

Malta's Notional Interest Deduction Regime – Which Types of Company are Most Likely to Benefit?

Malta introduced the Notional Interest Deduction Regime (NID) on 1 January 2018.

By **Jonathan Vassallo**, 20th September 2018

Malta introduced the Notional Interest Deduction Regime (NID) on 1 January 2018. On 8 August 2018, the Guidelines in relation to NID were updated, in particular the treatment of NID between related companies.

What is NID?

NID is an innovative way in which companies can, in the correct circumstances, reduce their tax liabilities. This option is of greatest interest to companies with large equity balances.

NID allows companies to deduct a notional interest amount based on the 'risk' capital of a company. Such companies will be able to claim a deduction against chargeable income for NID deemed to be incurred on their equity capital. Previously in Malta debt interest had been tax deductible, whilst dividends were not.

'Risk' capital is defined as: share capital, share premiums, retained earnings, interest free debt and any other equity.

Ability to Choose Between NID and the Maltese Tax Refund System

From the start of the 2018 tax year, Maltese companies, including permanent establishments of foreign companies in Malta and partnerships, can elect to use either

Tax Refund System – the Alternative to NID

Malta operates a full imputation system of taxation which allows for generous tax refunds. In most instances, shareholders not resident in Malta can apply for a tax refund of 6/7ths of the tax paid on active income used to pay a dividend. With a corporate tax rate of 35%, this results in an effective tax rate of 5%. In the case of passive income such as interest and royalties, non-resident shareholders can apply for a tax refund of 5/7ths of the tax paid on passive income used to pay a dividend. With a corporate tax rate of 35%, this results in an effective tax rate of 10%.

NID in More Detail

Notional Interest Deduction is calculated by multiplying the notional interest rate* by the company's total equity at its financial year end.

**Notional interest rate is defined as the 'risk free rate'; the current yield to maturity of Malta Government stocks, with a remaining term of approximately 20 years (this was 3.940% in Quarter 1 of 2024), plus a 5% premium.*

Additional Features of NID

- NID claimed in any one year cannot exceed 90% of the company's taxable income. Any excess can be carried forward indefinitely, to be deducted against taxable income in future years. Remaining income is taxed at the standard rate of 35%.
- No tax refund is paid to shareholders under the Notional Interest Deduction Regime and this therefore removes the relevance and need to put a double tier company structure in place.

Notional Interest Income in Relation to Shareholders

- For Maltese tax purposes, when NID is claimed, the shareholder (or partner) will be considered to have received that amount of notional interest as income.
- However, if the shareholder is not resident in Malta, the deemed interest income will be exempt from tax in Malta, providing that certain criteria have been met.

Timing Implications

Taxpayers are able to claim NID, for the first time, on profits relating to the 2017 tax year, as these profits are assessable for income tax in 2018.

Additional Information

If you have any questions or require any further information please contact the Dixcart office in Malta: advice.malta@dixcart.com or speak to your usual Dixcart contact.