

Key Facts Trading Companies

An Overview of the Malta Company Tax System

- A large number of international clients have established companies undertaking trading operations to benefit from Malta's advantageous tax regime.
- Although the standard rate of corporate tax is 35%, the availability of refunds to shareholders of the tax paid by the company helps reduce the Maltese tax leakage to between 0% and 5%, in most cases.
- Refunds to shareholders are paid by the Malta tax authorities only within 14 days of a valid refunds claim being made.
- Maltese companies are considered to be resident and domiciled in Malta and therefore taxed on their worldwide profits. However, companies which are incorporated outside Malta but managed and controlled in Malta are considered resident but not domiciled in Malta and therefore taxed on a remittance basis.

Trading activities & profits

- Trading profits derived by Maltese resident companies are allocated to the Maltese Taxed Account and these include profits derived from trading activities such as the provision of finance, leasing, Intellectual Property, managing the

logistics of a company's exports, gaming operations, investment trading, asset management, back-office operations, consultancy services.

- A refund of 6/7ths of the tax suffered by the company of 35% is claimable by the shareholders of the company and therefore results in a 5% effective tax leakage.

Below is a numerical example which illustrates the mechanics of the 6/7ths tax refund (assuming that all expenses incurred by the company are deductible for tax purposes).

Company	EUR
Profits generated from trading operations	1,000
Chargeable income	1,000
Tax at 35%	350
Malta tax payable	350
Shareholder	
Refund on distribution (6/7ths of gross tax)	300
Effective tax leakage	50
Effective rate of tax on net income	5%

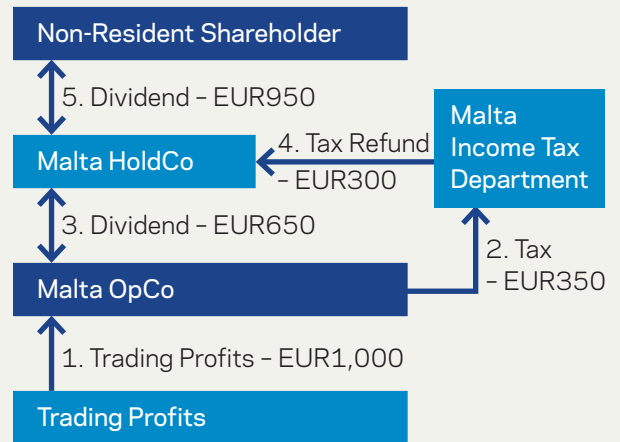
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The Use Of Holding Companies with Trading Companies

In multiple layers of Malta companies, refunds of tax are given to the second tier company, i.e. the Malta holding company. This may have advantages by converting refunds into dividends and avoids the need to repatriate profits outside Malta just to trigger off a refund claim.

The use of a Maltese Holding Company in the structure can be illustrated by the structure depicted to the right.

- Foreign company/ non-resident individual shareholder owns 100% of Malta HoldCo which in turn owns 100% of Malta OpCo.
- 1. Malta OpCo receives trading profits of EUR1,000.
- 2. Malta OpCo suffers Malta tax at 35% amounting to EUR350.
- 3. Malta OpCo distributes a dividend of EUR650 to Malta Hold Co. Malta HoldCo pays no further tax on dividend received from Malta OpC
- 4. Malta HoldCo is entitled to a 6/7ths refund of the Malta tax paid by Malta OpCo on distributed profits and receives EUR300 from the Maltese tax authorities within 14 days from the payment of the tax liability.
- 5. The non-resident shareholder can receive a dividend of EUR950 from Malta HoldCo which means that the Malta tax burden on the trading profits arising in Malta OpCo is only 5%. No withholding tax applies at any level in the structure upon the upstreaming of dividends.



Tax Refunds

Some principles regarding the treatment and settlement of tax refunds are set out below:

- Not taxable in Malta in the hands of the recipient
- Are paid on presentation of an appropriate dividend warrant as long as shareholder has been registered as required by law
- Are refunded not later than 14 days after the distributing company's tax liability for the year is paid
- Are paid in the same currency in which the relative profits were charged to tax



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The Benefits of a Maltese Company

- Ease of incorporation (in most cases between 24-48 hours)
- Low minimum capital requirements (minimum of EUR1,165 with 20% being paid-up)
- No corporate tax on holding companies in respect of dividends and gains derived from underlying entities qualifying as participating holdings
- No withholding taxes on dividends, interest and royalties paid out of the Company to non-residents
- Capital gains on the transfers of shares in a Maltese company by non-resident shareholders are normally exempt
- No thin capitalisation rules
- A very flexible transfer pricing regime
- No CFC legislation
- No stamp duty is payable on the issuance of shares upon incorporation. Stamp duty payable upon the issuance of further shares or share transfers in companies held by non-residents can also be exempt subject to certain conditions being met.
- Extensive use of Malta's double tax treaty network spanning across 60 countries
- As an EU member, the application of provisions in the Parent-Subsidiary Directive and Interest & Royalties Directive result in further tax planning opportunities for a Malta Company
- Low registration and low annual return fees. These vary with the authorised share capital and range from EUR245-EUR2,250 for registration fees (non-recurring) and EUR100-EUR1,400 for annual return fees.
- Possibility of redomiciling companies to and from Malta and no entry/exit taxes arising from these redomiciliations
- No exchange controls
- Tax losses can be carried forward indefinitely

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