



MALTA NOTIONAL INTEREST DEDUCTION

Notional Interest Deduction

TAX SYSTEM

EU Approved

NO WITHHOLDING TAX

On outbound dividends

EU

Member of the EU & Eurozone

WORKFORCE

Well qualified, multilingual workforce

DOUBLE TAX TREATIES

Broad network of over 70 signed DTTs



MALTA

Malta enjoys the reputation of a reliable EU jurisdiction with a strong economy and a stable financial system. Malta offers international investors a transparent administrative and legal framework, low incorporation and maintenance costs for businesses and a highly efficient tax regime. It also boasts an excellent education system based on the British model and a multilingual, qualified workforce. For these reasons, Malta has enjoyed a significant influx of foreign investment in recent years.

INTRODUCTION OF NOTIONAL INTEREST DEDUCTION

Malta's attractiveness for international investors has recently received a further boost thanks to the introduction of a Notional Interest Deduction ("NID") mechanism.

The new rules are intended to bring about neutrality between debt and equity financing of Malta resident entities as well as permanent establishments of non-resident entities to the extent that risk capital is attributable to such permanent establishment.

LEGAL BASIS

The deductions available to Malta companies or partnerships are provided for in the Income Tax Act. However, the detailed provisions governing the notional interest deduction are stipulated in a separate Subsidiary Legislation 123.176, which entered into force through Legal Notice 37 of 2018 on the 2nd of February, 2018.

MAIN FEATURES

With effect from year of assessment 2018, Malta companies and partnerships as well as Malta permanent establishments of non-resident entities may claim a deduction for a "notional interest on risk capital". The deduction is optional and subject to the approval of shareholders or partners of the Malta entity.

Pursuant to the NID rules, the term "risk capital" means:

- (i) where the undertaking is a company or partnership resident in Malta, the share or partnership capital of the undertaking, any share premium, positive retained earnings, loans or other debt borrowed

by the undertaking which do not bear interest, and any other reserves resulting from a contribution to the undertaking, and any other item which is shown as equity in the financial statements of the undertaking, and

- (ii) where the undertaking is a permanent establishment of a company or partnership that is not resident in Malta, the term shall mean the risk capital, as defined in point (i) above, of that undertaking which is attributable to the permanent establishment;

The deduction which may be taken is to be calculated by multiplying the company's risk capital at year end by the NID reference rate equal to the risk-free interest rate identified as current yield to maturity on Malta Government Stocks with a remaining term of approximately 20 years plus a premium of 5%. The maximum deduction in any given year cannot exceed 90% of the entity's chargeable income, but the balance of NID over that threshold can be carried forward.

Where a Malta entity claims the NID, it shall be deemed that its partners / shareholders have received interest income in proportion to the nominal value of risk capital held by them. In the case of non-resident shareholders/ partners the deemed interest would be exempt from tax in Malta. Shareholders in receipt of dividends out of the profits which have been relieved from tax through a NID claim would not be subject to further tax on such receipt.

The new rules also contain anti-abuse rules that are aimed at preventing taxpayers from obtaining undue advantages contrary to the object and purpose of the rules.

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Fiduciary Staff: 100+



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