

MALTA TAX REFORM

EMEIA Malta Conference 29th June 2007
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Tax Amendments

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- New tax amendments to phase out the International Trading Company (ITC) regime
- New tax regime does not apply to companies in existence as at 31st December 2006 until after 31st December 2010.
- Opt out mechanism permitted for companies registered under the old regime

Branches

- A company in Malta shall mean: (a) a company which is resident in Malta or (b) a non resident company which carries out trading activity in Malta which is registered with the Commissioner of Inland Revenue
- No differentiation between a branch of a non resident company and a resident company for Malta Income Tax purposes
- Audited accounts required for branches operating in Malta

Trading Activities

- The term 'trading' is interpreted in a wide manner to include the purchase and sale of goods and merchandise and the provision of all services
- A Malta registered company can act as a holding and trading company with no negative tax consequences
- Three or more tier Malta companies are possible
- ITC's operating under the old regime could not trade with Maltese residents
- Under the new regime no restriction exists and companies can also carry out trading activities with Maltese residents

Full Imputation System

- Under the new tax regime Malta has maintained its full imputation system
- This essentially avoids the double taxation of company profits
- How does the system work?

Imputation Mechanism

- Malta registered companies or branches of non resident companies are subject to pay tax on their net profits
- The tax paid by the companies or branches is treated as an Advanced Company Income Tax (ACIT) paid on behalf of the shareholders
- Tax is borne at shareholders' level

Refunds

- Malta registered companies or branches of non resident companies pay ACIT at the rate of 35% on the net distributable profit
- Shareholders may benefit from partial refund of tax
- Normal refund due to shareholder is 6/7ths of the ACIT paid

Other Refund Rates

- Tax refund re passive interest or royalties amounts to 5/7ths of the ACIT paid
- Interest or royalties derived from trade business e.g. treasury operations still qualify for the full 6/7ths refund
- When the shareholder claims any type of double taxation relief a 2/3rd refund of the ACIT is given calculated on Malta tax paid gross of foreign tax

Worked Example

- The example is based on a 6/7ths refund

	€
Net profit	100,000
ACIT due	35,000
Refund due to shareholder	30,000
Effective tax paid after refund	5,000
Effective tax rate paid	5%

Participating Holding

- Income received by a resident company from a participating holding or from gains derived from disposal of such holding is tax exempt
- Since the income above qualifies for a participation exemption it may be excluded from the tax return as no tax is due
- If the company elects to report such income in the tax return the shareholders will be entitled to a full refund of the ACIT

Summary

- A Malta registered company can act as a holding and trading company with no negative tax consequences
- A branch of a non resident company carrying on activities in Malta will be treated in the same way as a resident company
- Full participation exemption whilst continuing to give 100% tax refunds in case of participating holding

Summary

- Three or more tier Malta companies are now possible
- Flat rate foreign tax credit still available
- No withholding tax on outbound dividends, interest or royalties
- Full imputation system maintained

EU Compliant

- Malta's new tax regime is EU compliant and in line with the EU Vat system
- The amendments have retained the tax advantages in relation to non resident shareholders
- Malta registered companies and branches of foreign companies are an attractive vehicle for trading with the European Union

Other Advantages

- Other advantages Malta offers:
 - Low operating costs
 - Availability of suitably skilled workforce
 - Well regulated
- Malta's regulatory framework and company law are based entirely on EU Law and directives

Thank You
for your
Attention