## Malta

### Indirect tax snapshot

<table>
<thead>
<tr>
<th>Question</th>
<th>Answer</th>
</tr>
</thead>
</table>
| **What are the current rate(s) of VAT?**                                 | - Standard rate of 18% for most goods and services.  
- Special rate of 7% for licensed holiday accommodation, gym membership, fitness centres and football academies.  
- Reduced rate of 5% for some goods and services including the supply of electricity, confectionery items, printed matter, medical accessories, and items for the exclusive use of the disabled.  
- Zero-rated goods and services include most food and pharmaceutical goods. |
| **Are there any confirmed or anticipated changes to these rates?**       | No.    |
| **What is the principal indirect tax?**                                 | Value Added Tax (VAT) is the principal indirect tax in Malta. It is a tax on consumer expenditure, and is collected on business transactions and imports. |
| **Is there a registration limit for the tax?**                          | Yes. It relates to the annual turnover of taxable transactions in Malta, and once the limit has (or will be) reached it is necessary to register in terms of article 10. A small business is still required to register in terms of article 11 as a small business in terms of domestic provisions unless it opts to register under article 10.  
A taxable person who makes solely exempt supplies is obliged to register in terms of article 12 if he exceeds the intra-community acquisition of goods threshold or receives services from outside Malta where VAT is due in Malta in terms of the reverse charge mechanism. |
| **Does the same registration limit apply to non-established businesses?**| No. There is no registration limit for businesses that are not established in Malta and they will need to register as soon as they start to make taxable transactions. However, the non-established business is not required to register for VAT in Malta if the business makes only supplies in respect of which the tax liability falls upon the recipient of the supply. Different registration requirements also apply to businesses involved with ‘distance sales’ made within the European Union (EU) e.g. mail order and internet sales. |
| **Does a non-established person need to appoint a fiscal representative in order to register?** | A non-established person who is not established in the Community and is registered, or obliged to be registered for VAT in Malta has to appoint a fiscal representative. |
| **How often do returns have to be submitted?**                         | Most businesses are required to submit VAT returns covering three month accounting periods (not necessarily on a calendar quarter basis). Returns can also be submitted on a monthly basis if the taxpayer is in a tax refundable position, subject to approval by the Commissioner. |
| **Are penalties imposed for the late submission of returns/payment of tax?** | Yes. If a VAT return, or the corresponding payment, is submitted late a penalty can be imposed. Interest is also chargeable on late payment of VAT. |
What is the principal indirect tax?

Value Added Tax (VAT) is the main type of indirect taxation in Malta and in other European Union (EU) countries. It is a tax on consumption which is applied during the production and distribution process to most goods and services. It is also applied to goods, and certain services, entering the country. Although VAT is ultimately borne by the consumer by being included in the price paid, the responsibility for charging, collecting and paying it to the tax authority at each stage of the process rests with the business making the supply ie the sale.

A business registered for the tax will charge VAT (output tax) on its sales, and incur VAT (input tax) on its purchases (including any VAT paid on the importation of goods). The difference between the output tax and the deductible input tax in each accounting period will be the amount of VAT payable by the business to the VAT department. Where the input tax exceeds the output tax, a refund can be claimed.

A transaction is within the scope of Maltese VAT if the following conditions are met:

- it is a supply of goods or services. Although the term ‘supply’ is not defined in the legislation, it has a broad interpretation
- the supply is made for consideration
- it takes place in Malta
- it is made by a taxable person. For these purposes, a taxable person is a person or entity who is registered for VAT in Malta, or is obliged to become registered
- it is made in the course or furtherance of any economic activity carried on by that person or entity.

There are four rates of VAT that are applied to goods and services in Malta; the standard rate, the special rate of 7% on licensed holiday accommodation, the reduced rate, and the zero rate. In addition, some goods and services are exempted from the VAT.

As from 1 January 2016, use of sporting facilities are subject to a special rate of 7%.

Businesses that make taxable, zero-rated and exempt supplies are unable to claim all the input tax that they incur and have to apply the partial attribution method to determine the amount of input VAT that they may recover.

Businesses that make solely exempt supplies are unable to claim any input tax that they incur, so the VAT paid to suppliers will be a ‘real’ cost.

Most goods imported into Malta from outside the EU are subject to VAT. The tax will have to be paid by the importer at the time of importation. Where the importation is for business purposes and the importer is registered for VAT, it may be possible to reclaim the tax (subject to certain rules).

It is also important to note the interaction between VAT and Customs duty. Customs duty is levied across the EU at the place where goods are imported into the Community. It is levied in order to bring the cost of goods produced outside the EU up to the same level as those produced within it. Once duty (and VAT) has been paid by the importer, the goods are in ‘free circulation’ and they can then be released for use in the home market. Unlike other indirect taxes, such as VAT, once duty has been paid it is not usually recoverable by the importer. It therefore represents a bottom line cost to the importing business if it cannot be passed on in higher prices. It is therefore very important to ensure that the correct rate of duty is applied. VAT is charged on the value of the importation, including any customs duty.