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## **Recent developments in international taxation: Malta**

### **Introduction**

On 28 October 2024, Malta's Minister for Finance delivered the Budget speech for 2025. Although it was presented against a backdrop of ongoing global challenges, geopolitical instability and tightening financial conditions, the speech underscored Malta's commitment to fiscal responsibility and economic resilience. The Budget introduced a series of fiscal measures aimed at supporting business and Malta's competitiveness, while maintaining a trajectory of sustainable public finances.

From an economic standpoint, the Budget highlighted continued growth in domestic demand as the primary driver of economic activity in 2025, with real GDP forecast to grow by 4.9 per cent in 2025. The government also pointed to stable labour market conditions, declining inflation (projected at 2.1 per cent for 2025), and a reduction in the fiscal deficit to 3.5 per cent of GDP as key indicators of Malta's economic stability and forward momentum.

The overarching theme, both in the Budget and in domestic tax policy developments over the past year, has been investment in institutional capacity, digitalisation, and alignment with international tax norms. In fact, the aforementioned positive economic outlook has provided the government with the fiscal space to focus on modernising public administration, particularly in the area of tax collection. In parallel with broader economic planning, the Budget signalled the government's continued commitment to improving revenue efficiency and tax compliance.

In short, compliance, rather than new taxation was the central strategy for 2024/2025.

### **Tax authority experience**

#### *Enhanced compliance and revenue collection*

The Malta Tax and Customs Administration (MTCA) was established in 2023 through the merger of the Government of Malta's income tax, VAT and customs departments. The intention behind this move was multi-faceted:

- to facilitate internal information sharing;
- enhance the efficiency and speed of audits and enforcement actions;
- enable a more unified approach to pursue enforcement; and
- ultimately reduce the tax gap.

Since then, and based on our experiences, we have observed a clear shift toward a more assertive and coordinated approach by the MTCA in the areas of enhanced tax compliance and enforcement. In fact, in 2024, the authorities reportedly achieved significant improvements in taxpayer compliance with the timely submission rate of tax returns increasing from 73 per cent in 2023 to 93 per cent in 2024. Over the same period, the MTCA collected an additional €500m in tax dues in 2024 compared to the previous year.

This heightened focus is also evident in MTCA publications (such as the MTCA's *Strategic Plan 2023–2025*) but is also noticeable in the authorities' day-to-day engagement with

taxpayers and advisers. A notable development in this context was the establishment and launch of the Large Taxpayer Office in 2025.

#### *The Large Taxpayer Office*

In April 2025, the MTCA officially launched the Large Taxpayer Office (LTO), signalling a more structured and proactive approach to monitoring and supporting high-value taxpayers. The LTO is designed to function as a one-stop shop, providing tailored and direct support to large corporate taxpayers and high net worth individuals. It is understood that eligible taxpayers are estimated to account for approximately 80 per cent of the total tax revenue collected.

The office aims to enhance taxpayer engagement by assigning case managers and section leaders with a deep understanding of Malta's key economic sectors, including tourism, hospitality, retail, gaming, financial services, construction and manufacturing. It will cater to corporate taxpayers with an annual turnover exceeding €20m and a workforce of more than 50 employees. The LTO offers an integrated suite of services, covering customer care, compliance, payments, business support and intelligence, as well as audits and investigations. In line with broader digitalisation efforts, artificial intelligence will play a central role in how the LTO operates, particularly in risk analysis and audit selection, further reinforcing the MTCA's commitment to a smarter, data-driven approach to tax administration.

We are aware that towards the end of May 2025, the MTCA began reaching out to eligible taxpayers to inform them of their qualification for the LTO. Taxpayers were notified that their LTO status would apply for a period of three years. In its communication, the MTCA emphasised that the purpose of the initiative is to support taxpayers in maintaining full compliance and to help prevent potential penalties or disruptions in their tax affairs. This proactive outreach underscores the MTCA's aim to strengthen early engagement and continue to foster a cooperative relationship with Malta's largest and more complex taxpayers.

#### *Modernisation of the tax administration*

The MTCA is currently undertaking a wide-ranging modernisation programme focused on digitalisation, data-driven enforcement and service efficiency. At the core of this effort is a €68m investment over a ten-year period to implement a fully digitised integrated tax and customs administration system. A central component of this transformation is the deployment of artificial intelligence capabilities. Once fully operational, the system will allow taxpayers to access real-time information about their tax status, consolidate multiple tax functions into a single interface, and streamline administrative processes.

## **International tax**

#### *Malta's deferral of Pillar Two*

Malta had announced that it elected to defer the implementation of the Pillar Two global minimum tax rules under the transitional provisions of the European Union Minimum Tax Directive (Council Directive (EU) 2022/2523) (DAC9). Article 50 permits Member States with no more than 12 ultimate parent entities of in-scope multinational enterprise (MNE) groups to postpone the application of the income inclusion rule (IIR) and the undertaxed profits rule (UTPR) for six consecutive fiscal years from 31 December 2023. Malta notified the EU Commission of its election to defer in September 2023.

The Budget speech for 2025 reaffirmed Malta's position, framing the deferral as a prudent response to ongoing international uncertainties around Pillar Two implementation. In the meantime, Malta is engaging in discussions with the European Commission on the development of potential qualified refundable tax credits (QRTCs) or other incentives that would align with both EU and OECD rules and standards. These measures are intended to preserve Malta's competitiveness. No official pronouncements on the scope or nature of the QRTCs has, to date, been made by the MTCA.

The deferral period will remain in place until the earliest of:

- the expiry of the six-year period;
- Malta choosing to withdraw the deferral; or
- the introduction of a qualified domestic minimum top-up tax (QDMTT).

It is important to note that, despite Malta's deferral, MNEs with constituent entities in Malta may still have data-gathering and reporting obligations. In particular, they may be required to file a top-up tax information return (TTIR) (the EU's standardised template mirroring the OECD's GloBE Information Return) if the group is subject to global base erosion (GloBE) and DAC9 compliance obligations in another EU Member State. These cross-border reporting requirements are expected to become a significant compliance feature for many groups operating in or through Malta.

From a practical standpoint, preparing the TTIR will require a meticulous aggregation of financial, structural and jurisdictional data to ensure compliance with Pillar Two. MNEs will need to collect entity-level financials, tax adjustments and jurisdictional allocations for each entity of the in-scope group, as well as to capture financial and operational metrics at the entity, transactional or jurisdictional level to for example precisely calculate effective tax rates. This data granularity will likely impose considerable resource demands on affected businesses.

Against this backdrop, it will be important to monitor how the MTCA balances the increased administrative complexity that Pillar Two reporting obligations will likely impose, with its stated ambition to simplify the domestic tax compliance environment. Regardless of the ongoing international uncertainty and Malta's decision to defer implementation of the core charging rules, taxpayers should nonetheless prepare for compliance.

#### *Transfer pricing and MAP*

The need to collect extensive financial and operational data under Pillar Two dovetails with Malta's relatively new transfer pricing rules, which require similarly granular documentation and arm's-length support. Although Maltese tax legislation has always required adherence to an arm's-length principle in substance, a transfer pricing framework was only introduced from 1 January 2024. In parallel, Malta has issued detailed Transfer Pricing Guidelines, drawing on OECD principles, which clarify expectations around documentation, risk allocation, and comparability analyses.

In this context, the role of dispute resolution mechanisms such as the mutual agreement procedure (MAP) becomes increasingly relevant. On 11 March 2025, MTCA updated its MAP Guidelines (Version 2.4) which introduced several clarifications and procedural enhancements. The guidelines provide comprehensive information on the MAP process, including how taxpayers can request assistance, what information must be provided, and how

the MTCA handles, accepts, or rejects requests. It also covers taxpayer rights, the conduct of the procedure, and how outcomes are reached. Importantly, the guidelines now provide further detail on the suspension of tax collection and interest during ongoing MAP proceedings, as well as limitations on the use of exchanged taxpayer information.

According to the OECD's 2023 MAP statistics, by the end of 2023, Malta's MAP inventory comprised 20 transfer pricing cases and three 'other cases'. The OECD indicated Austria and Italy as the MAP partners with which Malta has cases open. The OECD has not yet published MAP statistics for the 2024 reporting period. It remains to be seen whether there will be an increase in cases following the introduction of transfer pricing rules in Malta.

## **Income tax**

### *Budget Measures Implementation Act*

On 17 April 2025, Malta enacted the Budget Measures Implementation Act of 2025 ('Budget Act'). The Budget Act incorporates various tax proposals announced during the 2025 Budget. In a nutshell, key income tax changes include: (1) increased scope of the deductibility of capital expenditure rules to commercial leases, business permits and concessions; and (2) the Minister for Finance being empowered to impose an elective higher tax rate for Maltese entities. Other changes include revised personal income tax bands and the increase in permissible deductions for independent school fees.

Businesses can now deduct certain capital expenses incurred from 1 January 2025 for acquiring business permits, concessions or commercial leases, provided these are used to generate taxable income. The deduction is spread over up to 15 years or the term of the permit/lease, whichever is shorter. Restrictions apply: the deduction does not cover outright business or goodwill purchases, indefinite or long-term (over 15 years) leases, or related-party transactions. The Minister for Finance may further regulate these rules.

A new enabling provision empowers the Minister for Finance to introduce an elective higher tax rate for profits of Maltese entities, with details to be set by regulation. This could target specific sectors or business models in the future. The rules are yet to be published.

### *Income tax compliance*

Non-compliance offences have been broadened to include the failure to file a tax return, statement or other required documentation even in cases where a taxpayer is merely late or omits the filing entirely. This closes a previous enforcement gap. Moreover, the law now explicitly authorises the Commissioner for Tax and Customs to disclose taxpayer information in judicial or quasi-judicial proceedings when ordered by a court or tribunal.

## **VAT**

### *SME Scheme*

Effective 1 January 2025, Malta implemented updates to its VAT legislation to support small businesses and align with EU-wide initiatives aimed at easing administrative burdens. These amendments follow the transposition of Council Directive (EU) 2020/285 through Act No XXXVIII of 2024 and accompanying legal notices.

The new measures introduce Articles 11A and 11B into the Maltese VAT Act, complementing the existing Article 11. While Article 11 continues to apply to domestic small businesses with turnover not exceeding €35,000, the newly introduced provisions establish a special VAT exemption regime for small businesses involved in cross-border trade within the EU.

Specifically, Article 11A allows Maltese-established businesses with EU-wide turnover not exceeding €100,000 to benefit from VAT exemption on intra-EU supplies, subject to compliance with thresholds in each Member State. Article 11B extends a similar exemption to EU-based businesses making limited supplies in Malta, provided they stay below the €100,000 EU-wide turnover and do not exceed €35,000 in Malta.

These developments reflect Malta's commitment to creating a business-friendly VAT environment that facilitates SME participation in the single market. Qualifying businesses must closely monitor turnover across all Member States and maintain accurate records to ensure ongoing eligibility. The new regime underscores the importance of internal controls and compliance awareness, as exceeding relevant thresholds could trigger VAT registration and reporting obligations.