

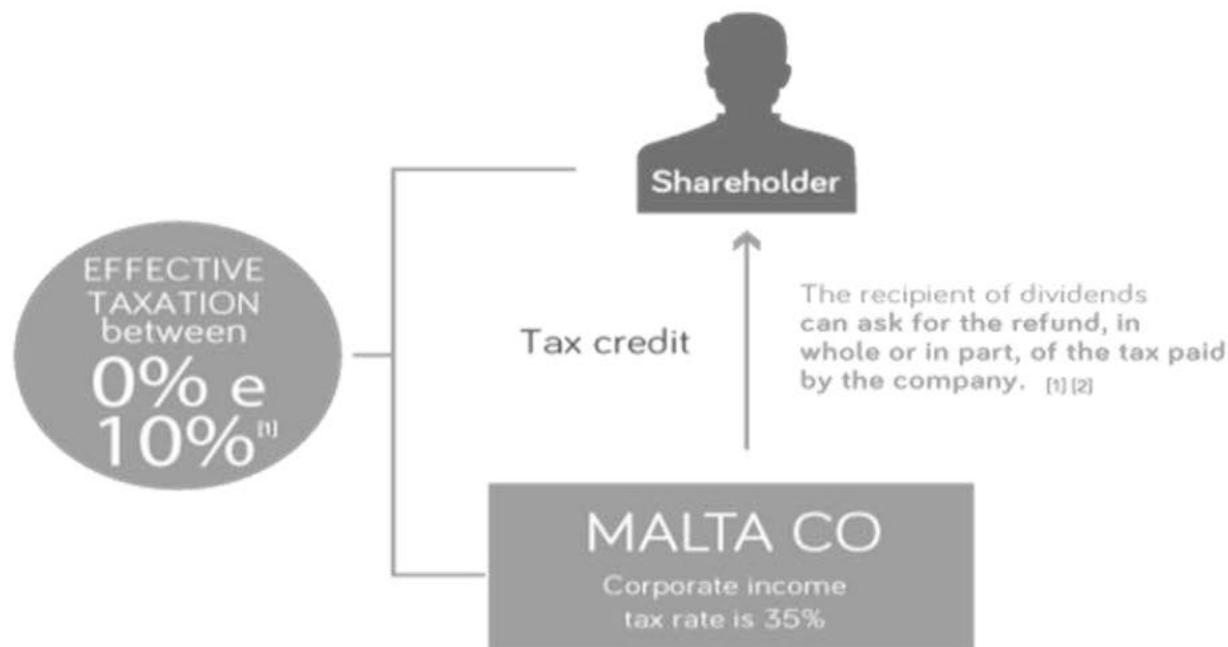
Trading companies in Malta

International sourcing

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Companies in Malta

Tax regime: A summary



(1) The amount of the refund depends on the nature of the distributed profits and if these have benefited, or not, from any double tax relief

(2) Subject to certain conditions

Companies in Malta

Tax regime: A summary

A business operation as expected for Candando would require the incorporation of two companies:

- A Maltese holding company
- A Maltese trading company wholly owned by the Maltese holding company
- Even though Malta does not have transfer-pricing rules, these would have to be followed to avoid exposure to taxation for the UBOs (Ultimate Beneficial Owners) for tax avoidance
- If all or most business risks (such as country, currency, collection and collection-delay risks) are transferred to the Maltese trading company, a high margin in Malta is highly justifiable
- Ultimately, a 5% effective taxation could be achieved in Malta and, with proper structuring, dividends from the Maltese holding company could be distributed to the UBOs with no withholding tax
- The same basic structure can also be used as a holding and for financing and intellectual property activities

Companies in Malta

Tax regime: Effective tax rates for active income

Company	
Profit before tax	100,000
Tax paid in Malta (35%)	35,000
Shareholder	
Dividends received	65,000
Refund of taxes paid in Malta	6/7
Refund to shareholder	30,000
Taxes	
Tax actually paid in Malta	5,000
Effective Maltese tax rate	5%

Companies in Malta

Tax regime: Effective tax rates for passive income

Type of income	Tax refund	Effective Maltese tax
Passive interest and royalties	5/7	10%
Passive income subject to double tax relief mechanism	2/3	0% to 6.25%
Dividends from participating holdings	100%	0%

Companies in Malta

Participation exemption

Taxation exemption of dividends and capital gains of participating holding (PH):

- a) The shareholding has a 10% holding and a right to at least 10% of 2 of the following:
 - Voting rights
 - Right to profits available for distribution
 - Right to the assets available for distributed on liquidation; or
- b) The shareholding has a value of, at least, € 1,164 M on purchase date and has been held for a continuous period of, at least, 183 days; or
- c) Malta HoldCo has an option to buy the entirety of the outstanding shares of the foreign company; or
- d) Malta HoldCo has powers to appoint one member of the board of directors of the subsidiary; or
- e) Malta HoldCo has a right of first refusal in the case of sale, redemption or cancellation of the outstanding subsidiary's shares; or
- f) Malta HoldCo holds a shareholding for the development of its own business and not only as stock for resale purposes.

Companies in Malta

Participation exemption

Only in the case of dividends, the non-resident participated company also has to comply with at least one of the following anti-avoidance conditions:

- a) to be resident or incorporated in the EU; or
- b) to be subject to, at least, a 15% foreign tax; or
- c) more than 50% of its income does not result from passive interest or royalties

If none of these three conditions is met, the following conditions have to be cumulatively met:

- a) the holding by Malta HoldCo is not a portfolio investment and the non-resident participated company does not have more than 50% of its income derived from portfolio investment; and
- b) the non-resident participated company or its passive interest and royalties have been subject to, at least, 5% foreign tax.

Companies in Malta

Mechanisms to avoid double taxation

Malta caters for three mechanisms to eliminate double taxation applicable to income that has been taxed at source abroad:

- a) Application of the Conventions for the avoidance of double taxation
- b) Unilateral tax relief
- c) Flat-rate foreign tax credit (FRFTC)

Companies in Malta

Mechanisms to avoid double taxation (Example)

	Treaty	Unilateral credit	FRFTC
Company			
1- Gross income	100	100	125
2- Tax @35%	35	35	43,75
3- Tax paid abroad or FRFTC	10 ¹	15 ²	25
4- Tax in Malta (3-2)	25	20	18,75 ³
Shareholder			
5 – Refund rate	2/3	2/3	2/3
6 – Refund (5 × 2, 5 × 4 in FRFTC)	23,33	20 ⁴	12,5 ⁵
7- Tax burden of the structure in Malta (4-6)	1,67%	0%	6,25%

[1] Example with foreign withholding tax rate of 10%

[2] Example with foreign withholding tax rate of 15%

[3] The deduction may not be greater than 85% of the tax to be paid in Malta before the FRFTC deduction but after the application of other tax credits

[4] Limited to 20 because the refund may not be greater than the tax paid by the company

[5] In the case of FRFTC, the tax refund is calculated based on the tax paid by the company on the profits included in the dividends subject to distribution after the deduction of the credit related to the application of the FRFTC

NB: Malta has a very significant network of Conventions for the avoidance of double taxation, which includes Portugal but does not include Angola.

Companies in Malta

Foreign companies with effective management in Malta: Rule of taxation

	Rule
Domicile	Head-office
Residence	Head-office or effective management
Entities	Taxation
Resident and domiciled	Worldwide income
Resident or domiciled	Income obtained in Malta or obtained abroad (excluding capital gains) and remitted to Malta

Companies in Malta

Other advantages

Malta's tax regime offers many other advantages:

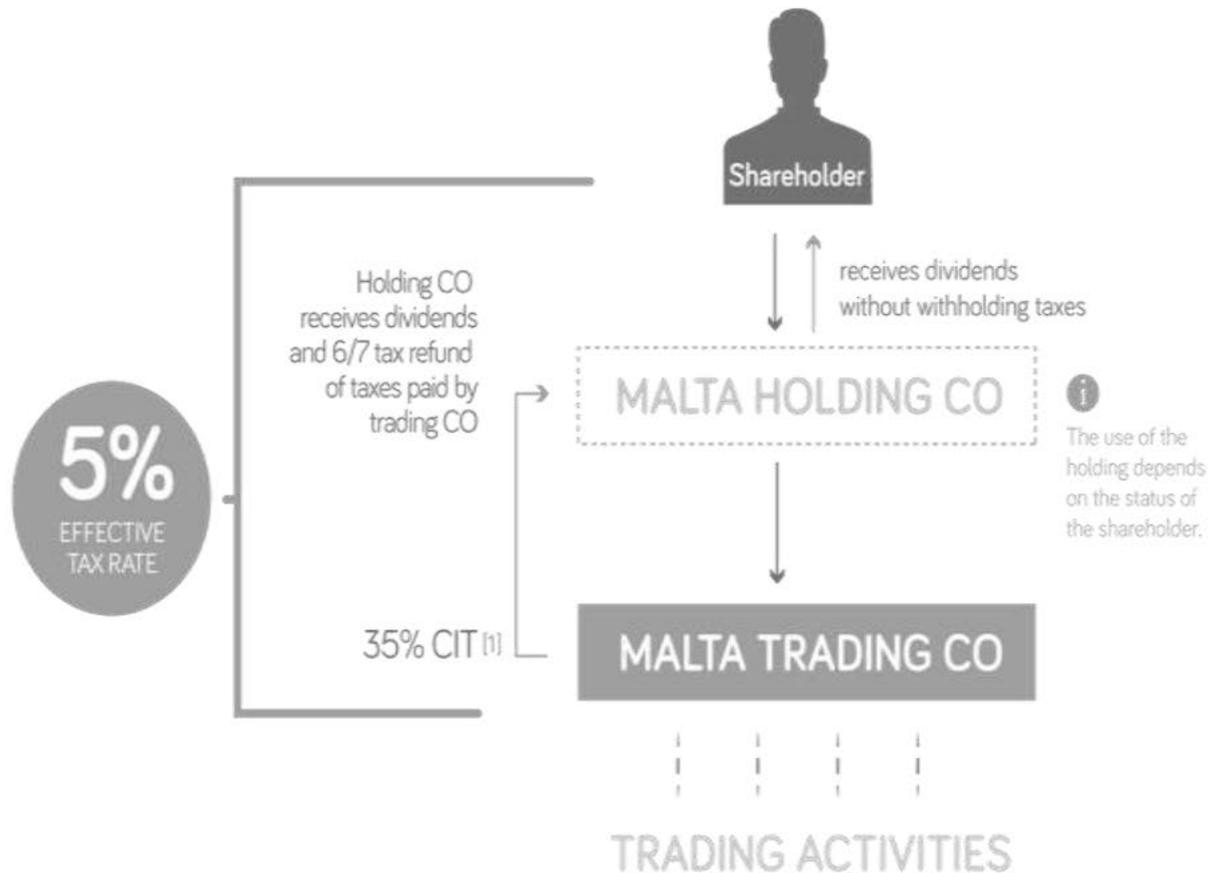
- Withholding tax exemption on the payment of royalties, interest, dividends or proceeds of liquidation
- Exemption of Capital Gains tax
- Flexible and straightforward anti-avoidance rules
- Advance rulings
- Possibility to redomicile companies from and to Malta
- Tax exemption on qualified intellectual property
- The share capital of the companies can be denominated in any convertible currency
- Flexibility in the choice of the tax year
- Malta accounting standards based on IFRS
- Stamp duty exemption
- Group tax relief
- No capital tax or wealth tax

MALTA

Use of the country for
operations

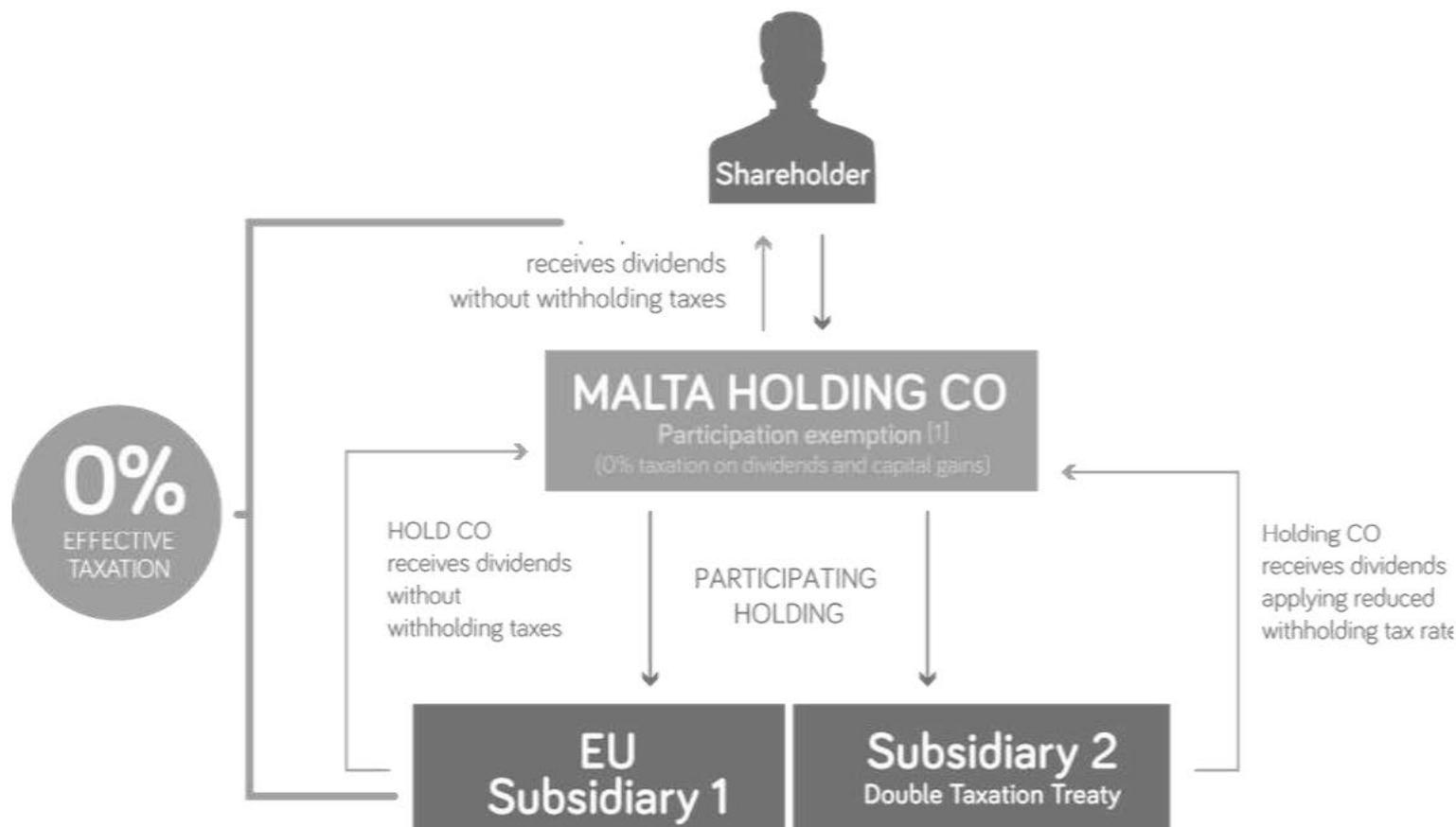
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Trading operations



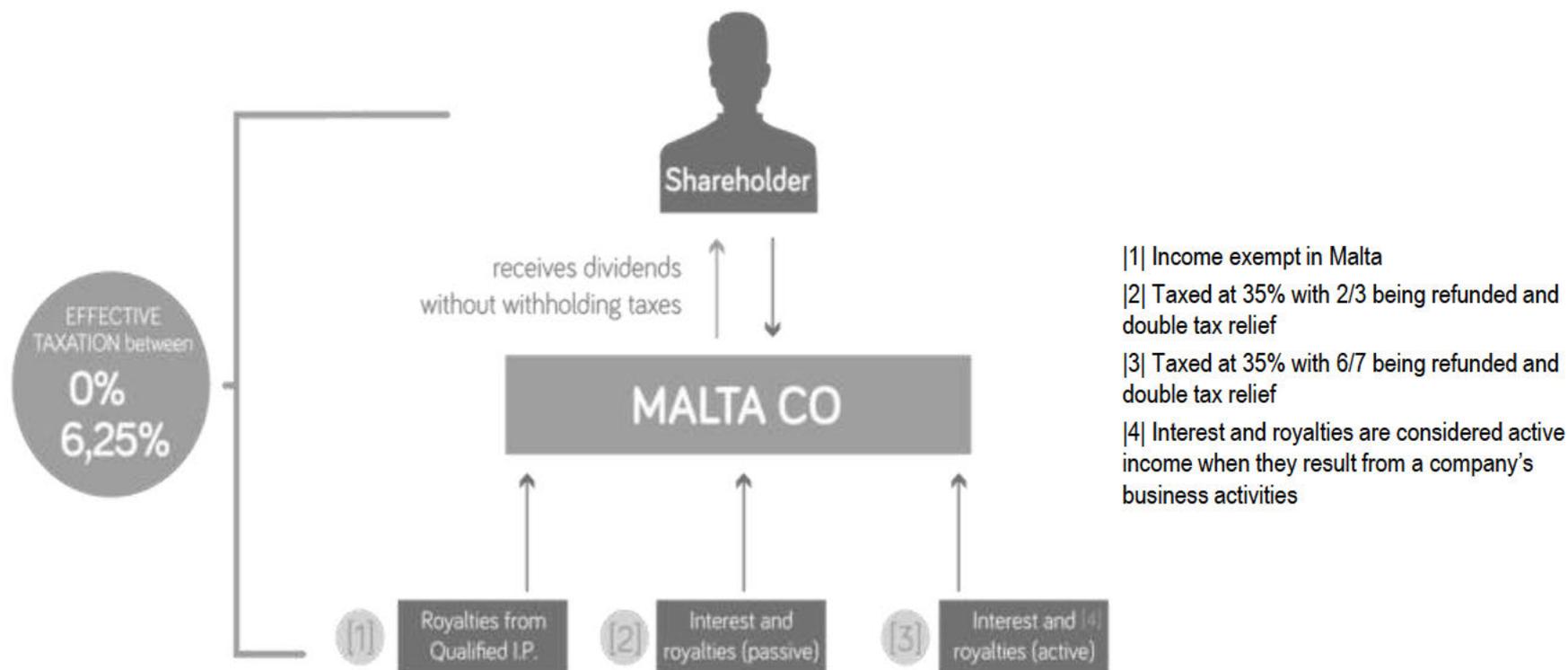
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Holding structures

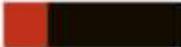


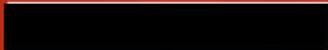
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Intellectual property ownership or financing activities



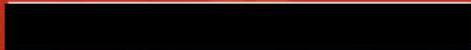
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