

# Malta – Why it's an attractive hub for investors

The Republic of Malta enjoys a stable political climate and a bi-partisan political scene that is largely convergent on issues of national and economic importance. Malta has weathered the financial crisis well and managed to remain competitive and sustained economic growth through this period of turmoil.

In this report we would like to enlist a brief summary on how international business investors can exploit the various tax, economic and financial opportunities when investing in Malta.

## Tax refund system

Malta's corporate income tax rate is 35%, but following a distribution of dividend the shareholder is entitled to a refund of part or all the tax paid by the Malta Company. This is what makes the Malta taxation system attractive, ingenious and unique.

The most common tax refund is 6/7<sup>th</sup> of the Malta tax paid by the Malta Company; thus the effective tax paid in Malta would only amount to 5%.

## Participating holding exemption

A full 100% refund applies to a Malta holding company which derives gains/profit from a participating holding in a non-resident entity. The profits/gains derived from its underlying investment will be allocated in the final taxed account and no tax is charged on such gains/profits.

## Global residence programme (GRP)

The GRP is designed to attract non-EU nationals to take up residence in Malta.

Malta can offer various attractions to foreigners which leads them to purchase a property and eventually take up residence in the Maltese islands:

- A pleasant local climate; warm and hospitable Maltese people; peaceful and safe general lifestyle with a rich cultural and historical heritage;
- Repatriation of the capital income;
- Low flat tax rate and minimum tax;
- Remittance only basis of tax;
- Exemption on capital gains other than overseas capital funds invested locally; which generate interest or dividends taxed at a 15% flat rate;
- Double taxation relief;
- Full exemption from customs duty/VAT;
- Exemption from stamp duty on transfer of shares which are listed on the Malta Stock Exchange; or if at least 90% of its business interests are outside Malta;
- Tax exemption from the sale of a property if it was the resident's sole and ordinary residence for a period of at least 3 years;

- Other – no inheritance or death taxes, no estate duty, no net worth or wealth taxes, no municipal taxes, rates or real estate taxes.

Conditions for obtaining a GRP range from fit and proper tests, health insurance, purchase or lease of property in Malta or Gozo, financial requirements etc.

## Malta Ship registration

The Maltese islands are connected to over 165 ports on all continents and can boast the largest ship registry within the EU, as well as one of the largest worldwide. The Malta Freeport is the third largest logistics centre in the Mediterranean region, handling 2.3 million TEUs (twenty-foot equivalent unit) annually and a ranking among the 12 major European ports. Malta's ship registry saw a growth of 13.6% during 2014, with a growth of 18% also seen in yacht and super yacht registration over the previous year.

Shipping companies are subject to corporate tax at the normal rate. However, under the Merchant Shipping Act, all gains or profits of a Maltese company derived from the operation and ownership of a Maltese registered vessel are exempt from income tax. This tax benefit applies to companies owning registered vessels of not less than 1,000 net tons engaged in the carriage of goods and passengers and offers a complete tax advantage to owners, charterers and financiers of Maltese flagged vessels. These incentives can also be administratively extended to most vessels of under 1,000 net tons.

Malta is also an attractive base for super yachts. One of the incentives offered to yacht owners who register their yacht as commercial vessel is that they benefit from tax payment based on the tonnage of their yacht rather than being taxed on the earnings.

Malta offers yacht owners looking to buy a new boat attractive savings on VAT. This scheme is recognised by the EU and vessels will be 'EU VAT PAID' and free to navigate in EU waters without restrictions. When a financial leasing agreement of a pleasure craft is in place, the standard VAT rate of 18% is only applied on the established percentage of the lease, deemed to be related to the use of the craft in EU territorial waters. The minimum VAT percentage can go down to 5.4%, which are set according to the length of the craft and its means of propulsion.

## Malta Recognised Incorporate Cell Companies (RICC)

RICC represents a platform comprising of an incorporated cell company which can provide standardised administrative services to any number of incorporated cells; each duly licensed as a collective investment scheme.

Advantages:

- Well segregation of assets – the main benefit is that assets of each individual IC will not be available to the creditors of any other IC;
- Upon setting up of the RICC and all fund documentation is in place the addition of a new cell will be added at a fraction of time;
- Flexibility in asset relocation allows IC to migrate in and out of the RICC;
- Possibility of ICs to establish segregated sub-funds;
- Cross-IC investment and intra-IC contracting permitted;
- Possibility for the RICC to generate revenue streams from a platform fee.

## Malta Financial Services Authority - MFSA

The MFSA is a single regulator for financial services. It regulates banking, financial institutions, insurance companies, investment services companies, securities, recognised investment exchanges and admissibility to listing, trust management companies and pension schemes.

MFSA is an autonomous public institution which is self-funded. It allows promoters the flexibility to operate by avoiding prescriptive regulation. The MFSA allows a risk-based supervision and regulation is proportionate to the size and nature of the business. It allows and encourages direct contact with all licence holders and assists businesses through on-site and off-site supervision.

Malta has a double taxation treaty with 27 EU countries, 13 other European countries and 27 countries from rest of the world.

Malta Double Tax Treaties						
EU Countries		Other European Countries	Rest of the world		Signed but not yet in force	Awaiting signature or under negotiation
Austria	Italy	Albania	Australia	Morocco	Belgium (Protocol)	Armenia
Belgium	Latvia	Georgia	Bahrain	Pakistan	India (New Treaty)	Azerbaijan
Bulgaria	Lithuania	Guernsey	Barbados	Qatar	Liechtenstein	Bosnia & Herzegovina
Croatia	Luxembourg	Iceland	Canada	Saudi Arabia	Mexico	Curaçao
Cyprus	Netherlands	Isle of Man	China	Singapore	Russia	Moldova
Czech Rep.	Poland	Jersey	Egypt	South Africa	Ukraine	Oman
Denmark	Portugal	Montenegro	Hong Kong	Syria		Thailand
Estonia	Romania	Norway	India Israel	Tunisia		Vietnam
Finland	Slovakia	San Marino	Jordan	United Arab Emirates		
France	Slovenia	Serbia	Korea (Rep.)	United States		
Germany	Spain	Switzerland	Kuwait	Uruguay		
Greece	Sweden	Turkey	Lebanon			
Hungary	United Kingdom		Libya			
Ireland			Malaysia			

In 2013 there was a record of new registrations. The total number of companies on the Register amounted to 63,605 Maltese registered companies.

	Dec-09	Dec-10	Dec-11	Dec-12	Dec-13
<b>New Registrations</b>	2,678	3,130	3,458	4,016	4,540
<b>Companies on the register</b>	48,520	51,650	55,150	59,098	63,605

## iGaming in Malta

Since 2000 the remote iGaming Malta Industry has witnessed a remarkable and rapid growth. Many iGaming company operators have chosen to locate in Malta due to several attractive factors which Malta offers:

- Malta is the only country within the EU which regulates remote gaming;
- Online gaming in Malta has a reputation of being operated out of a well-regulated jurisdiction which safeguards the interest of both operators and players;
- A very attractive fiscal regime;
- An efficient and relatively inexpensive Malta gaming license process;
- A stable political climate;
- Established financial services institutions (including payment gateways) for Maltese gambling companies;
- Support services by pro-active professionals who adopt a 'can do' attitude to assist Malta gambling companies;
- A highly qualified and skilled Maltese gaming workforce that is fluent in various languages;
- A state-of-the-art telecommunications infrastructure.

## Tax treatment of Trusts and Foundations

With the ratification of the *Hague Convention of the Recognition and Enforcement of Trusts*, Maltese courts recognised the validity and enforceability of trusts governed by a foreign law. The Maltese tax system proves to be highly beneficial for trusts and foundations set up by non-residents, resulting from a low effective tax rate, access to the participation exemption (where applicable) and exemption on capital gains upon distribution of assets (where applicable).

## Malta: A high-profile business centre

Stability, flexibility, market growth, professional service providers are the driving factors which make investors feel particularly comfortable and secure when doing business in Malta.

Malta's reputation as a flexible and reliable centre for business has a proven track record for such success:

- First EU Member state to introduce the legislation on remote gaming
- One of the largest ship and yacht registries in the world
- One of the most competitive fiscal regimes in the European Union
- Extensive network of 67 double taxation treaties, all of which are based on the OECD Model
- The lowest effective tax rate in the EU
- 100% tax refund once the Participation Holding exemption criteria is satisfied
- Tax exemption on income derived from qualifying patents and income derived from qualifying copyright and trademarks for Intellectual Property (IP) holding companies
- No capital taxes
- No controlled foreign company (CFC) legislation
- No thin capitalisation legislation
- No withholding taxes on interest, royalties, dividend and proceeds from liquidation
- No transfer pricing legislation in Malta.

## ***Highlights during 2014***

‘Standard & Poor’s credit rating agency has affirmed its long and short-term foreign and local currency sovereign credit ratings for Malta at ‘BBB+/A-2.’

*Malta Today 11 July 2014*

‘Fitch Ratings has affirmed Malta’s long-term foreign and local currency Issues Default Rating (IDRs) at ‘A’. The outlook is stable.’

*Times of Malta 14 March 2014*

**‘Malta.** After having expanded by 2.9% in 2013, the Maltese economy continued to grow at a solid pace during the first half of 2014, with real GDP increasing at an average annual rate of 3.4%. The expansion was mainly driven by domestic demand, particularly investment, although private and government consumption also contributed. To a lesser extent, net exports supported growth during this period.

Robust economic activity was reflected in the performance of the labour market. During the first half of 2014 employment increased by 1.6% on average with job creation strongly supported by the services sector. The unemployment rate eased, standing at 5.8% in the second quarter of 2014.

Despite buoyant activity, inflation remained moderate. Following a brief acceleration in the first quarter, annual harmonised consumer inflation fell to a low of 0.4% in May, largely under the impact of a reduction in electricity tariffs. It has accelerated slightly more recently, driven by movements in service prices, reaching 0.8% in August.

The general government deficit-to-GDP ratio fell below 3% in 2013, as revenue outpaced expenditure. At the same time, the debt ratio rose to 73% of GDP. The government remains committed to further fiscal consolidation, aimed at achieving a balanced budget in the medium-term. From an institutional perspective, parliament recently enacted the Fiscal Responsibility Act, which lays down tighter domestic fiscal rules and establishes an independent fiscal council.

The current account of the balance of payments, which had recorded a surplus in both 2012 and 2013 remained positive during the first half of 2014, as a positive balance on services offset net outflows on the goods and income accounts.

The financial sector remained sound and stable, with the core deposit banks reporting capital buffers well in excess of the regulatory thresholds. Liquidity levels were ample and residents’ deposits continued to grow. Credit growth remained positive, supported by lending to both general government and the private sector.

The outlook for the Maltese economy remains favorable, with real GDP expected to continue growing at around 2.5% both this year and the next, mainly driven by domestic demand. Inflation is set to pick up gradually, while remaining moderate, at below 2% throughout.’

*IMF – International Monetary and Financial Committee meeting – 11 October 2014*