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Malta: Your Ideal Platform for International Business

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About Malta

Malta, an island with a history stretching back 7,000 years, has always been well-known for the role it plays on the international field due to its location right in the heart of the Mediterranean.

Situated about 100 KM south of Italy and 288 KM north of Africa, the Maltese archipelago consists of five islands, having a total area of 315 KM^2. Identified as a hub for the carriage of goods in the past, it has since flourished exponentially as a financial centre, transforming itself into a reputable international business and financial centre sought by top end industry players.

The acclaim and repute Malta enjoys is consistent with the quality of the services it offers and its reliability and constancy even in times governed by global financial turmoil. Its robust legal and fiscal framework, its penchant for innovation, its skilled and multilingual work force, and its stable administrative and ICT infrastructure have all contributed to its substantial economic growth. Malta has been relatively unscathed by the financial crisis and in 2009 and 2010, the financial services industry has experienced a growth of over 20% per annum. This, coupled with the authorities' accessibility and a 'can do' business approach, has turned investors' plans into a reality; making Malta the jurisdiction of choice for multinationals and household names which have found doing business in Malta an efficient and effective experience.

With a legal and regulatory framework compliant with EU standards, fast time to market, and responsiveness, Malta has progressively developed into a premier financial centre: The City of London's Global Financial Services Index (2010) named Malta as one of the three financial centres expected to grow in importance over the coming years, and the World Economic Forum's Global Competitiveness Index 2010-2011 has ranked Malta as having the 10th soundest banking sector and 11th in financial market development. Moreover, in a study commissioned by the EU Commission in 2009, Malta placed 1st for online sophistication and full online availability.

The country is not only about financial services. Tourism, manufacturing and the services industry which includes the ports and Freeport/transhipment centre are major contributors to GDP.

Facts:	
	EU Member State since 2004
	Currency: EURO
	2010, Real GDP increase by 3.4%
	Language: English is an official language. All laws and contractual agreements are published in English
	Politically and Economically stable
	No bank failures during global financial crisis
	Very attractive and competitive tax system
	Legal system is civil, but public law including tax and commercial law and regulatory laws are influenced by UK notions
	Excellent links of communication and transport network with Europe and beyond
	Mediterranean climate
	Ideal hub for business and pleasure
	Fast implementation of EU law and Directives.

Malta`s Tax system

With its unique tax system, Malta is the lowest tax jurisdiction in the EU.

Undoubtedly, Malta's tax system has been one of the key contributors to it maturing into the financial and international business centre that it is today. The taxation system is a fully integrated imputation system which completely avoids the economic double taxation of corporate profits by imputing onto shareholders the underlying corporate tax attaching to dividends. As part of this system the shareholder is entitled to claim a tax refund of the 35% corporate tax borne on distributed profits. The default tax refund is $6/7^{ths}$ of the tax charge borne on the distributed profits before deducting any credits in respect of any foreign taxes. As a result the tax that would normally be borne in Malta after the tax refund is claimed is of 5% ($1/7^{th}$ of 35%) reduced by foreign taxes such that when foreign taxes are 5% or more of taxable income no tax will be borne in Malta. Though a different tax refund rate may be applicable depending on the circumstances, the overall tax in Malta after the tax refunds will normally be between nil and a maximum of 6.25%. This tax refund system is of universal application except for income derived from immovable property situated in Malta.

In addition, Malta has an attractive participation exemption regime which exempts from tax income (normally dividends) and all gains derived from a qualifying equity holding or from its disposal or part disposal. A qualifying holding is an equity holding of 10% or if less, one with an acquisition value of €1.165 million or which entitles the holder to appoint a director or to acquire the remainder of the capital.

The facility to account and pay tax in any convertible currency using IFRSs, the use of English in all legal and official documentation and the fact that the fundamentals of tax and company law are based on well-known UK principles all contribute to an efficient and effective business environment. Moreover, other tax rules, namely that there are no

Malta`s Tax system continued

withholding taxes, no capital or net wealth taxes, no controlled foreign company rules, no thin capitalisation rules, no stamp duty on the issue or transfer of shares, no exit taxes, no transfer pricing rules, and no tax on sale of shares all contribute to peace of mind that there no hitches and allow companies to concentrate on their business, rather than worry about complex and costly tax rules.

Malta's Tax System - At a Glance

Full imputation with corporate tax rate of 35%
Tax refund system reduces tax borne to between nil and maximum of 6.25%
Tax refunds are guaranteed at law and paid within 2-3 weeks from application
Participation exemption
Tax system vetted and approved by the EU commission and the Code of Conduct Group
Use of IFRS functional convertible currency – for statutory capital, financials, tax and tax refund purposes
60 double tax treaties based on the OECD Model
Revenue rulings are binding for 5 years or 2 years following change in legislation
Informal tax confirmations are also common
No withholding taxes on dividends, interest, royalties or other expenses
No transfer pricing, thin capitalisation or controlled foreign company rules
No Capital Taxes or Wealth Taxes
No stamp duty on share issues or transfers
No Exit Taxes
Attractive expatriate taxation

The Financial Services Regulator

The Malta Financial Services Authority (MFSA) is the single regulator for the financial services industry and is staffed by a team which is highly technical, yet in tune with developments. The regulator has been instrumental in ensuring that Malta develops as a reputable financial centre applying the highest standards and also that the legislation, directives and policies are in line with EU law and with the latest market developments and needs of the industry. This technical yet entrepreneurial attitude has indeed been a major success as evidenced by the substantial growth of the industry of over 20% in 2009 and 2010, in the face of the major global economic and financial crisis. Fuelled by the island's"can-do" approach to make financial services a major economic contributor, and our naturally warm Mediterranean hospitality, the MFSA's level of service is second to none. While the outlook to regulation and licensing is guided by the imperative that Malta's reputation must be safeguarded, the MFSA is open to understanding business needs and actively works with industry players and professionals to seek effective solutions.

The growth in Malta's financial services is no coincidence. It forms an integral part of Government's strategic long-term economic plans to increase the sector's contribution to GDP from the current 13% to 25% by 2015. More importantly this vision and support for the sector and the fiscal environment is shared across the political divide.

The MFSA

Single regulator, rigorous but fast and flexible
Reputation given paramount importance – attracts reputable industry players
Supervision is risk-based and minimally intrusive
Regulation is business sensitive
Licensing procedure is personalized
Regulator adopts open-door policy

Funds

Malta is one of the fastest growing Fund domiciles in the EU, with over 400 Funds domiciled in Malta.

Malta is increasingly making headline news in the fund industry. The Financial Times of the 3rd March 2011 reports that some of the largest London-based hedge fund managers are shifting their operations to the Mediterranean islands in response to the rising costs of business in the UK. With over 400 funds domiciled in Malta, it is one of the fastest growing fund domiciles in the EU. A significant number of funds have shifted their legal seat from traditional fund domicile jurisdictions to Malta, and UCITs funds for servicing Europe are increasingly setting up in Malta. In view of this, the shift of fund service providers to Malta becomes inevitable. In fact, Malta boasts a number of investment managers, fund administrators (including APEX, TMF, Praxis and Custom House), and custodians which include HSBC and Deutsche Bank. With an ever growing industry, foreign banks have eyed upon the rate at which the industry has grown.

According to fund managers and administrators who have come to Malta or are considering setting up, the main drivers for the growth of the industry are the relatively low costs of setting up and maintaining funds in Malta (50% cheaper than competing EU domiciles), the assistance provided by the proactive MFSA, the flexible regulatory and legal framework and the considerable fiscal advantages for the fund, the investors, fund manager and administrator; all the said main drivers of which are and equally important for those expatriates who relocate to Malta.

The substantial growth in the sector is mainly in Professional Investor Funds (hedge Funds). The regulation of these funds becomes progressively lighter as the investor is more knowledgeable. At the lower end of the scale, regulation of funds with experienced investors (minimum investment of €10,000) is close to that of retail funds but this becomes progressively lighter for qualifying investors (minimum investment of €75,000 and extraordinary investors (minimum investment of €750,000).

Characteristics:	
	Quick and efficient licensing of Funds upon submission of final documents
	Set-up approximately 8 weeks
	Low set-up and operational costs
	Funds can be set-up as LP, LLC (Limited liability company) SICAV (variable share capital), mutual fund or unit trust
	PIF (Professional Investor funds): Varying degrees of regulation for experienced investors, qualifying investors and Extraordinary investors
	No investment, borrowing or leverage restrictions for extraordinary investors
	Custodian or prime brokers are only a required for experienced investors
	Administrator can be outside Malta
	Change of legal seat of funds (re-domiciliation) into and out of Malta possible
	Licensed funds tax exempt
	Types of Funds in place: Master/Feeder structures, Fund of funds, Real estate, Private equity, Hedge funds, UCITS Funds

Insurance and Re-insurance

Why have Fortune 100 companies opted for Malta to locate their captive? One answer can be found in the presence of the likes of Marsh, AON, Willis, JLT, USA risk group, HSBC and other renowned insurance managers, who rank Malta as one of the best insurance locations in the EU. Taxation of an insurance company follows the general system, with a 5% effective rate of tax. With rules for movements in technical provisions being recognized for tax purposes, insurance companies have the benefit that their tax result is aligned closely with the accounting result. Furthermore, Malta does not impose compulsory set-up of catastrophe loss reserves for reinsurance.

PCC (Protected Cell Companies)

Malta is the only EU Member State which allows companies to set-up as protected cells segregating assets and liabilities. A PCC permits a greater level of management control and reduced operational costs. PCC legislation provides companies an attractive cost effective alternative to setting up a standalone insurance company. Because of EU passporting rights, through a PCC or ICC, one can sell insurance across the EU without having the need of a fronting agent. Demonstrably, this has made Malta the favourite domicile for insurance, re-insurance and captives.

ICC (Incorporated Cell Companies)

An ICC is similar to a PCC but each cell has a distinct, separate juridical personality and hence also allows contracting amongst cells.

Why opt for a PCC or ICC in Malta?

Coverage of risks and liability limited to each separate cell
The assets of one cell are distinct from other cells and the company
Each cell in a PCC/ICC is treated as separate from other cells for income tax purposes
Refund system is also available for insurance companies, reducing the effective corporate tax rate down to 5%
Easy accessibility to the authorities and regulator

Banking

The considerable interest in banks setting up in Malta pre-dates the growth in the funds and insurance sectors and has been a phenomena since 1995.

The sector has 25 licensed credit institutions, 20 of which hail from the EU. The influx of such banks, which includes several leading banking groups, has added dynamism to Malta's thriving financial services industry, and the expectation is that many other banking institutions will follow this lead. Malta's banking sector has been ranked as the 10th soundest banking sector by the World Economic Forum's Global Competitiveness Index 2010-2011. Malta's banks and financial system has been virtually unaffected by the financial crisis mainly as a result of the prudent investment policies by Maltese banks, which are well capitalised with strong liquidity ratios and well diversified portfolios. These banks too benefit from Malta's attractive tax system with a tax burden of between nil and 6.25%.

Holding, Treasury & Intellectual Property (IP) Companies

An ever increasing number of multinationals, private equity houses, investment banks and family offices choose Malta as their preferred location for holding company, group finance and treasury activities and once established look no further. Malta's attractive tax-refund system including the participation exemption effectively means that the tax borne in Malta will range between nil and a maximum of 6.25%. The tax system moreover has some unique features, including, amongst others,

the ability to use of foreign tax credits on a source of income against the tax that would otherwise be borne of other income. In addition, companies have found that Malta's highly skilled work force enables them to effectively carry on business activities from Malta including leasing, factoring, group financing, securitization etc. All this, together with the expanding double taxation treaty network, makes Malta an attractive platform for trading and holding mixer companies. For IP companies, royalties and similar income derived from patents in respect of inventions, are exempt from tax subject to meeting defined conditions. Furthermore capital expenditure on IP (including R&D, audio-visual rights, copyrights, databases, designs, know-how, service names, trademarks) can be depreciated over three years.

100% participation exemption on dividends and capital gains derived from a participating holding
Participation exemption available amongst others on: 10% of equity shareholding (including holding in funds) or a holding an investment of at least €1.164 million ($1.615 million)
No withholding taxes on distribution of dividends, interest and royalty payments and liquidation proceeds
Extensive tax treaty network
Neutral Tax exit:
Sale of shares
Change of legal seat or shifting of tax residence (redomiciliation)
No thin capitalisation, CFC or transfer pricing rules
No net worth or capital taxes
Step-up in base cost of assets upon redomiciliation or transfer of fiscal residence to Malta

Other, High-tech industries/services

With its professional, multi-lingual and young labour force, Malta offers a favourable environment for companies seeking the ideal conditions to relocate or start operations. Malta is home to a myriad of first-rate companies (subsidiaries of European and US companies) producing pharmaceuticals, medical, ICT, electronic and other products, and engaged in software development, front and back office operations, logistics-based services, database centres and call centres. A number of these companies also undergo substantial research and development activities. These productive activities, which find their beginnings in the 1960s, account for about 25% of Malta's gainfully employed and Malta's GDP. In addition to the tax refund system, these companies also benefit from a number of fiscal and non-fiscal incentives which are modelled in compliance with EU state aid rules. These incentives mainly consist of financial or tax credits calculated as a percentage of the cost of new investment undertaken depending on whether the company is regarded a small, medium sized or large company.
These productive groups with a heavy presence in Malta, and other groups also set up in Malta include principal trading companies in contract/toll manufacturing and commissionaire structures. Malta's advantage vis-à-vis non-EU countries lies in the fact that when trading within the EU, the Maltese company would have an EU VAT number and this would therefore also facilitate importation of goods into the EU from non-EU countries. The Freeport/transhipment centre also complements the use of such structures.

Quick and low cost set-up
2,500 graduates per annum, geared towards infrastructural and industrial needs, with up-to-date specialized knowledge in law, commerce, ICT, engineering and other key subjects
Tax credits on capital investment and job creation
Access to finance
Enterprise support to businesses carrying on or intending to carry out an activity which contributes to economic development. Includes tax credits to microenterprises and assistance in participation of international trade fairs
SME development Aid
R&D and innovation - tax credits on eligible costs
Aid within EU parameters

Shipping and Yachting

With its natural large deep water harbours, shipping and maritime affairs have always been a major industry for Malta.

As the second largest ship register in Europe and eighth worldwide, ship owners are serviced by a well-established legal and accounting profession which have worked with international counter parts in this industry for more than thirty years.

The natural harbours which were once used for extensive ship repair and ship building by the UK navy, are today home to yacht marinas hosting famous super yachts. To complement this industry, Malta has an attractive VAT system whereby the VAT payable on yacht acquisitions is reduced progressively with the size of the yacht, to as low as 5.4%.

Attractive Taxation for Expatriates

In today's world where the emphasis is on establishing companies with substance and shifting away from brass-plate companies, making it attractive for individuals and their families to relocate is equally as important. Malta offers an attractive tax environment for expatriates who are not taxed on their world-wide income and also benefit from a number of incentives and exemptions. Moreover, expatriates soon feel at home: they are welcomed to a country with a European culture and a Mediterranean lifestyle with an unparalleled reputation of a warm hospitable people. English is not only widely spoken and used in business and education, but is the language used for general communication such as in shops and road signage. The pleasant weather, over 300 days of sunshine, the warm Mediterranean sea, the culture and history, the cuisine, the outdoor living, the easy getaways to mainland Europe and the attractive expatriate taxation, makes Malta the ideal place where one can not only do business but enjoy doing business in the right climate.

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