PREFACE

This profile on Doing Business in Malta has been prepared by Baker Tilly Sant, the independent member of Baker Tilly International in Malta. The booklet is designed to provide information on a number of subjects important to those contemplating investing or doing business in Malta.

Baker Tilly International is the 8th largest network in the world by aggregate fee income and is represented by 128 firms in 85 countries, with 20,100 staff worldwide. Its member firms are high quality, independent accountancy and business services firms, all of whom are committed to providing the best possible service to their clients, both in their own marketplace and across the world.

This guide is one of a series of country profiles compiled for use by Baker Tilly International's member firms' clients and professional staff, which may be obtained from any of our international offices, or from within Malta from Baker Tilly Sant.

Doing Business in Malta has been designed for the information of readers. Whilst every effort has been made to ensure accuracy, information contained in this booklet may not be comprehensive and recipients should not act upon it without seeking professional advice.

Up-to-date advice and general assistance on Maltese matters can be obtained from Baker Tilly International's Malta based member firm. Please see their details in the back cover of this booklet.

March 2006

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1 INTRODUCTION

1.1 Geography and Climate

The Maltese Archipelago is made up of three Islands with a total area of 316 sq. km., and is strategically situated in the middle of the Mediterranean Sea, approximately 80 km south of Sicily - Italy.

Malta, with an area of 246 sq. km., is the main island of this Archipelago that also comprises the islands of Gozo and Comino.

The climate of Malta is typically Mediterranean, with dry warm summers and mild winters. Temperatures range from a maximum of approximately 30°C (87°F) in summer to a minimum of 9°C (49°F) in winter. Annual rainfall averages 590 mm.

Maltese history is very rich and colourful and is indeed impressive considering the size of the islands. The existence of man in Malta dates back from circa 5,000 BC and Neolithic temples still survive from this era, together with others from later periods. The Phoenicians, Carthaginians and the Romans succeeded each other in establishing a base in Malta. It was during the Roman era that St. Paul was shipwrecked on the Maltese Islands and converted the Islanders to Christianity. The Byzantines who followed the Romans were in turn ousted by the Arabs in 870 AD. In 1090, Malta became part of the Kingdom of the Two Sicilies and in 1530 was ceded to the Order of St. John of Jerusalem. In 1798, Napoleon Bonaparte put an end to the rule of the Order, but in 1800 Malta with the help of the British succeeded in liberating itself from the French. Later, Malta became a British colony by virtue of the Treaty of Amiens in 1814. Malta finally became politically independent within the British Commonwealth in 1964 and a Republic in 1974. Malta joined the E.U. on 1 May 2004.

1.2 Population

The total population of Malta and Gozo is approximately 390,000 people. Comino is uninhabited.

1.3 Political System

The President is the Head of State of Malta and is elected by Parliament. The responsibility for enacting laws lies with Parliament, which is made up of a House of Representatives whose members are elected every 5 years through General Elections based on the principle of proportional representation.

1.4 Languages

Malta has its own language - Maltese, which together with English is used in official correspondence and to conduct business activities. Being so close to Italy, Italian is also widely spoken.

1.5 Currency

The basic unit of currency is the Maltese Lira (Lm). The value of the Maltese Lira is established on the basis of a basket of currencies including the Euro, Pound Sterling and United States Dollar. As at 1 January 2006, one Maltese Lira (Lm 1) was equivalent to:

USD	2.77	CHF	3.63
USD	1.60	EURO	2.33

The Government is committed to enter the Euro-zone by 1 January 2008, and the rate of exchange has already been set at Lm 1 = €2.3294.

1.6 Economy

The Maltese economy has undergone a great transformation during the last 25 years, with the manufacturing and tourism industries going from strength to strength despite the upheavals in the international scene, which have so badly affected economies worldwide.

Malta's Gross Domestic Product has had a steady increase throughout these last years and the Gross National Product (GNP) per capita for 2002 stood at Lm 4,251 (€9,777).

Apart from tourism, which is the backbone of the Maltese economy, international trade, and in particular exports, represent Malta's economic lifeline. Proof of this is the recent tax legislation that alleviates the tax burden on companies engaged in international trade and exports.

Nearly 70% of imports and visible exports are made to European Union countries, of which Malta is now a fully-fledged member. Certain manufactured products enjoy customs free entry into the United States of America under the General System of Preferences.

2 BUSINESS ENTITIES

2.1 Companies

Commercial entities are usually limited liability companies with share capital. A company may be incorporated either as a public or a private company. Only a public company ('plc') may offer shares or debentures to the general public. A public company must have an allotted share capital of at least Lm 20,000 25% paid-up. The minimum share capital for a private company ('Limited') is only Lm 500 20% paid-up. A public company must have at least two shareholders. A private company may have only one shareholder. Private companies are limited to a maximum number of 50 shareholders. There are no limitations in respect of public companies.

A private company need have only one director, but a public company must have at least two. There is no requirement that directors must be Malta or EU nationals.

2.2 Partnerships

Partnerships can be either general partnerships, where the partners each have unlimited liability for the debts and obligations of the firm as a whole, or limited partnerships, where one or more of the general partners have unlimited liability and the limited partners have liability only up to the amount of their capital contributions. A partnership is defined in law as the 'relationship which exists between persons carrying on a business in common with a view to profit'. A partnership is not regarded as a separate legal entity distinct from its members.

2.3 Sole Partnerships

Many smaller businesses in Malta fall into this category.

2.4 Trusts

There are two main types of trusts – fixed and discretionary. The type of trust utilised determines the method by which income and capital will be distributed to the beneficiaries of the trusts.

The operations and conduct of a trust is governed by the Trust Deed. The trustee, either natural persons or an incorporated body (for limited liability), runs the business of the trust and incurs the liabilities on behalf of the trust. In return, the trustee receives a right of indemnity from the assets of the trust equal to the liabilities incurred.

A trust is a useful vehicle for splitting income, however similar effects can be achieved in other structures.

2.5 Branches

An overseas company can set up a place of business in Malta without forming a Malta subsidiary company, and in that case it is said to have a branch in Malta.

A branch is not a separate legal entity, but an extension of the foreign company, and the foreign company is therefore responsible for its liabilities.

2.6 Audit and Accounting Requirements

All businesses need to maintain proper books of account for taxation purposes and to retain the accounting records and associated documents for not less than 10 years. All limited liability companies, irrespective of their annual turnover must have their accounts audited by a qualified accountant. Companies that are subsidiaries of a foreign company as well as branches must also be audited.

2.7 Filing Requirements

All limited companies must file accounts at a central registry (Registry of Companies) but small companies may file in an abbreviated form of accounts. An annual return giving details of directors and shareholders must also be filed.

Branches of foreign companies must file details of the branch, its head office and legal representative in Malta at the Registry of Companies within one month of setting up a branch. Accounts of the foreign parent must also be filed annually.

3 FINANCE AND INVESTMENT

3.1 Exchange Control

There are no exchange controls in Malta on inward or outward investment, however, long-term insurance contracts with insurance undertakings that are non-EEA, are prohibited. Foreign currencies can be bought and sold freely and there are no restrictions on the maintenance of foreign currency bank accounts in Malta. Clearance is required for the acquisition of shares in a Maltese non-listed company by residents of a non-EEA country. This does not apply to International Trading Companies, International Holding Companies or Shipping Companies, or in the event that the percentage shareholding in the Maltese company by Maltese residents is less than 20%. Documentary requirements are still applicable for monitoring and statistical purposes only.

There are no limitations on the repatriation of profits from Malta.

Malta, in common with the rest of the EU, has enacted laws to prevent the laundering of the proceeds of serious crime. Financial and some other institutions must obtain and retain satisfactory evidence of the identity of a potential customer before they do any business with that customer, even for relatively small sums. Failure to report suspicion of money laundering to the appropriate authorities can result in serious penalties.

3.2 Sources of Finance

3.2.1 Banking

The Central Bank of Malta acts as banker to the Government. It is responsible, inter-alia, for setting base interest rates through its Monetary Policy.

Overdrafts with fluctuating interest rates are the most commonly used facility for financing working capital or to fund seasonally affected business. Technically, overdrafts are repayable on demand.

Banks also offer short, medium or long-term loans. The repayment terms are negotiable and the rate of interest may be fixed or variable. To obtain bank finance the business will normally be required to provide adequate security. Security will typically be in the form of a fixed charge or floating charges over the business assets, as well as, in certain circumstances, personal guarantees from the owners.

Certain banks offer specialised financing arrangements such as credit finance, factoring and invoice discounting.

3.2.2 Stock Exchanges and Trading Facilities

The Malta Stock Exchange provides a market for shares and other securities issued by public companies. A Malta Stock Exchange listing would normally be expected to make a company more attractive to private and institutional investors, and thus make it easier to raise new capital. To become and remain listed, a company has to satisfy and abide by the extensive Listing Rules established by the Listing Authority of the Malta Financial Services Authority. The Malta Stock Exchange can accept the admission of a company to its Official List in line with its Bye-Laws after the Listing Authority has authorised it.

Companies that do not meet the full requirements of the Listing Rules may seek a listing on the Secondary Tier Market (STM) where requirements are considered less onerous. Companies wishing to list in accordance with the STM rules as laid down in the Listing Rules need not have a trading record and must have a flotation capital of not less than Lm 75,000 or equivalent in a convertible currency in case of equity and not less than Lm 1,000,000 in case bonds. For both Tiers of listing, the company must appoint the services of a Sponsor to guide and advise the company on its listing process.

A company with securities that are not publicly traded and that wishes to enter these markets to raise new capital or to enable security holders to realise all or part of their investment, will have to go through the process of listing.

The main methods of entering markets are:

- Admitting existing securities to trading.

- An offer to sale (IPO) – this involves an offer to the public of securities at a fixed price or by way of an auction for which a minimum price is stated. The offer is made by a third party such as a merchant bank or stockbroker.

- A placing – this involves the marketing of securities to a more restricted group of investors.

For a company already listed on an overseas stock exchange an introduction can be made by a broking firm to allow its securities to be traded on the Malta Stock Exchange.

Once a company's securities are traded on the Stock Exchange further capital can be raised by rights issues, auction placing or by further offers for sale.

3.2.3 Venture Capital Companies

For businesses that are not large enough to consider Stock Exchange entry but which require finance, venture capital companies can provide equity for start-ups, for development or for management buy-outs.

Venture capital companies can also be a source of finance for a business that does not have sufficient security to borrow from a bank, but they may require a higher return than a traditional bank.

3.2.4 Malta Enterprise

Malta Enterprise is a government body which aims at promoting Maltese and foreign investments through tax incentives and Government grants, to invest in entrepreneurial unquoted companies. To be eligible, the company must be incorporated and reside for tax purposes in Malta and it must carry on a qualifying trade, largely within Malta.

3.3 Investment Incentives

3.3.1 Assistance to Gozo

Gozo has been named as a priority area, and as such, investment undertaken in Gozo is eligible for further incentives under the Business Promotion Act.

3.3.2 Industrial Estates and Techno Parks

A number of Industrial Estates and Techno Parks have been created throughout Malta, offering various benefits to companies located in these areas.

3.3.3 Malta Freeport

Malta has one Freeport wherein imported goods may be stored or processed duty free for re-exportation. Through its ideal location in the centre of the Mediterranean, Malta has established its Freeport operation very successfully, and is today a major hub for the transsphipment of containers.

3.3.4 Film Production

Malta is an attractive site for film production. Film producers are eligible to a reimbursement of a maximum of 20% of expenses incurred directly in Malta to produce a film.

3.4 Research and Development Support

There is a scheme which provides grants to small and medium sized enterprises for feasibility studies into innovative technology and development up to pre-production proto-type stage of new products and process.

Financial support is also available for research programmes.

3.5 Acquisition of Maltese Real Estate

A citizen of another member state of the EU may acquire immovable property in Malta for primary residence purposes without a permit. A resident of another member state who has resided in Malta for 5 years, may acquire immovable property in Malta for residence purposes without a permit. The acquisition of immovable property for secondary residence purposes by EU nationals requires a permit on condition that the individual has not resided in Malta for at least 5 years. Residents from non-EU member states are not permitted to acquire immovable property in Malta without a permit issued from Central Government.

Permission to acquire immovable property is granted in so far as, the immovable property was required for an approved touristic or industrial project, or if the property was of a certain value. Finally, a resident company does not require a permit to acquire immovable property for the purpose of carrying out the activities for which it is set-up. This means that, companies resident in Malta may freely acquire immovable property in Malta as an office or factory, from which they propose to carry out trading activities.

4 EMPLOYMENT REGULATIONS AND SOCIAL CONTRIBUTIONS

4.1 Work Permits

Even though Malta has become a fully-fledged member of the EU, Malta has obtained a transition period up to 2008, wherein, persons wishing to work in Malta are still required to apply for a work permit. Work permits are only issued to foreign individuals whose employment in Malta will not be in competition with the Maltese labour force. Directors and top management personnel of International Trading Companies and Overseas Companies having a local branch, office or production unit, are usually granted work permits, subject to periodic monitoring from the immigration office.

4.2 Engagement and dismissal

No employee may be taken on without a contract of employment although this may take the form of a letter. The contract of employment must state as a minimum the following:

- Rate of pay and hours worked
- Paid holiday entitlement (minimum 4 weeks)
- Paid sick leave entitlement.

An employee's contract of employment may be terminated for any reason within the probation period, which usually varies from 3 to 6 months, but thereafter termination without good reason and without following the statutory disciplinary procedures may result in a claim by the employee for unfair dismissal and subject to a penalty.

4.3 Trade Unions

There is no legal requirement for employers to recognise any trade union unless a majority of the work force vote in favour. Agreements between employers and trade unions over pay and conditions are binding by law.

There is no legal requirement for employees to be represented on the board of directors of companies.

4.4 Social Security Contributions

An employer is liable for social security contributions in relation to its employees. Rates of contributions for employers and employees are set out in Appendix 5.

5 TAXATION

5.1 Companies

5.1.1 Scope

Companies that are incorporated under Maltese law and other companies which are managed and controlled from Malta are liable to corporation tax on their worldwide profits.

Companies which are not incorporated under Maltese law and not managed and controlled from Malta, are liable to corporation tax on any trading profits that they derive from a permanent establishment in Malta, which includes especially a place of management, an office, a factory or a warehouse. Where there is a double tax treaty between Malta and the country in which such a company is based, its terms may modify the extent to which the company is liable to corporation tax.

5.1.2 Taxable profits

Corporation tax is charged on a company's income and capital gains for each of its accounting periods. An accounting period is normally the period for which accounts are produced to comply with company law, but special rules apply where such accounts cover a period of more than 12 months.

The principal part of a trading company's corporation tax computation is the adjustment of its profits for tax purposes. The starting point is the company's profit before tax as is shown by the statutory accounts. Disallowable expenses are then added back.

Depreciation is also added back as disallowable, and capital allowances (see below) are deducted instead. Capital receipts and expenses are generally excluded.

The general rule for deductible expenses is that they must be 'wholly and exclusively' incurred for the purposes of the trade. There are also specific rules disallowing pre-incorporation expenses (except those relating to staff training, salaries or wages and advertising), improvements to premises (as opposed to their repair), donations (except those relating to certain institutions) and all accounting provisions.

Statutory inflated deductions available to companies include the inflated part of expenses claimed for scientific research and job creation.

Transfers of immovable property may be subject to a final withholding capital gains tax of 12% which is levied on the sales proceeds. The previous capital gains tax regime based on a maximum tax rate of 35% on the profit, may still be levied on certain property transfers which are to be defined shortly through changes in the tax legislation. Capital gains arising on the transfer of company shares are subject to particular legislation. The tax charge arising on the capital gain derived from share transfers depend whether the shares carry a controlling interest in the company. A controlling interest is usually a 25% stake in the company or whether the shareholder can influence the directorship of the company.

Controlling interests in companies owning immovable property and a minimum 10% equity investment in other companies are revalued for capital gains tax purposes when share transfers are executed. Furthermore, an adjustment for business goodwill is made when share transfers having a controlling interest are executed in companies which have reported profits for the previous 5 financial years or less as the case may be.

Companies carrying one or more of the target activities as defined within the Business Promotion Regulations will be chargeable to tax on their trading profits at reduced rates of income tax. For new companies these rates will be 5% for the first 7 years, followed by 10% for the next 6 years and 15% for the subsequent 5 years. In addition to the above mentioned reduced rates of tax, companies engaged in the target activities are eligible to an investment tax credit which is deducted from the tax due computed at the above reduced rates or at the applicable rate of tax after the expiration of the aforementioned year. The credit is calculated either as a percentage of qualifying investment expenditure or as a percentage of the two years wage costs of employees in respect of whom jobs have been created as a result of the investment payment.

Companies which are not engaged in one of the target activities defined by Business Promotion Regulations benefit from reduced rates of tax under the Value Added Investment Scheme. This incentive is available to all other manufacturing companies which increase their value added. Such companies will be subject to tax on part, or in deed a multiple, of their increased trading profits at 5%, 10% and 15% for 7, 6 and 5 years respectively. In order to qualify for this incentive, companies must only be engaged in manufacturing activities, they must not sell by retail and their activities must not be spurious in nature.

Tax credits are available to companies which stimulate research and development of new technology. These tax credits are extended to companies whose business consists of back-office operations, e-business or film production.

Reinvestment tax credits are available to any company in any business sector and whose turnover is less than Lm 250,000 and which employ a minimum of 3 and not more than 10 persons.

Finally, shipping companies registered under the Merchant Shipping Act are exempt from paying tax on profits generated from the operations, management and ownership of ships. Furthermore, dividend distributions to shareholders of shipping companies are also tax exempt.

5.1.3 Capital Allowances

Capital allowances are deductible from trading profits as a replacement for the depreciation charged in the statutory accounts. These are computed using the straight-line method of depreciation. The principal classes of assets eligible for allowances are:

- Capital Allowances
- Industrial buildings
- Machinery and plant.

Allowance in respect of industrial buildings and machinery and plant are the most commonly claimed. There is an elaborate statutory definition of an 'industrial building'. Broadly speaking, building costs incurred on a building used for industrial manufacturing, processing or repair will usually qualify, and allowances also available for certain storage facilities. In general, allowances are not given on the cost of retail premises or office buildings.

The rate of allowance on industrial buildings is generally 2% per annum together with an initial allowance of 10%. Furthermore an investment allowance of 20% is given in respect of industrial buildings and structures under the Business Promotion Act. There is no statutory definition of machinery and plant, while machinery presents no problems a considerable amount of case law has developed to define 'plant'. An investment allowance of 50% is given respectively to plant and machinery which fall under the particular definitions within the Business Promotion Act.

5.1.4 Interest Payments

Interest payable is usually deductible from profits for tax purposes in the same way as any other trading expense.

There is no withholding tax on interest payments to non-resident companies and individuals.

5.1.5 Royalty Payments

Royalties are deductible for tax purposes over a three-year period.

There are no withholding taxes to non-resident companies and individuals.

5.1.6 Dividend Payments

There is a withholding tax of 2.5% or 15% on a particular category of dividend distributions to Maltese residents individuals. No withholding taxes are levied on dividend distributions to Maltese resident companies and non-resident companies and individuals that are companies and individuals. Dividend payments to non-resident persons including individuals out of the foreign income account of Foreign Income Account Companies or the Maltese Taxed Account of international trading companies are subject to a tax refund equal to the two thirds of the Malta tax paid. In the case of a participating holding such refund is increased to 100%.

5.1.7 Calculation of Liability

Corporation tax levied on trading income is chargeable at the rate of 35%. Interest income may be subject to a final withholding tax of 15% should one elect so. Companies engaged in agricultural produce, may opt to be taxed at a final withholding tax of 3% on qualifying sales within the meaning of the Income Tax Act.

5.1.8 Due Dates for Payment

Settlement of corporation tax is payable nine months after the end of the accounting period for companies having a December year-end. For companies having a year-end other than December, settlement of corporation tax is payable within nine months or March of the following year, whichever is the latter. Companies are obliged to pay provisional tax by the end of April, August and December of every calendar year. Provisional taxes are based on taxes paid at the benchmark year of assessment. Short payments on taxes due incur interest at 1% per month.

5.1.9 Relief for Losses

Trading losses incurred in an accounting period may be offset against other sources of income in that period or carried forward indefinitely against future trading income. They may also be surrendered to other Maltese group companies for relief in the same accounting period.

Capital losses may be offset against future capital gains.

5.1.10 Administration

A system of self-assessment is in operation. Interest is payable or receivable on any under/overpayment of tax subsequently agreed. A Corporation tax return is required from companies in respect of each accounting period. A penalty is levied if the return is not delivered, together with the company's accounts, within nine months of the end of the accounting period for companies with a December year-end. Companies having a year-end other than December must file their return within nine months after the year-end or the following March, whichever is the later.

5.2 Individuals

5.2.1 Overview

Individuals who are resident and domiciled in Malta are subject to Malta tax on the aggregate of their worldwide income and capital gains. Individuals are taxed progressively on all their income the highest margin rate of tax is 35%. Individuals are taxed at varying tax rates. The thresholds, tax rates and allowances are set out in Appendix 4. There are no wealth and gift taxes in Malta.

5.2.2 Sole Traders

The self-employed are liable to income tax on their profits as adjusted for tax purposes in broadly the same way as profits are adjusted for corporation tax. Interest on loans to provide capital for the business is an allowable deduction. Part-time or full-time farmers engaged in agricultural produce may opt to be taxed at a special final withholding tax rate of 3% on all their qualifying sales as defined by tax law. Reinvestment tax credits are available to sole traders whose turnover is less than Lm 250,000 and who employs a minimum of 3 and not more than 10 persons.

The Maltese fiscal year runs from 1 January to 31 December each year.

5.2.3 Partnerships

Partnerships are taxed in the same way as the self-employed, so that the individual partners are taxed on their share of the profits as adjusted for tax purposes. A partner is not liable for the unpaid tax of another partner. Reinvestment tax credits are also available to partnerships.

5.2.4 Taxation

Employees resident in Malta are subject to income tax and social security contributions on all earnings and most benefits provided by an employer. Benefits include cars, accommodation, cheap loans and health care insurance.

5.2.5 FSS

Income tax and social security contributions are deducted at source by the employer under the FSS (Final Settlement System). It is the employer's responsibility to ensure that the FSS system is operated correctly. Failure to operate properly the rules governing FSS can lead to penalties and interest on unpaid tax.

5.2.6 Taxation of Investment Income

Investment income is generally taxed at source at 15%. This is a final withholding tax and hence there is no further tax on such an income. Such withholding tax is never given as credit or refund. Investment income includes interest on cash deposits held with banks, interest earned from government and corporate bonds, and capital gains arising from the sale of units in a collected investment scheme which has been defined as a non-prescribed fund. Investment income other than bank interest income derived from prescribed funds is taxed at 10%. (Non-Prescribed Funds are those funds whose assets are situated outside Malta whereby Prescribed Funds are those funds whose assets are situated in Malta).

5.2.7 Income from Land and Property

The net income from these sources is added to the individual's other income and taxed according to the rates and thresholds set out at Appendix 4. Interest on loans relating to land or property that is let may be deducted for tax purposes. A maintenance allowance of 20% is available as a deduction against all Rental Income with the exception of Ground Rents Received.

5.2.8 Capital Gains

Capital gains arising on the transfer of securities, business goodwill and copyrights, patents, trademarks and trade names, and any assignment or termination of rights thereon, are subject to income tax at normal income tax rates. Transfers of immovable property may be subject to a final withholding capital gains tax of 12% which is levied on the sales proceeds. The previous capital gains tax regime based on a maximum tax rate of 35% on the profit, may still be levied on certain property transfers which are to be defined shortly through changes in the tax legislation. Capital Gains arising on the disposal of real property is computed using the inflation method, whereby all cost incurred in arriving at the Capital Gain are inflated up to year of sale by using a retail price index.

Capital Gains arising from the sale of shares in private limited companies are subject to special rules. Shares carrying a controlling interest in the company have to be valued at market value for Capital Gains Tax purposes such a revaluation, is obligatory should the company own immovable property, a minimum 10% investment in another company and reported profits for the previous 5 years. Inflation deductions are also allowed to share transfers in companies owing immovable property.

Finally there exists a final withholding tax of 15% on capital gains realised on the sale of a category of collective investment schemes whose main assets are situated outside Malta.

5.2.9 Inheritance Tax

There is no inheritance tax in Malta.

5.2.10 Administration

Malta operates a system of self-assessment for tax on income and capital gains. A tax return for the year ended 31 December must be filed annually normally by 30 June in the following year, together with a payment of the balance of any tax due for the relevant year. Provisional tax is paid quarterly by 30 April, 31 August and 21 December of each year. Provisional tax is computed on the benchmark year of assessment determined by the Commissioner as being that year whose tax return date falls before 1 January of every calendar year.

5.3 Expatriates

5.3 Scope of Malta Taxation

Expatriates taking up residence in Malta on the permanent residence scheme may obtain a residence permit only by satisfying the following conditions:

- Minimum annual income of not less than Lm 10,000 or equivalent, or own capital locally and abroad amounting to Lm 150,000 or equivalent

- Remit to Malta an annual income of Lm 6,000. This is increased by a further Lm 1,000 for each dependent

- Acquire property worth at least Lm 30,000 in the case of a flat or Lm 50,000 of a house or lease property at an annual rent of not less than Lm 1,800 per annum

- Forbidden to be employed or engaged in any business in Malta.

Tax on foreigners having a permanent residence permit is levied at a flat rate of 15% on the income remitted to Malta, with a minimum tax liability of Lm 1,800 per fiscal year, after taking into consideration any double taxation relief. Returned migrants who have resided outside Malta for a minimum of 20 years are taxed at the rate of 15% on all income arising outside Malta and remitted to Malta, subject to a minimum of Lm 1,000. Double taxation relief or unilateral relief is granted for any foreign tax suffered. Furthermore, employment income or trading income arising in Malta is taxed at the Maltese resident rates however, the tax-exempt ceiling income is removed. Any other income arising in Malta is taxed at 15%. Finally, returned migrants are obliged to remit to Malta an amount of Lm 6,000 per annum, increased by Lm 1,000 for each dependant.

Expatriates obtaining a working permit for more than 183 days are taxed on all income arising at normal income tax rates. Expatriates working in Malta for a period less than 183 days are taxed at the rates shown in Appendix 4.

Foreign entertainers performing in Malta for a period less than 15 days are subject to a final withholding tax of 10% on turnover. Other payments to non-residents are subject to a withholding tax of 25% which is not a final tax, the income is then subject to the non-residents tax rates as shown in Appendix 4.

5.3.2 Accommodation provided by the employer

Accommodation provided by the employer is taxable. The tax charge is on the utilities paid by the employer, plus the 'annual value' if it is owned or the rent paid if it is leased.

5.3.3 Social Security Contributions

Malta has reciprocal social security agreements with many countries under which employees may continue to pay the home country contributions for a specified period of time. The agreements can also provide for protection of benefits.

Employees working in Malta are subject to the Social Security Laws of Malta and furthermore if any employees of an undertaking in Malta are seconded to employment situated in any EU member state for 12 months or less, they are also subject to the Social Security Laws of Malta. However, if secondary employment extends for 12 months or less, the employee is subject to the Social Security Laws of Malta upon consent of the authorities of the member's state of secondary employment. The same rules apply for self-employed persons.

5.4 Trusts

The taxable income of a trust is generally taxed at a flat rate of 35% on the taxable income. Settlement of property to the trustee is subject to tax in the hands of the settlor. Certain settlements of property whose beneficiaries are incapacitated or disabled persons are exempt of tax.

5.5 Indirect Taxes

5.5.1 Value Added Tax

In common with other states of the EU Malta imposes value added tax (VAT) on the consumption of goods and services.

In general terms taxable persons do not themselves suffer VAT, as it is a tax payable by the ultimate consumer, the man in the street, but businesses are responsible for the administration and collection of tax.

With some exceptions all taxable persons must register with the Commissioner of VAT. However, taxable persons whose annual turnover is below Lm 15,000 and whose economic activity consists principally in the supply of goods may opt to stay outside the Refund Scheme. Service providers whose annual turnover is below Lm 10,000 or Lm 6,000 as the case may be, may also opt out to stay out of the Refund Scheme.

For most categories of goods and services VAT must be added at the standard rate, currently 18%.

A special rate of 5% applies to tourist accommodation, confectionery and similar items, the supply of electricity in accordance with Articles 12 of Directive 77/38/EEC, medical accessories, printed matter, works of art, collector's items and antiques. Some categories are zero rated. This means that a nil rate of tax is to be charged but suppliers of the goods or services, are nevertheless entitled to a refund of the VAT they incurred on its purchases. Businesses making only zero-rated supplies will therefore be in a position to obtain periodic refunds from the VAT Department.

Some services are exempt. Again there is no VAT to be charged, but in contrast to the position on zero-rated supplies the supplier is not entitled to a refund of the VAT paid on purchases. Businesses that make exempt supplies in addition to either standard-rated or zero rated supplies may be able to recover part of the VAT they incur on their purchases, by applying the partial attribution rules of the VAT legislation.

The principal categories of main goods and services classed as zero-rated or exempt are listed in Appendix 3.

Intra-community acquisitions of goods other than exise goods and new means of transport are accounted for under the reverse charge rules of the VAT legislation.

Intra-community supplies of goods are deemed to be supplied where the transport ends provided that the customer communicates to the seller a valid VAT identification number. The seller reports intra-community supplies periodically on a recapitulative statement of intra community supplies.

Exports are generally zero-rated.

With some exceptions VAT must be paid on the import of goods from third countries and on intra community acquisition of excise goods and new means of transport.

The VAT compliance regulations are strict and penalties are imposed for the late submission of periodic returns and for errors in returns. Businesses need to avoid potential problems by implementing an efficient accounting system at an early stage.

5.5.2 Customs Duty

Goods imported from the European Union are generally exempt from Duty, whereas imported goods from countries outside the EU suffer a Duty charge of 8.1%.

Duty is a one-off absolute cost. There are many reliefs that can reduce the burden of customs duties. These can significantly reduce the duty cost. These reliefs are not available retrospectively and authorisation must be obtained in advance from Customs & Excise.

5.5.3 Other Indirect Taxes

These include:

Excise Duty - High levels of duty are applied to motor vehicles, fuels, alcohol and tobacco products. Excise Duty also applies to lotteries and gaming activities.

Eco-Contribution Tax - An eco tax at different rates is levied on a number of items including bottles and jars containing beverages, toiletries and washing preparations, tableware and kitchenware of plastics, packaging of plastics, gum, ammunition, mattresses, articles of bedding and similar furnishing, plastic bags, tyres for motor and commercial vehicles, batteries and accumulators, petroleum oil, oil filters, white goods and electronic equipment.

Registration Taxes - These are taxes imposed on the importation of motor vehicles. This tax varies according to the engine capacity of the car imported.

Air Passenger Duty - This is a levy on air passengers emanating from Malta.

5.6 Other Taxes

5.6.1 Stamp Duty

Stamp Duty on documents relating mainly to the transfer of immovable property and shares or marketable securities is levied according to the Duty on Documents and Transfers Act.

The more important rates applicable are:

- 5% - Payable on the transfer and inheritance of immovable property.
- 5% - Payable on the transfer and inheritance of shares in property companies.
- 2% - Payable on other Share Transfers

The Act exempts from Duty certain transfers. Moreover, the Malta Financial Services Centre Act, the Merchant Shipping Act, the Malta Stock Exchange Act and the Malta Freeport Act provide for the exemption of this duty. This includes transactions by Collective Investment Schemes, International Trading Companies and International Holdings Companies. An exchange of shares in mergers, de-mergers, amalgamations and company reconstructions are exempt from duty on condition that the company does not own immovable property.

5.6.2 Businesses

There are no local taxes levied on company profits. Local authorities do not levy any tax on businesses.

5.6.3 Individuals

Individuals do not pay any taxes to central government.

5.6.4 Shipping

Ships and yachts registered in Malta by non-resident owners and charterers qualify for various fiscal and other benefits, including income tax exemptions on profits generated from the ownership and operation of a ship. There is no stamp duty on the transfer of shares in shipping companies.

5.6.5 Gaming Activities

Companies registered in Malta engaged in overseas gaming activities, including e-gaming, require a licence from the Gaming Authority. A gaming tax of 0.5% is levied on the aggregate of stakes placed, but there is capping on the amount payable per annum. The mechanics of an International Trading Company can be used for companies carrying out such operations, whereby the distributable profits are available to the non-resident shareholder at a net income tax rate of 4.17%.

5.6.6 Filming

The Malta Government is currently contemplating a set of fiscal and non-fiscal incentives for local and foreign companies engaged in the filming industry.

5.6.7 Collective Investment Schemes

Licensed collective investment schemes are taxed at 10% or 15% depending on the category of income.

5.6.6 Tax Planning

Non-resident individuals or non-resident companies holding shares in Maltese registered International Trading Companies are subject to a net tax charge of 4.17% on dividends emanating from profits of such companies. In the case of shareholdings in International Holding Companies, the relevant net tax charge is of between 0% to 6.25% on dividends receivable from such shareholding.

Maltese companies with foreign income that was subject to a nil overseas tax rate are granted a deemed foreign tax credit of 25% in computing their Maltese tax liability.

6 APPENDICES

Appendix 1

6.1 Withholding taxes on Interest Payments

There is no withholding tax on interest and royalties paid to non-resident companies and individuals. Incoming interest and royalties are subject to the following withholding taxes according to Malta's double tax treaty.

A summary of the withholding taxes levied on incoming interest and royalties is summarised below:

	%		%
Albania	5	Korea	10
Australia	15	Latvia	10
Austria	5	Lebanon	0
Belgium	10	Libya	15
Bulgaria	0	Luxemburg	0
Canada	15	Malaysia	15
China	10	Netherlands	10
Croatia	0	Norway	10
Cyprus	10	Pakistan	10
Czech Republic	0	Poland	10
Denmark	0	Romania	5
Egypt	10	Portugal	10
Finland	10	Slovakia	0
France	10	South Africa	10
Germany	10	Sweden	0
Hungary	10	Syria	10
India	10	Tunisia	12
Italy	10	U.K.	10

Appendix 2

6.2 Withholding taxes on Royalty Payments

	%		%
Albania	5	Korea	0
Australia	10	Latvia	10
Austria	10	Lebanon	5
Belgium	10	Libya	15
Bulgaria	10	Luxemburg	10
Canada	10	Malaysia	15
China	10	Netherlands	10
Croatia	0	Norway	10
Cyprus	10	Pakistan	10
Czech Republic	5	Poland	10
Denmark	0	Romania	5
Egypt	12	Portugal	10
Finland	10	Slovakia	5
France	10	South Africa	10
Germany	10	Sweden	0
Hungary	10	Syria	18
India	15	Tunisia	12
Italy	10	U.K.	10

Note: These schedules are only intended to give a general outline of the maximum rate of tax applicable to interrest and royalties under Malta's Tax Treaties.

Appendix 3

6.3 VAT: Zero-Rating and Exemptions

Zero-Rated	Exempt
Sea vessels	Immovable property
International transport and	Insurance
similar services	Postal services
Food	Betting
Transport	Credit, banking and other services
Medicines	Education
Exports and like transactions	Health and welfare
International goods traffic	Sports and cultural services
Intra-community supplies	Religious services
Supply of gold	Services by non-profit organisations
Aircraft	to their members
Supplies of goods on board	Broadcasting
Cruise liners	Services supplied by independent group
	Water
	Supplies of goods in respect of which the supplier had not qualified for input tax credits

Appendix 4

Rates of Income Tax - Residents and Temporary Residents

Year to 31 December 2006

Single Rates		Married Rates	
For every lira of the first Lm 3,100	0 cents	For every lira of the first Lm 4,300	0 cents
For every lira of the next Lm 1,000	15 cents	For every lira of the next Lm 1,700	15 cents
For every lira of the next Lm 900	20 cents	For every lira of the next Lm 1,250	20 cents
For every lira of the next Lm 1,000	25 cents	For every lira of the next Lm 1,250	25 cents
For every lira of the next Lm 750	30 cents	For every lira of the next Lm 1,500	30 cents
For every lira of the remaining	35 cents	For every lira of the remaining	35 cents

Rates of Income Tax - Non-Residents

Year to 31 December 2006

Single Rates	
For every lira of the first Lm 300	0 cents
For every lira of the next Lm 1,000	20 cents
For every lira of the next Lm 2,000	30 cents
For every lira of the remaider	35 cents

Appendix 5

Rates of Social Security Contributions

Year to 31 December 2006

Employed Persons	Weekly rate of Contribution paid by employee	Weekly rate of Contribution paid by employee
Persons under 18 years of age whose Weekly salary does not exceed Lm 57.88	Lm 2.84	Lm 2.84
Persons under 18 years of age following a full time course of study	10% of weekly wage up to a maximum of Lm 1.88	10% of weekly wage up to a maximum of Lm 1.88
Persons over 18 years of age whose basic weekly salary does not exceed Lm 57.89	Lm 5.79	Lm 5.79
Persons over 18 years of age who are following a full time course of study	10% of weekly wage up to a maximum of Lm 3.41	10% of weekly wage up to a maximum of Lm 3.41
Persons whose basic weekly wage exceeds Lm 57.89 but does not exceed Lm 133.80	10% calculated to the nearest cent of their weekly wage	10% calculated to the nearest cent of their weekly wage
Persons whose basic weekly wage exceeds Lm 133.81	Lm 13.38	Lm 13.38

Self-Employed Persons Annual Net Profit	Rate
Net profit less than Lm 3,535	Lm 10.20
Profit exceeding Lm 3,535 up to Lm 6,597	15%
Net profit exceeds Lm 6,597	Lm 20.07

MEMBER FIRM CONTACT DETAILS

Baker Tilly Sant is a mid-tier firm of accountants and business advisors, and is the independent member firm of Baker Tilly International in Malta. The firm offers a comprehensive range of services aimed at making it a one-stop shop for all business requirements operating locally. Furthermore, the firm also caters for businesses with international operations or ambitions, and does this through the expertise that can be called upon from the association with Baker Tilly International. This network ensures our clients are able to draw immediately on professional advice on any aspect of international affairs.

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