

## **Double Tax 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. Malta offers three main types of double taxation relief to ensure that any double taxation is mitigated as much as is possible.

Apart from the relief under Malta's network of treaties, 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.

### **Double Taxation Agreements**

Malta has a large number of double taxation agreements (vide Table 1), most of which are based on the OCED model convention.

The maximum reduced withholding tax rates on dividends, interest and royalties paid to residents of Malta are as indicated in the table overleaf. Since Malta is an EU member state, the Parent Subsidiary Directive and the Interest and Royalties Directive may also apply and rates may be reduced further.

### **Unilateral Relief**

Malta allows relief from double taxation on a unilateral basis where overseas income is suffered on income received from a country which does not have a treaty with Malta, irrespectively of whether that income is remitted to Malta or otherwise. The overseas tax suffered, limited to the Malta tax charge on the income, is allowed as a credit against tax chargeable in Malta.

### **Flat Rate Foreign Tax Credit**

The Flat Rate Foreign Tax Credit (FRFTC) is available to a Malta company that generates income or capital gains overseas and is not in a position to provide evidence to the satisfaction of the Commissioner of Inland Revenue of the overseas tax. A certificate from the external auditor stating that the income arose from overseas will be sufficient for this purpose.

In such cases, the Flat Rate Foreign Tax Credit is calculated at 25% of the overseas income or gain received in Malta. The income plus the deemed tax is subject to Malta corporate tax with relief given for the deemed credit. This is demonstrated in Table 2 below.

**TABLE 1:**



**DOUBLE TAX TREATIES CURRENTLY IN FORCE WITH MALTA**

|    |                |    |                            |
|----|----------------|----|----------------------------|
| 1  | Albania        | 24 | Latvia                     |
| 2  | Australia      | 25 | Lebanon                    |
| 3  | Austria        | 26 | Libya                      |
| 4  | Barbados       | 27 | Luxembourg                 |
| 5  | Belgium        | 28 | Malaysia                   |
| 6  | Bulgaria       | 29 | Netherlands                |
| 7  | Canada         | 30 | Norway                     |
| 8  | China          | 31 | Pakistan                   |
| 9  | Croatia        | 32 | Poland                     |
| 10 | Cyprus         | 33 | Portugal                   |
| 11 | Czech Republic | 34 | Romania                    |
| 12 | Denmark        | 35 | San Marino                 |
| 13 | Egypt          | 36 | Singapore                  |
| 14 | Estonia        | 37 | Slovakia                   |
| 15 | Finland        | 38 | Slovenia                   |
| 16 | France         | 39 | South Africa               |
| 17 | Germany        | 40 | Spain                      |
| 18 | Hungary        | 41 | Sweden                     |
| 19 | Iceland        | 42 | Switzerland *              |
| 20 | India          | 43 | Syria                      |
| 21 | Italy          | 44 | Tunisia                    |
| 22 | Korea          | 45 | United Kingdom             |
| 23 | Kuwait         | 46 | United States of America * |

\* The Double Taxation Agreements with Switzerland and the USA are limited to profits derived from ships and aircraft engaged in international traffic.

In addition, Malta is also in the process of finalizing a number of other agreements with various other countries including the following:-

|   |                     |    |                      |
|---|---------------------|----|----------------------|
| 1 | Greece              | 7  | Singapore            |
| 2 | Ireland             | 8  | Thailand             |
| 3 | Jordan              | 9  | Turkey               |
| 4 | Morocco             | 10 | Ukraine              |
| 5 | Russia              | 11 | United Arab Emirates |
| 6 | Serbia & Montenegro |    |                      |

| <b>TABLE 2:</b>   | <b>Euro</b> |
|---|-------------|
| Net foreign income  | 800         |
| Flat rate foreign tax credit (25%) ( <i>deemed tax</i> )                | <u>200</u>  |
| Grossed-up income   | 1,000       |
| Maltese tax at 35%  | 350         |
| Less credit for deemed tax  | <u>200</u>  |
| Malta tax payable   | 150         |
| <i>(by virtue of the operation of the Flat Rate Foreign Tax Credit)</i> |             |
| Tax payable in Malta ( <i>expressed as a percentage of income</i> )     | 18.75%      |

**TABLE 3:**

**Interaction of the four reliefs of double taxation**

Claim for Relief from Double Taxation in respect of overseas income

Is Double Tax Relief (s.77) or Commonwealth Income Tax Relief (s.89) available?

