



Group finance companies in Malta

Background

Malta has over the years gained international recognition of being a reputable and robust financial centre. The island recently experienced a rapidly growing and dynamic financial sector in which it hosts a number of worldwide recognised group treasury companies. Malta's strength as a hub for finance companies is based on the island having an excellent business infrastructure, EU compliant legislation, a sound banking system, a relatively low cost base, an attractive fiscal regime and a highly skilled multilingual workforce. Over the passage of time, the activity of a finance company has moved from traditional loan arrangements to providing more flexible terms of lending to meet the borrower's needs and at the same time entering into sophisticated and tailor-made financial instruments to hedge and mitigate for any financial risk exposure.

Regulatory framework

All financial services in Malta are regulated and supervised by a single regulator, the Malta Financial Services Authority, which provides the benefit of uniform procedures and interpretation of the legislation and guidelines coupled with lesser bureaucracy across the board.

A company which regularly or habitually carries on in or from Malta the business of a financial institution for its own account and at its own risk, which activity is not funded through the taking of deposits or other repayable funds from the public, is classified as a financial institution in terms of the Financial Institutions Act and is required to be licensed by the Malta Financial Services Authority accordingly.

Whilst the function of a group finance company would typically comprise certain licensable activities such as the business of lending, financial leasing and trading in financial instruments, an exemption from the above mentioned licensing requirement would be applicable insofar as the financing activities are carried on solely with companies which belong to the same group of companies as the finance company and which are not banks or financial institutions.

Malta tax treatment

The operations of a Malta group finance company constitute a trade for Malta tax purposes and the determination of its taxable profits would be established according to the relevant rules applicable to trading activities. The primary source for determining such taxable income would be the profits disclosed in the annual financial statements which the Malta group finance company would be required to draw up in accordance with the requirements of the Companies Act, Chapter 386 of the laws of Malta and as adjusted for non-assessable or disallowable items and for statutory deductions or allowances.

The taxable profits of a Malta group finance company is subject to Malta tax at the standard rate of 35%. Any overseas tax suffered by a Malta group finance company would generally be eligible for relief against the Malta tax liability arising on the corresponding source of income.

As with any company registered in Malta, a Malta group finance company must comply with the Malta Tax Accounting obligations arising under domestic fiscal legislation. The registered shareholder(s) of a Malta group finance company which is/are in receipt of a dividend distributed by that company would be entitled to a refund of the Malta tax that was suffered by the Malta finance company on those profits out of which the dividend is distributed. Through the application of this refund mechanism, the combined overall effective tax rate in Malta in respect of the group finance operations undertaken from Malta could be reduced.

Duty

The constitution and/or assignment and/or settlement of a debt are not dutiable events for Malta stamp duty purposes.

The transfer of a marketable security by a person resident in Malta would (subject to certain exemptions) generally attract a stamp duty liability in Malta. However, a company which carries on substantially all of its business outside Malta would be entitled to seek an exemption from the payment of stamp duty in respect of the acquisition and/or disposal of marketable securities. A marketable security is defined in terms of Article 2 of the Duty on Documents and Transfers Act as a holding of share capital in any company and any document representing the same.

VAT

The Malta VAT Act is based on the provisions of the EU Sixth VAT Directive. The financing activities undertaken by a group finance company would (subject to certain exceptions) generally be classified as exempt without credit activities. Accordingly, whilst no VAT would be charged by the Malta group finance company on these activities, it would not be entitled to recover any VAT incurred on supplies/acquisitions/importations attributable to those activities.

Treaty network and EU directives

Malta has an extensive tax treaty network with most major countries. Additionally, by virtue of its membership with the European Union, Malta has access to the EU Parent-Subsidiary, Interest & Royalties and Mergers directive and the fundamentally important freedoms within the European Union.

Other features

Malta does not levy a withholding tax on outbound interest and/or dividend payments and no capital duties or net worth taxes are imposed. Similarly, presently there are no CFC rules or thin capitalisation restrictions.

No exchange control restrictions apply on transactions involving operations between resident and non-resident persons, whether arising in or outside Malta.

Tax factsheet

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