



Malta – New Income Tax Provisions Infosheet

Recent amendments to the Income Tax Act, and other legislation has brought the taxation of companies incorporated after the 1 January 2007, in compliance with the EU regulations.

Malta, as an EU member state, was criticised on its use of International Trading Companies (ITC) and International Holding Companies (IHC) as these constituted unfair competition and distinguished between resident shareholders and non-resident shareholders, when the question of tax refunds arose.

ITC and IHC companies were stopped being registered by the Registrar of Companies at the Malta Financial Services Authority (MFSA) on the 31 December 2006.

The new income tax amendments were negotiated with, and approved by the EU.

Under the new amendments, a number of definitions were amended and new definitions were introduced.

Two significant new definitions are “participating holding” and “passive income”

In certain cases the income received from “participating holding” is tax exempt. This feature will surely help in the cash flow of holding companies.

Tax refunds were extended in the “trading”, “non-participating holding” and “passive income” areas.

Certain conditions and anti abuse provisions apply.

A table summary is shown hereunder

Source of income	Corporate Tax Paid	Refund of tax to shareholders	Effective tax
Dividend income from holding activities with participating holding in subsidiary	nil	nil	zero
Capital gains accruing from the disposal of a participating holding	nil	nil	zero
Dividend income from holding activities without participating holding in subsidiary or other company income not falling within any other category	35%	6/7ths of corporate tax paid	5%
Trading income	35%	6/7ths of corporate tax paid	5%
Passive income (interest, royalties etc)	35%	5/7ths of corporate tax paid	10%



A short worked example having an income of 1000 Euros from the different sources

Source of income:	Profit	Tax paid	Distribution to share holders	(net of tax)
a) dividend from participating holding or capital gain from disposal of same	250.00	NIL (exempt)	250.00	NIL (exempt)
b) dividend from non-participating holding	250.00	87.50	162.50	75.00
c) trading income	250.00	87.50	162.50	75.00
d) passive income	250.00	87.50	162.50	62.50
Totals	1000.00	262.50	737.50	212.50
Effective dividend and tax received by shareholders			737.50	212.50
Effective receipt in total by shareholder			950.00	
Effective tax rate			5%	

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