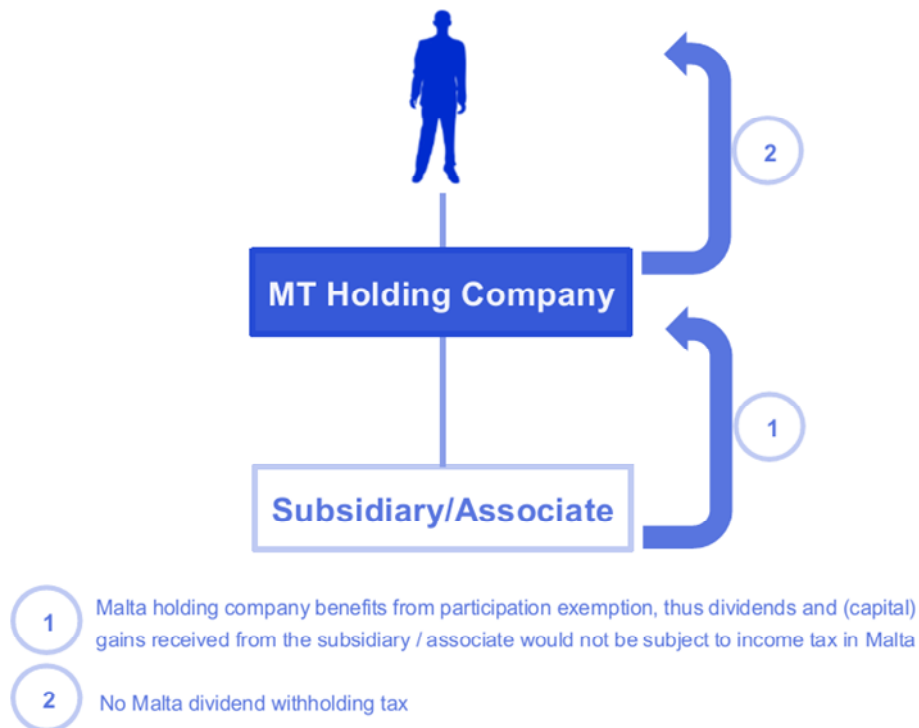


Participation Exemption

Overview

The foundation of Malta's holding company regime was enhanced in 2007, when a participation exemption regime was introduced, under which dividends and (capital) gains derived from a participating holding, whether located within or outside the EU, would be exempt from Malta corporate income taxes, provided that the relevant compliance requirements are met.



Conditions

For a Malta holding company to have a participating holding, the following three conditions should be met:

Condition 1

The equity shares held by the Malta holding company in the subsidiary / associate should satisfy at least two of the following:

- The right to dividends;
- The right to vote;
- The right to assets available for distribution in a winding up process.

Condition 2

The Malta holding company must meet at least one of the following conditions:

- Hold a minimum shareholding of 5% in the subsidiary / associate; or
- Hold a minimum shareholding investment of €1,164,000 in the subsidiary / associate, held for an uninterrupted period of six months; or

- Entitlement to call for and acquire the other shares of the subsidiary / associate; or
- Entitlement to first refusal on the other shares of the subsidiary / associate; or
- Entitlement to sit on the board of directors or to appoint a person on the board of the subsidiary / associate; or
- The shares in the subsidiary / associate are held in line with the business of the Malta holding company and are not held as shares for trade.

Condition 3

Moreover, one of the following conditions should be met:

- The subsidiary / associate is resident in the EU; or
- The subsidiary / associate is subject to non-Malta tax of at least 15%; or
- No more than 50% of the income of the subsidiary / associate is derived from passive interest or royalties; or
- The subsidiary / associate is not a portfolio investment (by the Malta holding company) and it has been subject to any non-Malta tax of at least 5%.

Malta income tax

At the option of the board of directors of a Malta holding company, any dividends and (capital) gains derived from a participating holding may be taxable in Malta at the rate of 35%.

Upon payment of the tax to the tax authorities and a dividend distribution of the income to the shareholder of the Malta holding company, the said shareholder would be entitled to claim an income tax refund from the Malta tax authorities, which refund would be equivalent to the amount of income tax paid by the Malta holding company, thereby reducing the overall income tax to 0%, as follows:

| | |
|---|--------------|
| <u>Malta Holding Company</u> | <u>€</u> |
| Dividend received from a participating holding | 1,000 |
| Malta income tax (at 35%) | (350) |
| Net dividend distributed to the shareholder | 650 |
| | |
| <u>Shareholder of Malta Holding Company</u> | |
| Gross dividend received from Malta Holding Company | 1,000 |
| Malta income tax (at 35%) | (350) |
| Full imputation of Malta Holding Company tax | 350 |
| Net dividend received | 650 |
| Full refund of Malta tax | 350 |
| | |
| Net dividend + tax refund received by the shareholder | 1,000 |
| Combined overall effective Malta tax paid | 0 |
| Combined overall effective Malta tax rate | 0% |

Non-qualifying holdings

Where a holding does not qualify as a participating holding any dividend or (capital) gain upon disposal would be taxable at the level of the Malta holding company. Such company would be subject to 35% tax on its world-wide income.

Upon payment of the tax to the tax authorities and a dividend distribution of the income to the shareholder of the Malta holding company, the said shareholder would be entitled to claim an income tax refund from the Malta tax authorities, which refund would typically be equivalent to 6/7 of corporate income tax paid by the Malta holding company, thereby reducing the overall income tax to 5%, as follows:

| <u>Malta Holding Company</u> | € |
|---|------------|
| Dividend received from a participating holding | 1,000 |
| Malta income tax (at 35%) | (350) |
| Net dividend distributed to the shareholder | 650 |
| | |
| <u>Shareholder of Malta Holding Company</u> | |
| Gross dividend received from Malta Holding Company | 1,000 |
| Malta income tax (at 35%) | (350) |
| Full imputation of Malta Holding Company tax | 350 |
| Net dividend received | 650 |
| ⁶ / ₇ refund of Malta tax | 300 |
| | |
| Net dividend + tax refund received by the shareholder | 950 |
| Combined overall effective Malta tax paid | 50 |
| Combined overall effective Malta tax rate | 5% |

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About Vistra

Here at Vistra, **our purpose is progress**. As a close ally to our clients, our role is to remove the friction that comes from the complexity of global business. We partner with companies and private capital managers along the corporate and private capital lifecycle. From HR to tax and from legal entity management to regulatory compliance, we quietly fix the operational and administrative frustrations that hamper business growth. With over 9000 experts in more than 50 markets, we can accelerate progress, improve processes and reduce risk, wherever your ambition takes you.

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