

## **The New Malta Trading Company (MTC) -**

Keeping Malta as an attractive tax-planning jurisdiction for international Trade

In an international tax-planning scenario, the selection of the location of the active working company is one of the most important decisions to make. The old Maltese ITC was a regular company registered in Malta that has its objects limited to trading outside Malta with persons who are not resident in Malta. As from 1st January 2007, this restriction was lifted but the advantageous effective tax rate for such companies has remained.

### **The Amendments**

Act II of 2007 has provided for a phasing out period until 31st December 2010 for the old ITC regime. The New regime maintains the low effective tax rate whilst removing the restrictions that the old ITC maintained. The new Malta Trading Companies (MTC) can now also trade in Malta, provided that such overall trade does not exceed 10% of the total turnover/income. Hence, 90% of the company's total turnover/income must be emanate from foreign sources.

### **Tax implications**

The profits of an MTC are taxed at the statutory rate of 35%. However, the nonresident shareholder of the company would be able to one income tax refunds of 6/7ths of the Malta Tax Paid by the company after the dividend distribution.

No withholding tax is paid on any dividend distributions of the profits of the MTC. After the tax refund above, the non-resident shareholder is left with a global effective income tax rate of 5%.

### **Combining the International Holding Company with the MTC**

It often happens that the tax treatment of the tax refunds in the home jurisdiction of the non-resident shareholder of the MTC is rather unclear. In order to mitigate this problem, it is very common to interpose between the non-resident ultimate beneficial owner and the MTC an International Holding Company. This latter company would have the sole use of receiving the dividend from the MTC, and claiming for the income tax refund on the dividends received. This company is typically referred to as the Dividend Feeder Company (DFC). By adding this additional company, the nonresident ultimate beneficial owner would be able to receive a final dividend that includes the taxed MTC profits and the income tax refund. The global effective tax rate would still remain of 5% since no withholding taxes would be levied on any dividend distributions of the ITC or DFC.

## **Additional Advantages of the MTC**

- 1.Exemption from stamp duty on the transfer of securities held in the ITC
- 2.Ability to claim the benefits of Malta's extensive treaty network.
- 3.No transfer pricing, CFC or thin capitalization rules exist under Maltese tax.

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