



GES NewsFlash

Malta – Reduced rate of tax applicable to highly qualified expatriates

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Summary

The Global Employer Services (GES) NewsFlash dated April 4, 2011, had announced the new rules introduced through Legal Notice 106 of 2011, which lay down the conditions for a highly qualified expatriate to benefit from and to exercise his option for a beneficial rate of tax of a flat 15% on emoluments instead of the standard rates of tax applicable to individuals.

Legal Notice 106 of 2011 has subsequently been amended through Legal Notice 192. The principal amendment to the former legal notice is that the scheme has now become retroactively applicable from January 1, 2010.

The scheme is specific to expatriates holding an employment under a *qualifying contract of employment in an eligible office* in Malta and effective from January 1, 2010. The scheme, which is a further incentive in attracting foreign investment to Malta, is industry specific and focuses mainly on a narrow range of industries comprising the banking, financial, investment, and insurance sectors. The competent authority for the purposes of these rules is the Malta Financial Services Authority (the "Authority").

The conditions

The new rules apply to employment income earned by expatriates from a *qualifying contract of employment* on or after January 1, 2010. The rules also apply if the expatriate had been in employment under a qualifying contract of employment requiring the performance of duties in Malta for a period not exceeding two years prior to January 1, 2010.

The general conditions are:

1. The employment or office is required to be an '*eligible office*' in terms of the schedule to the rules.
2. The employment activity under the eligible office is required to be governed by a *qualifying contract of employment*.
3. The qualifying contract of employment of the eligible office is in respect of the employment of a *qualifying beneficiary*.

Eligible office

The term 'eligible office' comprises eligible employments or offices held with companies licensed and/or recognized by the Authority and consisting of the following employments or offices:

- a. Chief executive officer, chief risk officer, chief financial officer, chief operations officer, and chief technology officer
- b. Portfolio manager, chief investment officer, senior trader/trader, senior analyst (including structuring professional), actuarial professional, chief underwriting officer, and chief insurance technical officer
- c. Head of marketing and head of investor relations

Qualifying contract of employment

A qualifying contract of employment is defined in the rules as follows:

1. Consists of employment income derived by a *beneficiary*.
2. Is of a minimum value of €75,000 per annum (excluding the value of any fringe benefits).
3. Is related to work satisfying the definition of 'eligible office'.
4. The employer or any related person to the employer has not benefitted from any business incentive laws or any arrangement in terms of the business incentive laws, is not paid by a person who is related to the employer, and has received a benefit or benefits under business incentive laws or arrangements.

The beneficiary

A beneficiary, in terms of these rules, is an individual who meets all of the following conditions:

- a. Is an individual who is not domiciled in Malta
- b. Derives emoluments payable under a qualifying contract of employment, and received in respect of work or duties carried out in Malta (or in respect of any period spent outside of Malta in connection with such work or duties), or on leave during the carrying out of such work or duties
- c. Is protected as an employee under Maltese law;
- d. Has proved to the satisfaction of the Authority that he is in possession of professional qualifications, including educational qualifications as required by the rules
- e. Has not applied for benefits under the Investment and Insurance Services Expatriate Scheme (Article 6) of the Income Tax Act
- f. Fully discloses for income tax purposes and declares emoluments received in respect of income from a qualifying contract of employment and all income received from a person related to his employer paying out income from a qualifying contract as chargeable to tax in Malta
- g. Has proved to the satisfaction of the Authority that he performs activities of an eligible office
- h. Has proved to the satisfaction of the Authority that the individual:
 - i. Is in receipt of stable and regular resources, which are sufficient to maintain himself and the members of his family without recourse to the social assistance system in Malta
 - ii. Resides in accommodation regarded as normal for a comparable family in Malta and which meets the general health and safety standards in force in Malta
 - iii. Is in possession of a valid travel document
 - iv. Is in possession of sickness insurance in respect of all risks normally covered for Maltese nationals covering himself and the members of his family

Malta tax treatment

The applicable tax rate, should an individual exercise his option in terms of these rules and in respect of income derived from a qualifying contract of employment, is a flat rate of 15%. The minimum tax payable under these rules is €11,250, equivalent to a minimum income of €75,000; while, the maximum tax payable under these rules amounts to €750,000 equivalent to an income of €5,000,000. Any income exceeding €5,000,000 and received in respect of a qualifying contract of

employment is not subject to tax in Malta. The income charged to tax at the reduced rate of 15% will be deemed to constitute the first part of the individual's total income and the tax on the remaining income is to be calculated at the standard rates applicable to such individual.

Duration

In the case of European Economic Area (EEA) (including European Union (EU) nationals) and Swiss nationals, the rules will apply for a consecutive period of five years; whereas for third-country nationals the rules will apply for a consecutive period of up to four years (the "duration") after the expiry of which the employment income would be chargeable to tax at standard rates of tax applicable to the individual. The duration in terms of these rules commences as from the year in which that person was first liable to tax in Malta.

Any period of employment exercised in Malta prior to January 1, 2010, but after January 1, 2008, will be deducted from the duration and accordingly:

- EEA and Swiss nationals who for up to two years prior to January 1, 2010, were under a contract of employment requiring the performance of their duties in Malta may benefit from the said rules for a period of up to three years increasing to four years where the individual has been employed for up to one year prior to January 1, 2010.
- Third country nationals who for up to two years prior to January 1, 2010, were under a contract of employment requiring the performance of their duties in Malta may benefit from the said rules for a period of up to two years increasing to three years where the individual has been employed for up to one year prior to January 1, 2010.

Moreover, in the case of third-country nationals, any rights under this scheme will be withdrawn with retrospective effect, if a beneficiary either:

1. Physically stays in Malta, in the aggregate, for more than 1,460 days
2. Directly or indirectly acquires real rights over immovable property situated in Malta or holds a beneficial interest directly or indirectly consisting of, inter alia, real rights over immovable property situated in Malta

A person who exercised employment in Malta prior to January 1, 2008, cannot opt for this scheme.

Applicability

The option in terms of these rules may be exercised by an individual as follows:

1. The beneficiary is required to apply for a formal determination from the Authority relating to his eligibility under these rules in such form and manner and together with any documents or information as the Commissioner of Inland Revenue (the “Commissioner”) may require or prescribe.
2. The beneficiary is also required to attach a declaration duly endorsed by the Authority to his personal tax return for the relative year of assessment. This declaration will be required to be completed in such form and manner as the Commissioner may prescribe.
3. The beneficiary is required to file his personal tax return together with all the required declarations and attachments not later than the tax return date.

People to contact

If you have any questions concerning the issues in this GES NewsFlash, please contact one of the tax professionals at our Deloitte offices as follows:

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