



A Stepping Stone to Europe and Beyond

Malta as a Captive Domicile

2022

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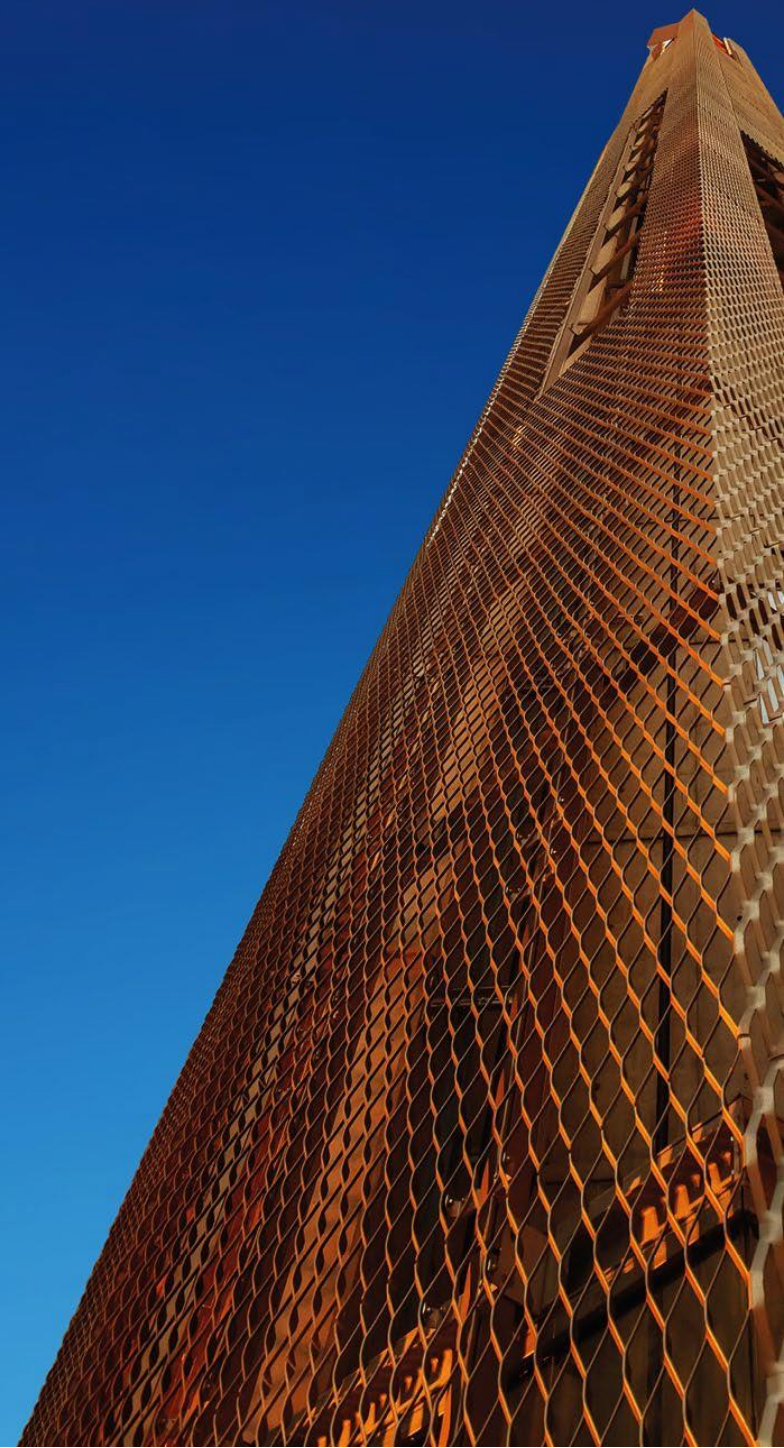
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“

Third quarter year-on-year growth in real GDP remained robust, standing at 9.7%”

CBM Quarterly Review, Q1 2022


Why Malta?



A-
S&P


A+
Fitch

A2
Moody's


525,285 - population (Worldometers 2020).


300 days of sunshine/year.


316km² - landness.


English widely spoken and written in Malta, and is the principle language for education and business.


Malta became the smallest member state in the European Union (EU) in May 2004, and joined the Euro Zone in 2008.

* As at April 2021
** As at August 2021



An ever-growing supply of high-quality office space for rent at competitive prices.



A robust economic growth outlook and reliable access to domestic funding.



No restrictions on the granting of work permits for EU and European Economic Area (EEA) nationals.



A flexible and proactive regulator that is very approachable and business-minded.



The Gross Domestic Product for the third quarter of 2021 went up by 9.7%



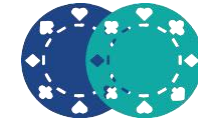
The unemployment rate in Malta stood at 3.0% by March 2022. This is the 5th lowest rate in the EU.



Financial services, science and technology, high value manufacturing, health tourism, education, iGaming, maritime services, aviation and creative industries are the dominant features of Malta's economic landscape.



Malta boasts a high level of education with graduates representing a cross-section of various disciplines related to financial services. The accounting profession is well established on the island.



The gaming industry in Malta has certainly made its mark. An important sector that not only attracts foreign investment but also creates important employment opportunities.

Overview of the Maltese Economy



Major International accountancy firms, including the Big 4 firms are also present on the island. Many legal firms tend to form part of international legal networks whilst many professionals in both areas pursue studies and training overseas.



The Malta Stock Exchange commenced its trading operations on 8 January 1992. Today it is a fully-fledged regulated market which successfully fulfils its role as an effective venue to raise capital finance.



International Financial Reporting Standards (IFRS), as adopted by the EU, are entrenched in company legislation and have been applicable since 1997.



With its move to regulate Distributed Ledger Technologies, Malta is positioning itself as the go-to place for innovative FinTech companies and blockchain entrepreneurs. FinTech has the potential of being a real game changer in the financial service industry.



A competitive tax regime, also for expatriates, and an extensive and growing double taxation treaty network, which currently stands at over 70 treaties in force.



Flexible legal and regulatory environment with a legislative framework in line with EU Directives.

Local Regulators



CBM



The Central Bank of Malta (CBM) is primarily responsible for maintaining price stability through the formulation and implementation of monetary policy. It is also responsible for the promotion of a sound financial system and orderly capital markets.

FIAU



The Financial Intelligence Analysis Unit (FIAU) is a government agency established under the Prevention of Money Laundering Act (Cap 373 of the Laws of Malta). It is the entity responsible for the collection, collation, processing, analysis and dissemination of information with a view to combating money laundering and the funding of terrorism. The Unit is also responsible for monitoring compliance with the relevant legislative provisions.



The Malta Financial Services Authority (MFSA) is the unified regulator of financial services in Malta and its remit extends to all areas of financial services activity, including credit institutions, financial and electronic money institutions, securities and investment services companies, trading venues, insurance companies, pension schemes, trustees and virtual financial assets.



MFSA



Taxation in Malta



The standard corporate income tax rate in Malta is of 35%.



Part of Malta's general taxation system is the full imputation system which includes a shareholder refund system. This system completely eliminates economic double taxation of company profits; furthermore upon a dividend distribution, shareholders are entitled to claim a partial tax refund, typically 6/7ths of the 35% tax paid, resulting in an effective tax rate on distributed taxed profits of a maximum of 5%.



Companies may form fiscal units, achieving an identical effective tax rate without the cash flow disadvantage of dividend distributions and shareholder tax refunds.



Companies also have the option to avail of the Notional Interest Deduction, which is deemed interest deduction for the cost of risk capital. Depending on the amount of risk capital and chargeable income for the year, effective tax rate may be reduced to circa 3.5%.

Expatriates

General rules of taxation: Individuals who are resident but not domiciled in Malta are subject to tax on Maltese source income (employment income for work carried out in Malta) and capital gains, and foreign source income, only to the extent that the latter income is received or remitted to Malta.

Highly Qualified Persons scheme: Under this scheme eligible persons, namely resident non-domiciled individuals occupying eligible offices in the financial services sector can, subject to a number of conditions, apply a reduced 15% income tax rate to their salary for an eligibility period.

Indirect Tax

VAT rate: Malta's Value Added Tax ("VAT") system is modelled on the EU VAT system, the standard rate of VAT being 18%

Insurance related services: The supply of insurance and related services are exempt without credit for VAT purposes. Where insurance services are provided to non-EU established customers, captives and their managers are entitled to recover VAT incurred on supplies they procure which are attributable to the supply of insurance services to such non-EU established customers.

Stamp duty : Insurance premium tax known as stamp duty, will be due only when the risk is located in Malta.

Taxation in Malta

Participation Exemption:
Dividends and gains derived from qualifying participations are fully exempt from tax.

Capital Gains: The transfer of shares in a resident company by a non-resident is exempt from tax, provided there are no interests in immovable property.

OECD IF: Malta is a member of the OECD Base Erosion Profit Shifting Inclusive Framework.

Stamp duty:
Exemption from stamp duty may apply for companies with business interests outside Malta.

Capital taxes: Malta has no net worth tax or similar taxes on capital.

Withholding Taxes: Malta does not impose any withholding taxes on interest, royalties, dividends and proceeds from liquidation.

Double taxation agreements (DTAs):
Malta has a strong treaty network with over 75 tax treaties currently in force.

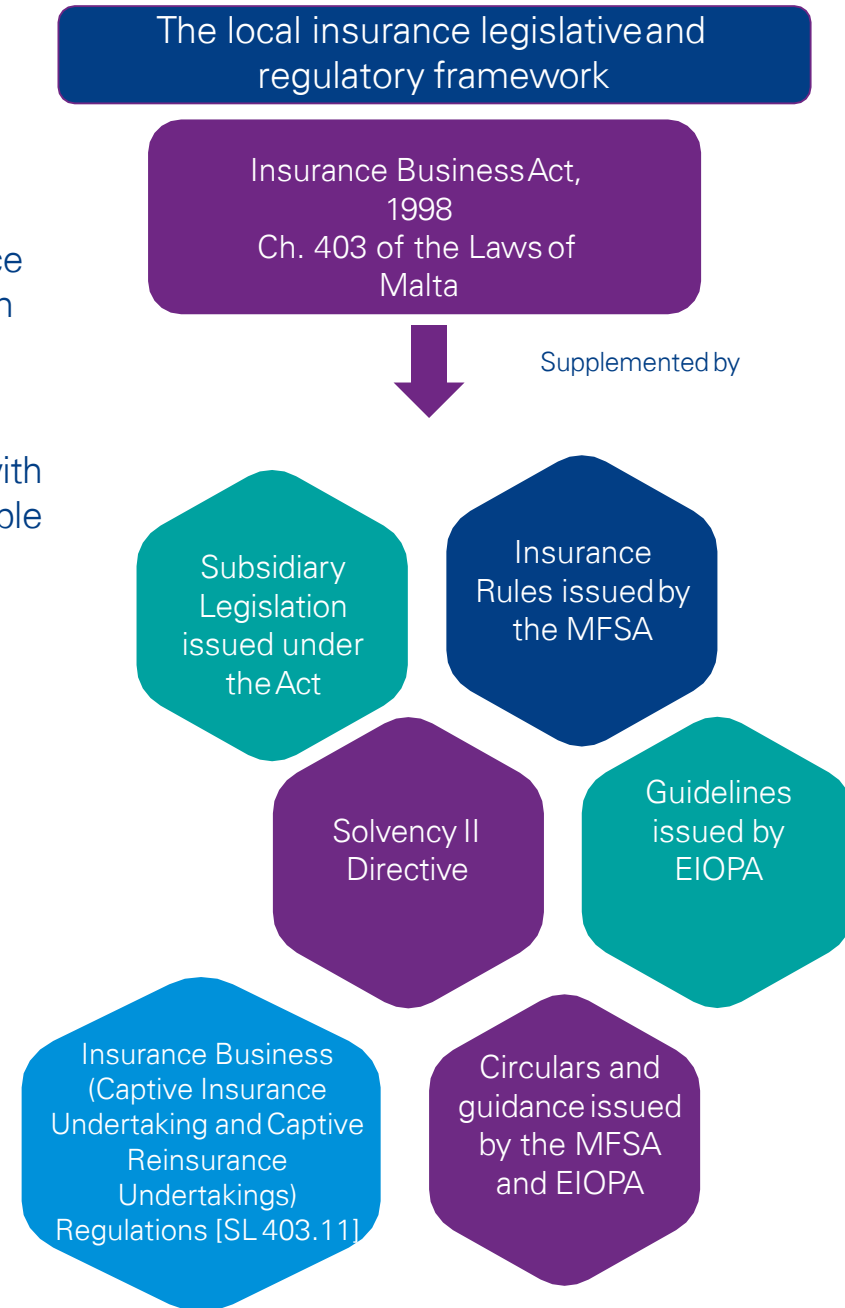
Malta is effectively implementing the requirements of the OECD BEPS project through the transposition of EU Directives by means of which various anti-tax avoidance measures have been introduced.



Malta as a Captive Domicile:

General Considerations

- ❑ As an EU and EEA member state, upon due authorization Maltese (Re)Insurance undertakings may enjoy the freedom to write business across the EEA, through 'freedom of services' or even by means of a physical overseas branch through 'freedom of establishment'. This is known as passporting.
- ❑ As a Commonwealth member state, Malta shares significant diplomatic ties with the United Kingdom. In the post-Brexit ambit, a number of solutions are available to Maltese (Re)insurance captives.
- ❑ A multitude of risks of different nature, or classes of business may be underwritten on both insurance and reinsurance bases.
- ❑ Maltese registered insurance companies are regulated by the Malta Financial Services Authority (MFSA) they are in turn subject to supra-national micro-prudential regulation by the European Insurance and Occupational Pensions Authority (EIOPA). These regulatory bodies adopt a pragmatic, flexible and dialogue-driven approach to regulating subject entities.



*As at the end of 2019 (Mondaq)

Malta as a Captive Domicile : Capital Requirements



Captive insurance companies are required to possess own funds amounting to not less than the applicable minimum guarantee fund, which varies depending on the business of the captive. The minimum guarantee fund for a reinsurance captive is EUR1.2m, whilst for a general business captive it ranges between EUR2.5m - €3.7m, subject to the type and class of business, with the tail end applicable for captives writing liability business. In the case of life insurance captives, the minimum guarantee fund is EUR3.7m.

EUR 2.5-3.7m
Minimum Capital
Requirement

Solvency II

As an EU member state Malta has completely transposed and implemented the EU Solvency II Directive*. Thus, it is subject to a 3-pillar regulatory regime which has at its heart:

- o **Capital Adequacy and Solvency**
- o **Corporate Governance and Risk management**
- o **Reporting and Public Disclosure Requirements**

In complying with the Solvency II capital requirements, Maltese Captives must remain compliant with solvency (SCR) and minimum capital requirements (MCR).

Capital Adequacy and Capital Quality

Capital Quality is a cornerstone concept under Pillar 1 of solvency II and capital quality is gauged according to a capital tiering system, based on its permanency and loss absorbing capacity.

As a minimum Paid-up share capital cannot amounting to not less than 50% of the value of own funds requirement; and 80% of tier 1 capital (Readily available and unencumbered capital) needs to make cover the minimum capital requirement.

In addition to the SII regulatory regime, Maltese Captives are subject to the local Insurance Business Act (Cap 403) and Insurance Rules resulting therefrom.

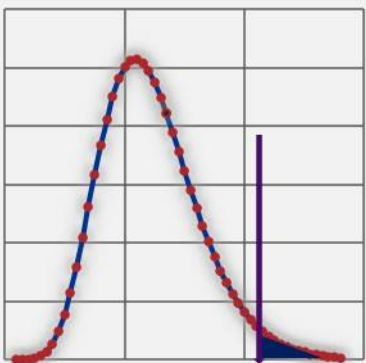
Statutory Reporting requirements

These include:

- **Audited Financial Statements (AFS)**
- **Quantitative Reporting Templates (QRTs)**
- **Regulatory Supervisory Reports (RSR)**
- **Solvency and Financial Condition Reports (SFCR)**
- **Own Risk and Solvency Assessment (ORSA)**

Captive Jurisdiction Capital Synergies

Capital efficiency synergies are available with other jurisdictions that SII Bermuda equivalence (e.g. recognition of Solvency cover % when assessing credit risk exposures)



*Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) (Text with EEA relevance)

KPMG at a Glance

We provide Audit, Tax and Advisory services, individually or on a combined basis, delivering globally consistent multi-disciplinary skills and capabilities, based on extensive industry knowledge, to all of our national and international clients.

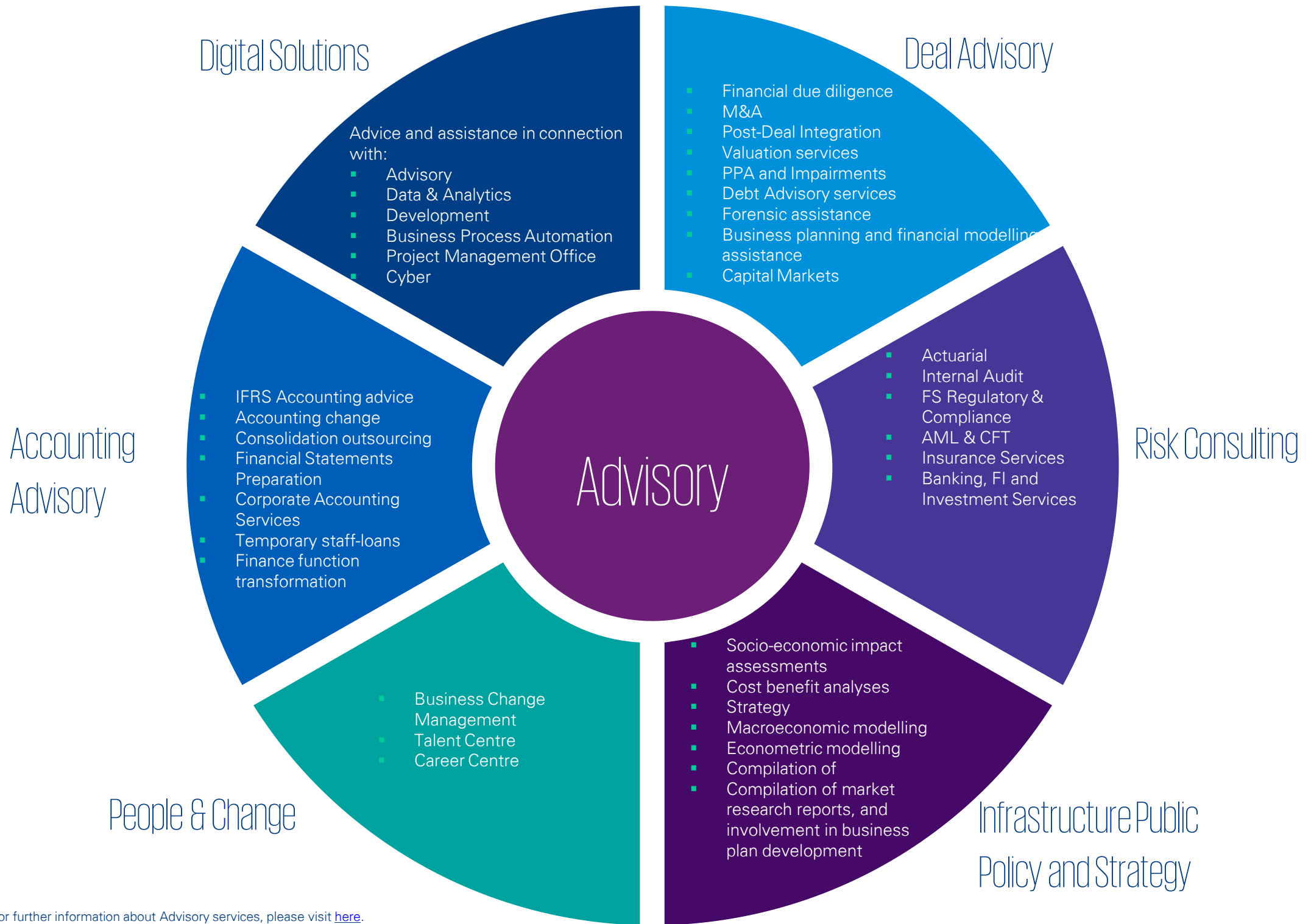
We respond to our clients' complex business challenges with a global approach to services that spans industry sectors and national boundaries. Global capability and consistency are central to the way we work.



An infographic composed of puzzle pieces. The top row features a puzzle piece with a map of Malta and another with a world map. Below these are four puzzle pieces labeled '1987 KPMG was founded', 'Audit & Assurance', 'Tax', and 'Advisory'. The middle row features a puzzle piece with '96% said that KPMG's commitment to quality is apparent in what they do on a day-to-day basis.', a puzzle piece with '900 full-time employees in Malta (incl. KPMG in Malta and KPMG Microsoft Business Solutions)', and a puzzle piece with an icon of three people. The bottom row features a puzzle piece with a star icon, a puzzle piece with 'Operates in 145 countries', and a puzzle piece with 'More than 236,000 people globally'.



For further information about Tax services, please visit [here](#).
For further information about Audit and Assurance services, please visit [here](#).



Risk Consulting Advisory Services



- Actuarial Function Holder
- Claims Reserving
- Pricing Studies
- Capital Modelling and Risk-Finance Optimisation
- IFRS 17 actuarial assistance
- Advice and assistance with the application to obtain a licence from the MFSA
- Evaluation of compliance policies and procedures
- Provision of advice on the design of the compliance functions
- Co-sourcing of Risk and Compliance Functions
- Advice and assistance in connection with Regulatory Reporting
- Regulatory risk assessments
- Outsourcing and Co-sourcing of Internal Audit Activities
- External Quality Review of the IA Department
- Provision of training at Board and Management level
- Assistance across a broad spectrum of AML/CTF regulatory compliance and risk management services
- Other ongoing advice and assistance on day to day regulatory matters



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