



AN OVERVIEW OF MALTA'S TAX SYSTEM

Malta's tax system is designed to:

- o promote international investment in Malta;
- o support actively the development of financial services in Malta
- o ensure that company profits are not taxed twice - i.e. at company and again at shareholder level.

Under Malta's tax system, a company is considered resident if it is incorporated in Malta or, in the case of a foreign body of persons, if its control and management are exercised in Malta. Malta has a full imputation system which guarantees that company profits are not taxed twice.

The tax paid by the companies or branches is treated as an Advanced Company Income Tax (ACIT) paid on behalf of the shareholders.

All companies pay 35% on chargeable income; however tax paid by the company is then imputed to the shareholder in the event of a dividend distribution. As Malta operates a full imputation system, there is no withholding tax on dividends.

Upon distribution of dividends, shareholders will be entitled to a refund of a part or whole of the tax paid by the company on the profits out of which the dividends were paid.

The amount of the tax refund is set at 30% of the tax paid by the company (25 % in the case of passive interest and royalties). This refund will be reduced where the distributing company would have claimed double taxation relief.

The resident shareholder will be taxable for the total amount of net dividend and refund received. The non-resident shareholder is not taxed in Malta.

When dividends received from a participating holding are distributed by a Maltese company to its shareholders such shareholders are entitled to claim a refund of 100% of the tax paid on the distributed profits.

With regard to acquisitions of participating holdings made on or after 1 January 2007, where the non resident company, having mainly passive income, is not resident or incorporated in an EU Member State or is subject to tax at a rate which is less than 15%, the following additional conditions must be satisfied:

- o The shares in the non-resident company must not be held as a portfolio investment; and
- o The non-resident company or its passive income must have been subject to tax at a rate which is not less than 5%.



Resident individual shareholders will be subject to Malta tax on the dividend and tax refund while non-resident shareholders and resident corporate shareholders in receipt of the dividend and tax refund will not be subject to tax thereon.

As from 1 January, 2007 a participation exemption has also been introduced. This exempts dividends derived from participating holdings and gains derived from the disposal of such holdings. The participation exemption is also subject to the anti-abuse provisions described above for participating holdings. Where the participation exemption applies obviously the refund system in respect of participating holdings will not apply.

If the conditions to qualify as a participating holding or for the participation exemption to apply are not met the normal general tax system including the normal tax refunds will be applicable.