Service Provider by the Malta Financial Services Authority
Tel: +356 2099 1531 | Email: malta@sentientinternational.com | www.sentientinternational.com