

Tax Refund Mechanism

Full imputation system

Any limited liability company which is resident and domiciled in Malta (“**MaltaCo**”) is subject to Malta corporate income tax on its worldwide income at the rate of 35%.

However Malta has adopted a ‘tax refund system’, meaning that upon the distribution of a dividend by MaltaCo to its registered shareholder, the shareholder would be entitled to claim a tax refund from the Maltese tax authorities which would be equivalent to either 5/7 (for passive interest and royalty income not derived from a trade or business) or 6/7 (for general trading income) of the corporate income tax paid by MaltaCo, resulting in an effective tax rate of either **10%** (for passive interest and royalty income not derived from a trade or business) or **5%** (for trading income), 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
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%

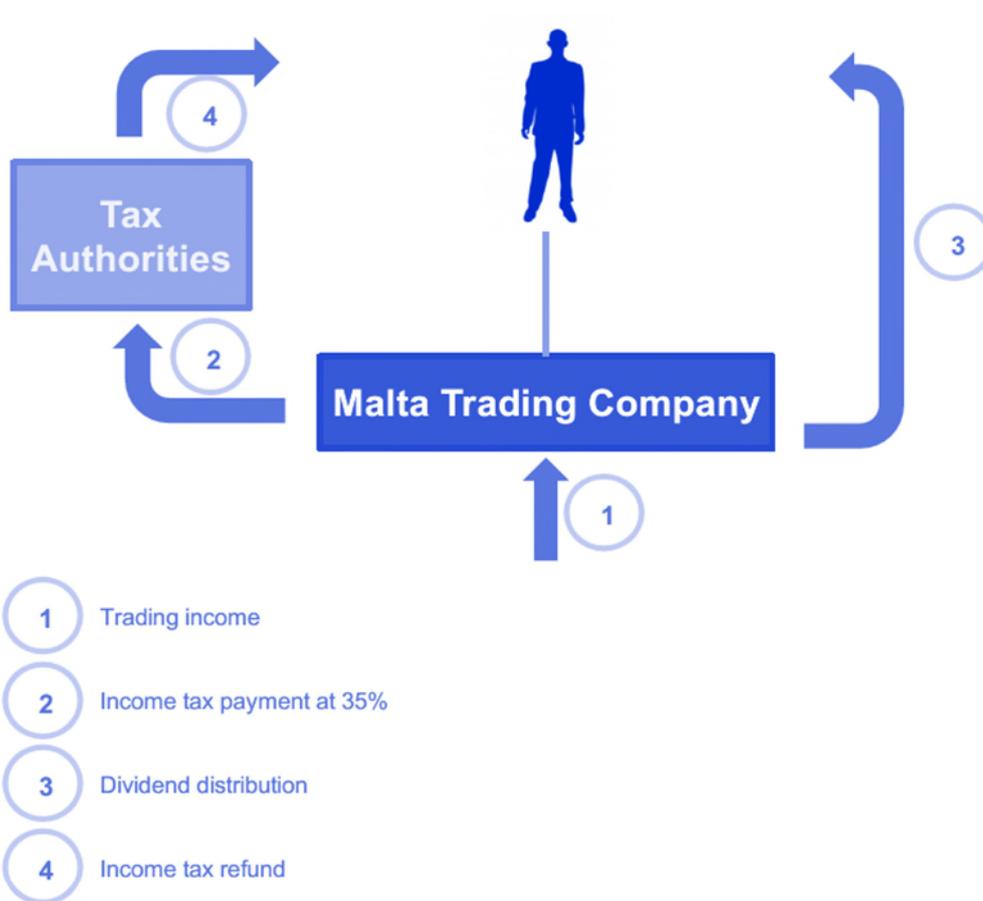
The tax refund received by the registered shareholder of MaltaCo could be treated as taxable income at the level of the shareholder, therefore there could be an additional tax charge in the country of tax residence of the shareholder.

To avoid the said tax exposure at the level of the shareholder, it is common to interpose an additional Maltese holding company (“**MaltaHoldCo**”) between the shareholder and MaltaCo.

MaltaHoldCo would receive the dividend from MaltaCo and it would also receive the tax refund from the Malta tax authorities, acting as the dividend feeder. From a Malta perspective, any dividend income derived by MaltaHoldCo from MaltaCo would not be subject to any additional tax, whereas the income tax refund itself would not be taxable at the level of MaltaHoldCo either.

The liquid assets at the level of MaltaHoldCo may then be gradually or at once distributed as a dividend to the shareholder without any dividend withholding tax, or else re-invested in MaltaCo as a capital contribution or loan.

A distribution of dividend is the triggering point that gives rise to an entitlement to the shareholder to make a claim for the tax refund. Therefore such tax refunds are fully dependent on the ability of the trading company to make a dividend distribution.



- 1** Trading income
- 2** Income tax payment at 35%
- 3** Dividend distribution
- 4** Income tax refund

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