Malta: Double Taxation Relief

Malta's domestic tax provisions relieve both juridical double taxation, through the various forms of relief explained below, and also economic double taxation mainly by the application of the Full Imputation System.

Malta adopts a credit method of Double Taxation Relief in accordance with Article 23B of the OECD Model Tax Convention. In addition to Treaty Relief, which would be applicable if the foreign tax had been incurred in a jurisdiction with which Malta had concluded a Double Tax Treaty, Malta extends its relief provisions unilaterally through three other forms of credit.

Unilateral Relief

This form of relief is granted on foreign tax, which is of a similar character to Maltese income tax, incurred on income arising outside Malta to a person resident in Malta or to a company registered in Malta. In accordance with the Income Tax Act, a company resident in Malta (but not necessarily incorporated in Malta) falls within the definition of 'a company registered in Malta'. This type of relief is applicable when Treaty relief and Commonwealth Relief are not available.

Flat Rate Foreign Tax Credit (FRFTC)

This form of relief is granted to companies registered in Malta in receipt of income which is allocated to the Foreign Income Account for Maltese Tax Accounting purposes. Income which is typically allocated to the Foreign Income Account would include income or gains from overseas investments, including royalties, interest, rents and dividends received from foreign investments. The FRFTC is a credit for a deemed foreign tax of 25% on the amount received by the company registered in Malta. The below example provides a numerical explanation of the FRFTC.

	€
Net income received in Malta	1,000
Deemed foreign tax - 25%	**250**
Chargeable income	1,250
Corporate Tax - 35%	438
FRFTC	250
Net Malta Tax payable	**188**

Illustration I – FRFTC

Commonwealth Relief

Although not commonly used, Maltese domestic legislation provides for relief in cases where a Maltese resident person pays or is liable to pay tax charged under a law of a Commonwealth country, excluding the United Kingdom or Malta.

Full Imputation System

As outlined above, the full imputation system allows for the elimination of economic double taxation. This system allows for the entire tax paid on the profits distributed as dividend by a Malta company to be available as a credit to the shareholders against the tax due on the said income. The below example provides a numerical explanation of the Full Imputation System.

Taxation at company level:	€
Profit before Tax	1,000
Corporate Tax - 35%	**350**
Profit after Tax	650
Taxation at shareholder level:	
Gross Dividend received	1,000
Malta tax - at individual tax rates	350
Full imputation credit	**350**
Net Malta Tax payable	**0**

Illustration II – Full Imputation System

For any further information on the above please contact:

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