



SENTIENT

TAX IN MALTA

WHY CHOOSE MALTA?

Malta has a rapidly growing financial services sector which 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 of the tax paid by the company on the profits that have been distributed.

Example: Using a company which makes taxable profits of €1,000 lets look at the steps and tax amounts involved:

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 lets use an example 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 declare the dividend in 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, the 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 individuals pay in Malta.

The rates of tax chargeable on individuals 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 which has been paid and the amount which should be paid.

SHAREHOLDERS NOTE RESIDENT IN MALTA

If the dividend is received by an individual who is resident outside of Malta then the tax paid in Malta by the Company is refunded to the Shareholder, directly into his/her bank account by the Inland Revenue Department upon submission of a refund claim. A non-resident shareholder is generally taxable at 5% on income received from dividends distributed by a Malta tax resident company. This means that with the tax credit of 35%, the shareholder will be entitled to a 30% (or 6/7ths) tax refund. There are several different tax refund rates which depend on the nature of the income.

TAX REFUNDS IN MALTA

Malta operates a system of tax accounting whereby profits derived by every company are allocated to one of the following 5 tax accounts:

- Foreign Income Account (FTA)
- Maltese Taxed Account (MTA)
- Untaxed Account (UA)
- Immovable Property Account (IPA)
- Final Taxed Account (FiTA)

A shareholder of a company registered in Malta is entitled to claim certain types of refunds. Tax Refunds may be claimed on income allocated to the Maltese Taxed Account and Foreign Income Account.

No refunds may be claimed on income allocated to the Final Taxed Account and Immovable Property Account.

THE 6/7THS TAX REFUND

For non-resident shareholders to be able to claim a 6/7ths tax refund the following conditions are applicable:

- Company is not entitled to claim double tax relief; and
- Income is not qualified as 'passive interest or royalties'.

Worked Example: Company

	EUR
Company profits before tax	100
Tax @ 35%	(35)
Profits after Tax	65

Shareholder:

Net Dividend	65
Tax @ Source	35
Gross Dividend	100
Tax on Gross Dividends	35
Full Imputation Credit	(35)
6/7 Refund	(35)

THE 5/7THS TAX REFUND

Shareholders who do not qualify for the 30% tax refund may be entitled to the 5/7ths tax refund. The conditions attached to this are:

- Company is not entitled to claim double tax relief; and
- Income is qualified 'passive interest or royalties'.

Worked Example:

	EUR
Company income	100
Tax @ 35%	(35)
Profits after Tax	65

Shareholder:

Net Dividend	65
Tax @ Source	35
Gross Dividend	100
Tax on Gross Dividends	35
Full Imputation Credit	(35)
5/7 Refund	(25)

OUR SENSE. YOUR FUTURE.

THE 2/3RDS TAX REFUND

Maltese income tax provisions provide for a third type of refund, where the followings conditions are applicable:

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

Worked Example:

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

Shareholder:

Malta Tax	18.75
2/3 Refund	(12.50)

FULL REFUND

The last type of refund available via the Maltese Tax system is 100% tax refund. The conditions attached to this refund are:

- Applicable to income derived from a participating holding'; and
- Anti-abuse provisions may apply.

Worked Example:

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

Shareholder:

Net Dividend	65
Tax @ Source	(35)
Gross Dividend	100
Tax on Dividend	35
Full Imputation Credit	(35)
100% Refund	(35)

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

OUR SERVICES

- Trust Establishment and Company Formation
- Statutory Services
- Provision of Officers
- Bookkeeping & Accounting
- VAT Registration, Administration & Compliance

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 corporate and trust service provider.

SENTIENT INTERNATIONAL LIMITED

Registered office: Level 2, Lara Building, Triq Guseppi Calleja, Iklin, IKL 1262, Malta

Registered in Malta, No. C89239. | Directors: P. Murtagh, S. Snow | Licensed by the Malta Financial Services Authority

Tel: +356 1624 2099 1531 | Email: info@sentientinternational.com | www.sentientinternational.com