

## DOUBLE TAXATION 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 and therefore Malta offers three main types of double taxation relief to ensure that any double taxation is mitigated as much as possible. Apart from the relief under Malta's treaty network, 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.

### Unilateral Relief

Any overseas tax suffered may be allowed as a credit against the tax chargeable in Malta which is levied on the gross amount. The credit shall not exceed the total tax liability in Malta on the receipt.

Unilateral relief for underlying tax is also available where the taxpayer is a person that holds more than 10% of the voting power of the overseas company paying the dividend.

In order to claim unilateral relief, the recipient of the income must prove:

- ❖ that the income arose from overseas;
- ❖ that the income suffered overseas tax; and
- ❖ the amount of that tax.

### Flat Rate Foreign Tax Credit

A Flat Rate Foreign Tax Credit (FRFTC) may be claimed by a Maltese company which receives income from overseas. A certificate from the auditor stating that the income arose overseas will be sufficient for this purpose.

The flat rate foreign tax credit is calculated at 25% of the amount of the overseas income or gain received by the company, before allowable expenses. The income plus the credit less allowable expenses will be subject to full Malta income tax with relief for the deemed credit (up to a maximum of 85% of the Malta Tax payable). The mechanics of the flat rate foreign tax credit are demonstrated in the following example.

	€
Net foreign income (before expenses)	1,000
Flat rate foreign tax credit (25%)	250
Gross foreign income (before expenses)	1,250
Allowable expenses	(150)
Foreign income (after expenses)	1,100
Malta tax at 35%	385
Less FRFTC (maximum 85% of Malta tax)	(250)
Net Malta tax payable	135
	%
Effective tax rate on gross income	13.50
Effective tax rate on net income after expenses	15.90

Even if the company has no deductible expenses, the rate of tax is reduced from 35% to an effective rate of 18.75%. Upon a distribution of profits tax credits and refunds may apply and so the net effective tax is reduced to 6.25% or lower.

### Tax Treaties

Malta has a number of double taxation agreements most of which are based on the OECD model convention. The maximum reduced withholding tax rates on dividends, interest and royalties paid to residents of Malta are as indicated overleaf. Since Malta is an EU Member State, the Parent Subsidiary Directive and the Interest and Royalties Directive may also apply and the withholding tax rate could be reduced even further.



# DOUBLE TAXATION RELIEF

COUNTRY	DIVIDENDS			INTEREST	ROYALTIES
	Tax Rate for minor shareholding	Tax Rate for major shareholding	Required % for major shareholding	Rate	Rate
	%	%	%	%	%
Albania	15	5	25	5	5
Australia	15	15	N/A	15	10
Austria	15	15	N/A	5	10
Barbados	15	5	5	5	5
Belgium	15	15	N/A	10	10
Bulgaria	0	0	N/A	-	10
Canada	15	15	N/A	15	10
China	10	10	N/A	10	10
Croatia	5	5	N/A	0	0
Cyprus	15	15	N/A	10	10
Czech Republic	5	5	N/A	0	5
Denmark	15	0	25	0	0
Egypt	10	10	N/A	10	12
Estonia	15	5	25	10	10
Finland	15	5	10	0	0
France	15	0	10	5	10
Germany	15	5	10	0	0
Greece	10	5	25	8	8
Hungary	15	5	25	10	10
Iceland	15	5	10	0	5
India	15	10	25	10	15
Ireland	15	5	10	0	5
Italy	15	15	N/A	10	10
Korea	15	5	25	10	0
Kuwait	0	0	N/A	0	10
Latvia	10	5	25	10	10
Lebanon	5	5	N/A	0	5
Libya	15	15	N/A	15	15
Lithuania	5	15	25	10	10
Luxembourg	15	5	25	0	10
Malaysia	-	-	N/A	15	15
Morocco	10	6 <sup>1/2</sup>	25	10	10
Netherlands	15	5	25	10	10
Norway	15	15	N/A	10	10
Pakistan	-	15	20	10	10
Poland	15	5	20	10	10
Portugal	15	10	25	10	10
Romania	5	5	N/A	5	5
San Marino	10	5	25	0	0
Singapore	-	-	N/A	7-10	10
Slovakia	5	5	N/A	0	5
Slovenia	15	5	25	5	5
South Africa	5	5	N/A	10	10
Spain	5	0	25	0	0
Sweden	15	0	10	0	0
Switzerland	15	0	25	10	0
Syria	0	0	N/A	10	18
Tunisia	10	10	N/A	12	12
U.K.	-	-	N/A	10	10
U.S.A	15	5	10	10	10

Last update February 2009

