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The Maltese tax system

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Corporate income tax

A company incorporated and tax resident in Malta is subject to tax on its worldwide income at the standard corporate tax rate of 35%.

Accounting profits or losses, as the case may be, are the starting point for determining taxable profits or tax allowable losses. Accounting profits are adjusted by adding back certain disallowable expenditure, such as accounting depreciation and unrealized losses, and deducting non-taxable income such as unrealized profits, and wear and tear allowances (tax depreciation) on tangible assets.

Maltese tax legislation provides that in ascertaining profits subject to tax, a person carrying on an active business is entitled to deduct all outgoings and expenses incurred to the extent that such outgoings and expenses are wholly and exclusively incurred in the production of the income.

Furthermore, Malta introduced the notional interest deduction (NID) provisions whereby a company or a permanent establishment of a foreign company resident in Malta is entitled to deduct from its chargeable income a deemed interest expense on the capital invested.

The deduction is optional and subject to the approval of all shareholders.

Tax refund system

A shareholder in receipt of a dividend paid by a Malta company out of its taxed profits is entitled to claim a tax refund amounting to 5/7, 6/7 or 2/3, as the case may be, of the tax paid by the company on its profits out of which the dividend is paid.

Thus, when a dividend is paid out of taxed profits of a trading company and provided also that the shareholder of the Maltese company is registered with the tax department for the purposes of claiming the tax refund, the shareholder will be eligible to claim a refund of 6/7 of the tax paid by the Maltese company out of which the dividend is paid.

When the dividend is sourced out of passive interest and royalties, the refund is reduced to 5/7 of the tax paid.

Furthermore, when the dividend is sourced from passive income, or, out of profits on which double taxation relief was claimed, the refund would be 2/3 of the tax paid. This reduces the effective corporate tax rate to between 5% to 10% as the case may be. In some cases, when the NID is claimed, the effective corporate tax rate could be even lower than 5%.

A dividend does not need to be actually paid since when an accounting entry is made whereby retained profits are transferred to an account payable to the shareholder, it is deemed that the dividend has been paid.

Provided that the beneficial owners of the company are persons who are not resident and not domiciled in Malta, the setting up of a two-tier structure in Malta could be advantageous in case where the management wants to re-invest the profits without triggering taxation on dividend received in any other State.

National Interest Deduction (NID)

Legal Notice 38 of 2018 ("NID Rules") enables a Maltese resident company to deduct from its chargeable income interest on risk capital at a rate established by reference to the current yield to maturity on Malta Government Stocks with a remaining term of approximately 20 years plus a premium of 5% (the "Rate Reference").

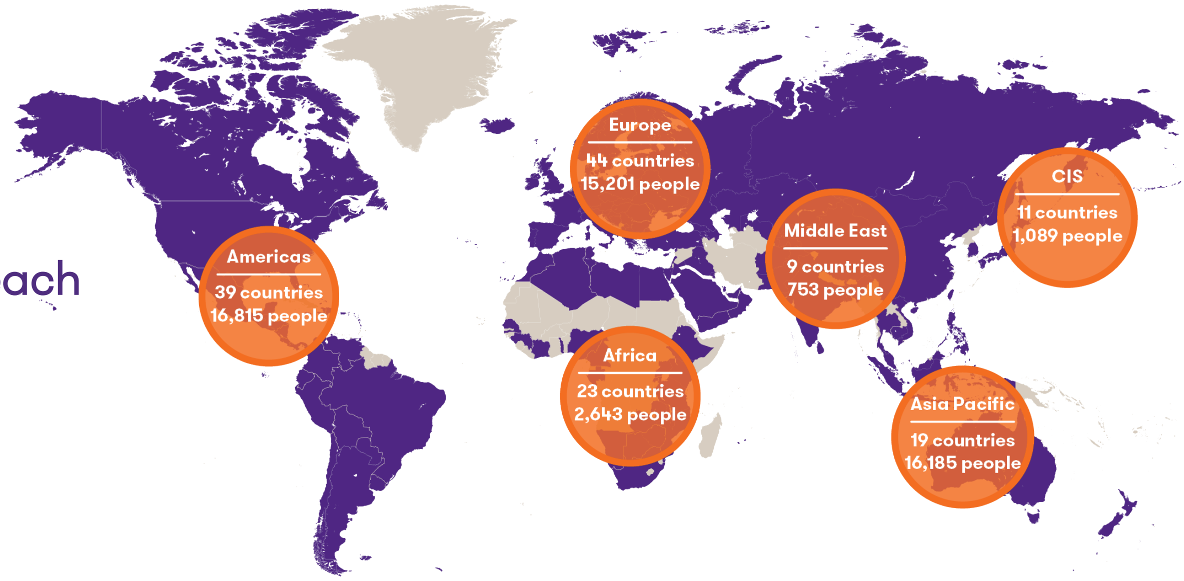
This NID is capped at a maximum of 90% of the chargeable income with the excess being available to carry forward indefinitely and deductible in subsequent years.

The definition of risk capital is rather complex but can be summarized as being composed of share capital, share premium, positive retained earnings, interest free loans, positive contributions and other positive balances which are shown as equity less any risk capital directly employed in the form of securities, interest in a partnership, contributions and any other interest free loan ("Risk Capital") held in or provided to other persons, unless such invested risk capital is not employed in producing exempted income.

The deemed interest that a Maltese resident company will be entitled to claim is calculated as follow:

Y = Rate Reference x Risk Capital
The current Rate Reference is 6.95%.

A global reach



We discover what is important to you and make it important to us

Our culture is built on a genuine interest in our clients – their challenges, growth ambitions and wider commercial context. You get the attention you deserve from approachable, senior professionals who ask the right questions, listen and provide real insight and a clear point of view.

The bottom line

- A relationship-led approach with more time and attention from partners and senior advisers
- A deeper understanding of your business for more meaningful advice and recommendations.

Agile and responsive service

Our size and structure creates advantages for you. We adopt a flatter structure, with shorter decision making chains, empowered teams and no complex chain of command. We have all the necessary processes and controls in a streamlined, efficient and responsive environment.

The bottom line

- A faster response when you need quick answers and clarity
- Anticipating the answers you will need before you ask.

Pragmatic solutions to help you improve and grow

Our teams bring ideas to the table, going beyond the technical issues to recommend ways to make your business better. We balance a desire to do what's best for you in the future with an experienced sense of what is going to help you now.

The bottom line

- Helping you think ahead and think more broadly
- Proactively identifying opportunities for improvement and growth

Collaborative teams with a different mindset

Our people are open, accessible and easy to work with. We work through the issues alongside you and challenge your ideas where necessary, whilst keeping an independent perspective. Our collaborative style also enables us to assemble teams across service lines, industries and geographies to tailor our capabilities to your requirements.

The bottom line

- Teams and solutions built around your needs not our structures
- A better working relationship with you and your team

Our distinctive client experience sets us apart

USD5.45bn (2018 revenue)

53,000 people

700+ offices

135+ countries

Key contact

Related expert

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Austin joined the firm in 1982 and was initially mainly involved on audits in Malta. He later underwent training at the Milan office of the then Deloitte Haskins and Sells for 15 months following which he resumed his duties in the Malta office. He was admitted partner at Grant Thornton Malta in 1993 and is currently Head of Tax Services.

During the past 20 years Austin has taken up further studies and specialised in the local and international taxation and in the financial services sector. He was appointed Tax Partner in 1995.

Apart from being in charge of the local tax and VAT services, Austin is also responsible for services given to foreign owned companies setting up businesses in Malta, and has provided tax advice to international clients involved in cross border business ventures.

Austin is a Fellow of The Chartered Association of Certified Accountants, a Fellow of the Malta Institute of Accountants and holds a Practicing Certificate in Auditing. He is currently a member of the Tax Experts Group within Finance, as well as a member of the Direct Tax Committee of the Malta Institute of Accountants, and of the Council of the Institute of Financial Services Practitioners. Austin regularly attends tax conferences organized by Grant Thornton International, and is a customary speaker at local conferences related to VAT and tax matters, including those organised by the Malta Institute of Management and the Malta Institute of Accountants.

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