

## FACT SHEET 4 – DOUBLE TAX RELIEF

Malta does not impose any withholding tax on outgoing dividends, interest and royalties irrespective of the recipient's tax residence and status. However, income received from foreign sources may be subject to a withholding tax and suffer other foreign taxes. Malta offers three main types of double taxation relief to ensure that any double taxation is mitigated as much as is possible.

Apart from the relief under Malta's network of treaties, Malta also gives relief for any double taxation on a unilateral basis and allows a flat rate foreign tax credit on foreign source income and capital gains.

### Double Taxation Agreements

Malta has a large number of double taxation agreements (vide Table 1), most of which are based on the OCED model convention.

The maximum reduced withholding tax rates on dividends, interest and royalties paid to residents of Malta are as indicated in the table overleaf. Since Malta is an EU member state, the Parent Subsidiary Directive and the Interest and Royalties Directive may also apply and rates may be reduced further.

### Unilateral Relief

Malta allows relief from double taxation on a unilateral basis where overseas tax is suffered on income received from a country which does not have a treaty with Malta, irrespective of whether that income is remitted to Malta or otherwise. The overseas tax suffered, limited to the Malta tax charge on the income, is allowed as a credit against tax chargeable in Malta.

### Flat Rate Foreign Tax Credit

The Flat Rate Foreign Tax Credit (FRFTC) is available to a Malta company that generates income or capital gains overseas and is not in a position to provide evidence to the satisfaction of the Commissioner of Inland Revenue of the overseas tax. A certificate from the external auditor stating that the income arose from overseas will be sufficient for this purpose.

In such cases, the Flat Rate Foreign Tax Credit is calculated at 25% of the overseas income or gain received in Malta. The income plus the deemed tax is subject to Malta corporate tax with relief given for the deemed credit. This is demonstrated in Table 1 hereunder.

TABLE 1:	Euro
Net foreign income	900
Flat rate foreign tax credit (25%) ( <i>deemed tax</i> )	<u>225</u>
Grossed-up income	1,125
Allowable expenses (example)	<u>(125)</u>
Net foreign income (net of expenses)	1,000
Maltese tax at 35%	350
Less credit for deemed tax (FRFTC – max. 85% of Maltese tax)	<u>(225)</u>
Net Malta tax payable ( <i>by virtue of the operation of the Flat Rate Foreign Tax Credit - FRFTC</i> )	150
Tax payable in Malta ( <i>expressed as a percentage of income</i> )*	<b>16.67%</b>

\* Without any deductible expenses the effective tax will be 18.75%. Nonetheless upon distribution of profits tax credits and refunds may apply reducing the net effective tax to 6.25% or even lower.

**TABLE 2:**



**DOUBLE TAX TREATIES CURRENTLY IN FORCE WITH MALTA**

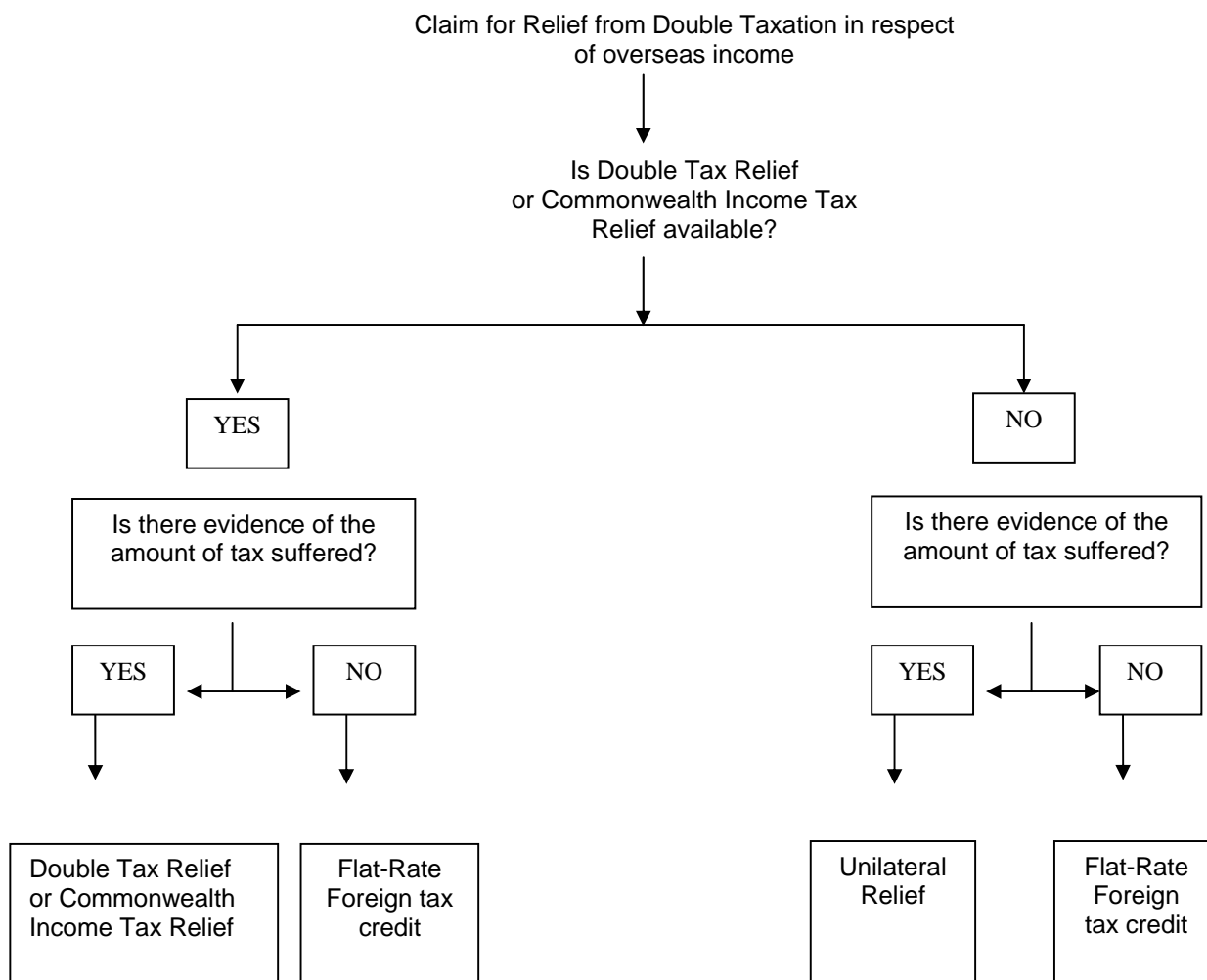
1	Albania	25	Lebanon		
2	<b>Australia</b>	26	<b>Libya</b>	49	United Arab Emirates
3	Austria	27	Lithuania	49	<b>United Kingdom</b>
4	Barbados	28	<b>Luxembourg</b>	50	<b>United States of America</b>
5	Belgium	29	Malaysia	51	Montenegro
6	Bulgaria	30	Morocco	52	Ireland
7	Canada	31	Netherlands	53	Greece
8	China	32	Norway		
9	Croatia	33	Pakistan		
10	Cyprus	34	Poland		
11	Czech Republic	35	Portugal		
12	Denmark	36	Qatar		
13	Egypt	37	Romania		
14	Estonia	38	San Marino		
15	Finland	39	Serbia		
16	France	40	<b>Singapore</b>		
17	<b>Germany</b>	41	Slovakia		
18	Hungary	42	Slovenia		
19	Iceland	43	South Africa		
20	<b>India</b>	44	Spain		
21	Italy	45	Sweden		
22	Korea	46	<b>Switzerland *</b>		
23	Kuwait	47	Syria		
24	Latvia	48	Tunisia		

In addition, Malta is also in the process of finalizing a number of other agreements with other countries including the following:-

1	Ukraine	4	Russia
2	Turkey	5	Thailand
3	Jordan		

**TABLE 4:**

**Interaction of the four relief options of double taxation**



The information contained in this fact sheet has been prepared by Busuttil & Micallef – Certified Public Accountants · Tax Consultants, Malta. It is of a general nature and is not intended to address particular circumstances of an individual or entity. The fact sheet is intended to provide the reader with an overview of the tax planning and other opportunities in Malta. This information is also subject to any changes that may occur to the relevant legislation.

No one should act upon this information without obtaining appropriate professional advice.