

Recent changes to the Maltese tax system have introduced great fiscal opportunities via the refundable tax credit system. Under the refundable tax credit system, the tax paid by a company registered in Malta on its profits (at the rate of 35%) is available as a credit against the tax due on the dividends paid out of such profits under the full imputation system. In addition, when the company distributes its profits to its shareholders (irrespective of whether such shareholders are individuals or companies) the shareholders are entitled to receive a refund of a substantial part of the tax paid by the company which is paying the dividend. The level of such refund depends on the type of the income derived by the company distributing the profits as explained in further detail below.

The Six-Sevenths Refund

On the receipt of a dividend paid by a company registered in Malta from profits (other than profits arising from immovable property in Malta (or from the use thereof) or from passive interest or royalties) the shareholder/s may claim a refund of six-sevenths of the tax paid by the company on the profits being distributed as illustrated in the example below:

Company level	Euro
Company Income before tax	10,000
Tax thereon at 35%	3,500
Profit after tax	6,500
Shareholder level	Euro
Gross Dividend	10,000
Tax thereon at 35%	3,500
Credit for tax at source under full imputation system	(3,500)
Further tax due	Nil
Refund under the refundable credit system	3,000 (6/7ths of €3,500)

The Five-Sevenths Refund

On the receipt of a dividend out of profits derived from passive interest or royalties or from investment income from a participating holding in a body of persons which does not satisfy the anti-abuse provision the shareholder/s may claim a refund of five-sevenths of the tax paid by the company on the profits being distributed as illustrated in the example on the following page:



Company level	Euro
Company Income before tax	10,000
Tax thereon at 35%	3,500
Profit after tax	6,500
Shareholder level	Euro
Gross Dividend	10,000
Tax thereon at 35%	3,500
Credit for tax at source under full imputation system	(3,500)
Further tax due	Nil
Refund under the refundable credit system	2,500 (5/7ths of €3,500)

The Two Thirds Refund

Whenever the company distributing the dividend has claimed any form of double tax relief (Double Tax Treaty Relief, Unilateral Relief or the Flat Rate Foreign Tax Credit) on income which falls to be allocated to the Foreign Income Account, the shareholder is entitled to claim a two-thirds refund instead of the six-sevenths refund and the five-sevenths refund, as explained below.

Example 1: Company claiming Unilateral Relief/ Double Tax Treaty Relief

Company level	Euro
Company Income before tax	10,000
Tax thereon at 35%	3,500
Double tax relief	(3,000)
Tax still due at company level	500
Profit after tax	6,500
Shareholder level	Euro
Gross Dividend	10,000
Tax thereon at 35%	3,500
Credit for tax at source under full imputation system	(3,500)
Further tax due	Nil
Refund under the refundable credit system	500

(The shareholder is entitled to a refund of 2/3rds of the tax charge of the company before double tax relief, that is 2/3rds of €3,500 = €2,333 limited to the actual Malta tax paid, that is €500).

Example 2: Company claiming Flat Rate Foreign Tax Credit (FRFTC)

Company level	Euro
Net Foreign Income	800
FRFTC at 25%	<u>200</u>
Company taxable income	1,000
Tax thereon at 35%	350
FRFTC credit	<u>(200)</u>
Tax due	150
Shareholder level	Euro
Gross Dividend	1,000
Tax thereon at 35%	350
Credit for tax at source under full imputation system	(350)
Further tax due	Nil
Refund under the refundable credit system	100

(The shareholder is entitled to a refund of 2/3rds of the tax payable by the company (after FRFTC), that is 2/3rds of €150 = €100).



For more information kindly contact:

HLB Professional Services Limited,
 Casa Floriani,
 Pietro Floriani Street
 Floriana FRN1061
 Malta

Josef Mercieca
jmercieca@hlbff.com

Tel: 21233026
 Fax: 21239113