

# Industrial Incentives in Malta

by MGI Malta



Situated in the centre of the Mediterranean, Malta has a long tradition of international business that goes back to the first millennium BC. This industrial tradition has led to today's favourable industrial and pro-business environment which makes Malta the ideal location for foreign direct investment.

Malta Enterprise (ME) is the major catalyst in attracting foreign industrial investment as well as the encouragement of local industrial initiative.

Besides being responsible for 10 Industrial Estates situated in strategic locations around Malta and Gozo, ME is also responsible for implementing the government's industrial policy. The result of this conducive industrial policy has led to the establishment of over 200 foreign and 400 local companies that between them account for most of the islands industrial production and export. As at 2002 the value of such exports amounted to Lm961 million.<sup>1</sup>



The principal legislation governing industrial development is the Business Promotion Act enacted in 2000 which overhauled the Industrial Development Act of 1988. This law provides for various incentives to the local and foreign entrepreneur who decides to set up a manufacturing base in Malta. The Act also provides attractive fiscal incentives for companies engaged in certain qualifying activities that include:

- Electronic and telecommunications equipment
- Software development including installation, implementation, support and training
- Machinery and engineering
- Fabricated metal products
- Rubber and plastic items
- Pharmaceuticals and medicinals
- Medical, precision and optical instruments and equipment
- Production of audio-visual productions including films, advertising programmes or commercials and documentaries
- Jewellery and related articles
- Repair, improvements and maintenance of aircraft, yachts, motor boats, turbines, gantry cranes and their equipment
- Biotechnology
- Waste treatment and recycling
- Research and development

<sup>1</sup> Central Bank of Malta, Quarterly Review. Dec. 2003 Vol. 36 No. 4

## **Fiscal Incentives for Qualifying Companies**

Qualifying companies will benefit from the following fiscal incentives:

### **1) Reduced rates of income tax**

The applicable tax rates on profit are:

- 5% for the first 7 years of operation;
- 10% for the following 6 years
- 15% for the following 5 years

### **2) Investment tax credits**

Additional charge against taxable profit include:

- 50% of the amount invested; or
- 50% of the first 2 years wages costs of new jobs created

For SME's the above percentages are increased to 65%

Unutilised investment tax credits may be carried forward to the following year and increased by 7%.

The interaction of the above incentives would normally result in minimal or no taxes being paid for a number of years.

## **Fiscal Incentives applicable to manufacturing and related service companies.**

Under this scheme, companies operated in the designated industries can benefit from the following fiscal incentives on the value added of the activities.

### **1) Reduced rates of tax on profit which are as follows:**

- 5% for the first 7 years
- 10% for the following 6 years
- 15% for the following 5 years

For new companies, since the base period will be NIL, all the profits in the initial three years will be taxed at the reduced rate of 5%.

### **2) Investment allowances**

Additional investment allowances in addition to the normal wear and tear on capital investment are as follows:

- 50% on the cost of investment in plant and machinery
- 20% on the cost of investment in industrial buildings

### 3) Reduced Tax Rate on Re-Invested profits

Although the normal company tax rate in Malta is 35%, when taxable profits are re-invested in approved projects, this rate will be reduced to 15.75%.

### 4) Double Taxation Agreements

The double taxation agreements that Malta has signed with most of the commercial centres in the world enhance the incentives provided by Maltese domestic legislation. Most of these treaties ensure that profits generated in Malta are either exempt from tax in the country of residence of the investor, or else that such a country will provide a tax credit for the Malta tax saved as a consequence of the incentives that Malta provides.

### Other Non-Fiscal Incentives

The Business Promotion Act also provides for the following non-fiscal incentives:

- Provision of immovable property at competitive rental rates
- Soft loans of up to 75% of the qualifying expenditure at favourable interest rates
- Subsidies on loan interest rates
- Guarantees to Commercial Banks on loans taken by qualifying projects
- Additional tax credits on wage costs for additional jobs created
- Training assistance varying from 35% to 80% of the costs involved
- Work permits for indefinite periods for shareholders (or their nominees) holding more than 40% of the equity, whilst definite work permits will be granted to specialists.

### Disclaimer

The above information is being provided as a general guide only and should not be considered as a substitute for professional advice.



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