

# Taxation Newsflash

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## British Exporters eye Malta

On the 12 June 2002 the British Institute of Export in conjunction with the Malta Financial Services Centre organised a seminar at the Hilton International Hotel, London, on the subject of "Malta as a base for UK exporting companies". The event came in the wake of renewed interest in the tax planning opportunities available to UK companies who are exporting to North Africa, the Middle East and Gulf States.

The reason for this interest is quite simple: Malta has the unique advantage of being English speaking and its company law is modelled on the English counterpart, it has double taxation agreements with the UK and with many North African and Gulf states, and finally the Maltese company is well respected in these huge markets.

The same advantages are also available to nearly every company based in Europe and this in virtue of Malta's extensive double taxation treaty network. North Africa, the Middle East and the Gulf States are already significant markets for many European exporters, but a great deal of potential remains untapped and Malta's legal and fiscal structures can help give these exporters competitive advantage.

And access to these advantages does not require the establishment of any manufacturing activity in Malta, but simply the formation of an International Trading Company (ITC).

Companies classified as international trading companies under section 2 of Malta's Income Tax Act may carry out a very broad range of activities. These may be classified under four headings:

1. Trading in plant, machinery, equipment and supplies for the aircraft, automotive, construction, healthcare and telecommunication industries;
2. Trading in providing services which include business, design, engineering, industrial, management, marketing and scientific

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## Incentives under the Business Promotion Act

Maltese legislation has traditionally catered for the promotion of industry. This has been updated with the coming into force of the Business Promotion Act, which supersedes the incentives previously regulated by the Industrial Development Act. The new BPA aims to introduce more flexibility, offering the possibility to conform to the economic need of the market through new or amended regulation coming into force by means of subsidiary legislation.

Incentives granted aim to strike a balance, achieving policy objectives without exerting undue pressure on tax revenues. Incentives are mainly designed to lower the financial burden for investors. Incentives include:

*reduced rates of income tax;*

*investment tax credits;*

*value-added incentive schemes;*

*soft loans;*

*interest subsidies;*

*loan guarantees;*

*incentives for job creation;*

*training assistance.*

To ensure compliance with WTO regulations these new incentive schemes offer benefits depending on the kind of activity carried out and not whether the products are exported. For eligibility, the activity carried out must fall within the target sector provided in the regulations. A great deal of emphasis is placed on the manufacturing sector since, as the Minister for Economic Services has stated, "the manufacturing sector is one of the main pillars of the economy, employing over 30,000 people, and the government felt it needed to come up with a flexible law which would encourage and incentivise investment." Consequently, the law includes a long list of manufacturing activities,

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consultancy services, financial services, hospitality and tourism services, information technology services, property services, shipping services and transportation services;

3. Trading in goods and commodities which range from foodstuffs to household goods and commodities such as metals and oil products;

4. Trading in intellectual property such as the selling, buying and collection of royalties from patents, trademarks and copyright.

A non-resident shareholder receiving dividends from an ITC is liable to Malta tax at the rate of 27.5% and he may claim a refund of two-thirds of the tax paid by the company. This, coupled with the fact that Malta adopts a full imputation system on dividends makes the ITC a very tax efficient vehicle for non-resident shareholders. Indeed, in the case of a full distribution of profits (always easy to achieve by also setting up an International Holding Company to receive and plough back dividends), **the net effective Malta tax is 4.167%**

*See also newspaper report on page 4❖*

which will be able to benefit from the new schemes. The list of activities includes:

*pharmaceuticals, medicinal chemicals and botanical products;*

*rubber and plastic products;*

*cutlery, tools and general hardware;*

*other fabricated metal products;*

*machinery and equipment;*

*office machinery and computers;*

*electrical machinery and control apparatus;*

*radio, television and communication equipment and apparatus;*

*medical, precision and optical instruments, watches and clocks;*

*bodies (coachwork) for motor vehicles, trailers and semi-trailers;*

*jewellery and related articles;*

*musical instruments;*

*sports goods, games and toys;*

*industrial gases; and*

*the treatment and coating of metals and general engineering.*

In addition, incentives are also available for the following non-manufacturing activities:

*repair, improvement or maintenance of: aircrafts, yachts or motor boats, or engines or equipment*

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## Did you know that ....

The costs to establish and maintain an ITC in Malta are very competitive. The minimum share capital is USD 250 (100 Maltese Liri), Government registration fees are USD 250 (100 Maltese Liri) and professional fees amount to USD 750 (300 Maltese Liri), inclusive of all assistance to set up the company, meetings, opening of bank account, etc. The directors can be non-residents, and the only other expenses relate to the statutory registered office and company secretary which cost USD 200 (80 Maltese Liri) per month, and the statutory audit and submission of income tax return which costs USD 500 (200 Maltese Liri) per annum (unless the company is generating a large number of transactions.) Value Added Tax of 15% must be added to all professional fees.

*incorporated or used therein; turbines, gantry cranes and their equipment; own manufactured goods;*

*large scale aquaculture;*

*software development;*

*research and development including product development;*

*waste treatment and recycling;*

*Freeport licensed activities as per Malta Freeports Act;*

*audio visual productions;*

*biotechnology; and*

*companies which waive export related incentives.*

The newly enacted incentives depend on the kind of activity carried out and not whether one exports or not. Companies can benefit so long as their activity falls within the target sector provided in the regulations.

The incentives can be divided into 4 main categories:

**1. Reduced rates of income tax for qualifying companies: A company, whose activity falls within the admissible activities as specified in the law, can benefit from favourable rates of income tax, which are, 5% for the first 7 years of operation; 10% for the following 6 years; and 15% for the following 5 years.**

**2. Investment Tax Credits: Companies qualifying from the above-mentioned lower rates of income tax are also eligible to an investment tax credit, that is, a deduction from the tax due equivalent to 65% of defined investment outlays in the case of small or medium sized enterprises and 50% in the case of other companies.** In order to make this benefit available for both capital intensive and labour intensive enterprises, the law specifies that the credit amount can be calculated either as a percentage of qualifying investment expenditure or as a percentage of the two years' wage costs of employees in respect of whom jobs have been created as a result of the investment. Any unutilised tax credits can be carried forward to future years, in which case, the amount of credit is augmented by 7%. Therefore, with the combination of lower tax rates and reductions in

3. Job related incentives: Specialised incentives are available for companies that employ qualifying individuals classified into 6 categories: registered unemployed, individuals over 40 years, disabled persons, other individuals, individuals who may become redundant as a consequence of a restructuring programme undertaken by the enterprise with which he is employed, and individuals who formed part of the public sector. Companies may benefit from training assistance depending on whether they are classified as large or small and medium companies.

4. Other incentives: Companies may benefit from reduced rates of tax according to the increase in value added of their activities. A series of loan incentives are provided for in the subsidiary legislation, whereby companies may benefit from a soft loan up to 75% of the qualifying expenditure at an interest rate 2.25% below the minimum discount rate as issued by the Central Bank Of Malta. Another loan incentive is the loan interest rate subsidy whereby companies may also qualify for a subsidy on the interest rate payable on loans needed to acquire additional assets. And loan guarantees taken by the company to finance the acquisition of such additional assets. ❖

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FINANCIAL SERVICES

# Busy quarter on international front

**M**ALTA'S model role as an international finance centre received a fair amount of international exposure over the past three months as the Malta Financial Services Centre and other Maltese financial institutions were involved in a heavy schedule of overseas events, the centre said.

MFSC chairman Joseph Bannister delivered presentations on the framework for the conduct and regulation of financial services in Malta at seminars held by the Swiss Maltese Chamber of Commerce, in Lugano, and the Banque Centrale du Luxembourg, in Luxembourg. The latter event was also addressed by Michael Bonello, governor of the Central Bank. The event took place on the same day as the finance ministers of the two countries met for talks at the ministry of finance in Luxembourg.

Prof. Bannister also chaired one of the panel discussions at the Eighth Luxembourg Risk Management and Risk Financing Conference. The panel, which included representatives of the Guernsey Financial Services Commission and the Luxembourg Insurance Commission, dealt with the captive insurance business, tax harmonisation and hostile tax legislation. The event was attended by over 100 delegates from 20 jurisdictions, including Malta.

Finance Minister John Dalli was the keynote speaker at a conference for United Kingdom Exporting Companies interested in using Malta's

international trading company regime and other unique advantages to expand their business in the Mediterranean region. About 70 delegates attended the event, held in London and organised by the Institute of Export (UK) and the Institute of Financial Services Practitioners of Malta (IFSP).

The event was also addressed by Malta's High Commissioner to London, George Bonello Dupuis, British High Commissioner Howard Pearce, Prof. Bannister, IFSP president Kevin Valenzia and other speakers from the UK.

Malta's regulatory infrastructure for financial services business and its position in the light of regulatory initiatives by the FATF, OECD and other international organisations was also the subject of discussions with various financial regulators in Switzerland and Luxembourg. The discussions served to strengthen relations and exchange ideas between the regulators and facilitate the flow of business between the respective jurisdictions, the MFSC said.

**MFSC**

MALTA FINANCIAL SERVICES CENTRE

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