



Aircraft Leasing

Take off from Malta

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Introduction to Malta

While Malta's financial services sector is proving to be a driving force in the economy, multinationals are choosing Malta as their preferred jurisdiction in which to locate all sorts of activities such as general trading, back office, call centre, research, development and design and where appropriate even manufacturing activities, notably in the pharmaceutical, electronics and machinery sectors.

Malta's aviation industry is no exception and in recent years Malta has become a jurisdiction of choice in the fields of aircraft maintenance, aircraft registration and aircraft leasing – Lufthansa Technik, SR Technics and VistaJet all have a substantial presence in Malta.

Tax Refund System

In addition to Malta's imputation tax system which eliminates economic double taxation, Malta has embedded in its fiscal legislation a system of tax refunds.

Maltese resident companies, including a foreign company with a branch in Malta, first pay tax on their profits at 35%. Upon a subsequent distribution of these taxed profits, whether derived from local or foreign sources (other than from immovable property situated in Malta), the shareholders have the option to a full or partial refund of the tax paid by the company, generally resulting in an effective Malta tax charge of between 0% and 6.25%.

Malta's Notional Interest Deduction ('NID')

Malta's NID was introduced with the purpose of achieving an equal treatment of debt and equity financing, by granting an additional deduction for the return on equity financing. Such notional deduction can be claimed by companies and partnerships resident in Malta (therefore also including aviation companies) against their chargeable income for the year.

Aircraft Leasing

Over the last few years, the use of Malta for aircraft leasing structures has seen a sharp increase. Companies engaged in aircraft leasing transactions may benefit from Malta's tax refund system, however, the tax treatment will vary depending on whether the lease is an operating lease or a finance lease.

Foreign Companies resident in Malta

Where the lessor or lessee is a company that is tax resident but non-domiciled in Malta i.e. although incorporated outside Malta it is managed and controlled in Malta, it would only be subject to tax in Malta upon:

- any income arising in Malta; and
- any chargeable gains arising in Malta; and
- any income arising outside of Malta only to the extent such income is received in / remitted to Malta. In terms of Malta's source rules, any income derived from the ownership, leasing and operation of aircraft or aircraft engines, which is used for or employed in the international transport of passengers or goods, is deemed to arise outside of Malta. Therefore, a resident non-domiciled company will only be taxable in Malta if it receives its income in Malta. Where the income is not received in Malta there would be no tax liability in Malta.

Flexible, business friendly and cost-effective, Malta's regulatory and fiscal system has led to its increasing popularity as a jurisdiction for international business, particularly in the setting up of aircraft leasing arrangements.



Lessor

Operating Lease

In an operating lease, the lessor would be entitled to tax depreciation on the value of the aircraft frame and aircraft engine at 16.7% per annum as well as a tax depreciation on interiors and other parts at 25% per annum.

Through the application of the tax refund system, although the lessor will be subject to tax at 35%, the effective Malta tax charge will be reduced to between 0% and 6.25%.

Furthermore, a disposal of the aircraft can be structured such that this would not attract any Maltese tax liability.

Finance Lease

In a finance lease scenario, the lessor will be taxable in Malta on the finance charge, with deductions allowable for any finance cost.

Same as in an operating lease scenario, although the lessor will be subject to tax at 35% on its taxable income, the tax refund system will reduce the effective Malta tax charge to a maximum of 6.25%.

Upon a disposal of the aircraft there are no tax consequences in Malta.

Lessee

Operating Lease



In an operating lease, where the lessee uses the aircraft as part of its trade, it will be allowed a deduction for the lease payments and any other expenses which are incurred in the production of its income, and would then be taxable at 35%.

The application of the tax refund system will result in an effective Malta tax charge of between 0% and 6.25%.

Finance Lease

In a finance lease scenario, the lessee will be allowed annual tax depreciation on the value of the aircraft frame and aircraft engine at 16.7% and tax depreciation on interiors and other parts at 25%. A further deduction is allowed for the finance charge, the cost of repairs and maintenance and insurance.

Through the application of the tax refund system, the effective Malta tax charge will be between 0 and 6.25% on the chargeable income.

			
Tax Depreciation Rates		Withholding taxes	
The Aircraft airframe, engines or an overhaul thereof: 6 years i.e. 16.7%		Malta does not impose any withholding taxes on interest, royalties, dividends, lease payments and proceeds from liquidation.	
Aircraft Interiors and other parts: 4 years i.e. 25%			

What we offer:



- Registration of aircraft, including helicopters and drones
- Regulatory and safety compliance services
- Aircraft Financing & Leasing
- Tax Advice & Compliance
- Assurance Advisory
- Accounting Advisory



- Internal or External Audit
- Advisory & Compliance
- Aviation Corporate Services
- Mergers and Acquisitions
- Entity Management Support



- Securitization
- GDPR
- Employment, Social Security and Payroll Services
- Anti-Money Laundering Compliance.
- Automation & Robotics

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