

Income Tax Act

Cap. 123

Unofficial Consolidated Version
31 August 1996

Part I Preliminary

Section	Page	
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1	2	Short title.
2	2	Interpretation.
3	9	Administration of Act.

Part II Imposition of Income Tax

4	9	Charge of Income Tax.
5	12	Capital Gains.
6	19	Investment Services Expatriate.
7	20	Year of Assessment 1973.
8	22	Special provisions in respect of formerly undeclared income.
9	24	Further special provisions in respect of formerly undeclared income.
9A	25	Spontaneous Declaration of undeclared income
10	29	Basis of Assessment.
11	29	Accounting periods.

Part III Exemptions

12	30	Exemptions.
13	34	Temporary residents.

Part IV Deductions

14	34	Deductions allowed.
14A	38	Alimony payments.
15	38	Investment services companies.
16	40	Definition of group.
17	41	Surrender of relief between members of groups.
18	41	Losses which may be surrendered by way of group relief.
19	43	Group relief - anti-avoidance.
20	43	Exclusion of double reliefs.
21	43	Claims and adjustments.
22	43	Definitions.
23	44	Profits from production of petroleum.
24	47	Balancing statement, balancing allowance and balancing charge.
25	51	Applicability of sections 14 to 24.
26	51	Deductions not to be allowed.

Part V Special Provisions

27	51	Special provisions as to certain income.
28	52	Non-resident shipowners.
29	54	Non-resident air transport, cable and wireless undertakings.
30	54	Ecclesiastical and other income.
31	57	Income from certain dividend to include tax thereon.
32	57	Taxation of certain investment income by deduction.
33	57	Obligation of payor to deduct tax from investment income.

Part V Special Provisions (continued)

Section	Page	
34	58	Payor not to deduct tax where recipient elects to be paid gross.
35	58	Election by recipient to be paid without deduction of tax.
36	58	Obligation on recipient to declare where an election is made.
37	59	Option for recipients to declare where no election has been made.
38	59	Presumption of deduction.
39	59	Where presumption applies, no need to declare.
40	59	Extent of payor's liability.
41	59	Interpretation of the investment income provisions.
42	60	Anti-avoidance provisions.
43	61	Certain undistributed profits to be deemed to be distributed.
44	63	Special provisions in respect of certain profits deemed distributed.
45	64	Further special provision in respect of profits deemed distributed.
46	64	Loans to shareholders.
47	64	Certain distribution to shareholders or to partners deemed to be dividends or profits.
48	65	Special provisions for computation of income derived from sale or other disposal of trading stock.
48A	65	Special provisions regarding certain income derived by outworkers on a part-time basis
49	65	Married couples.
50	66	Separate computation on certain income derived by married couples.
51	66	Tax avoidance.
52	68	Advance Revenue Rulings.

Part VI Personal Deductions

53	69	Resident individual. <i>Repealed</i>
54	69	Non-resident allowances. <i>Repealed</i>
55	69	Claims under this Part. <i>Repealed</i>

Part VII Rate of Tax.

56	70	Normal rates of tax on individuals and certain bodies of persons.
----	----	---

Part VIII Tax Rebate

57	80	Rebate of tax. <i>Repealed</i>
58	80	Further rebate. <i>Repealed</i>

Part IX Persons Assessable

59	80	Deduction of tax.
60	83	Set-off in certain cases.
61	84	Definitions.
62	84	Tax on dividend from untaxed account.
63	85	Presumption of deduction.
64	85	Where presumption applies.

Part IX Persons Assessable (continued)

Section	Page
----------------	-------------

65	85	Option for recipients to declare.
66	85	Untaxed dividend paid to non-recipient.
67	85	Payment of dividend out of taxed account or foreign income account.
67A	86	Profits distributed by a Collective Investment Scheme.
68	87	No obligation to disclose.
69	87	Extent of liability.
70	87	Chargeability of trustees, etc.
71	88	Deceased persons.
72	88	Joint trustees.
73	88	Income paid to non-residents.

Part X Relief of Double Taxation

74	90	Four reliefs of double taxation.
75	90	Interaction of the reliefs.
76	90	Double taxation arrangements.
77	91	Tax credits.
78	93	Dividends and tax credits.
79	94	Unilateral relief.
80	94	Availability of unilateral relief.
81	94	Relief by way of credit.
82	94	Credit for the underlying tax.
83	95	Limitation of the credit.
84	95	Amount of total credit.
85	95	Computation of income.
86	95	Applicability of section 85.
87	95	Dividends and tax credits, etc.
88	96	No relief without proof.
89	96	Relief in respect of Commonwealth income tax.
90	97	Relief in respect of Bearer Accounts Levy.
90A	98	Tax on part-time work.
91	100	Computations of certain tax reductions.
92	100	Flat-rate foreign tax credit.
93	100	Amount of flat-rate foreign tax credit.
94	101	Operation of the flat-rate foreign tax credit.
95	101	Anti-avoidance provisions.

Part XI Power to make rules

96	101	Power to make rules.
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CHAPTER 123

INCOME TAX ACT

To impose a Tax upon incomes.

(1st January, 1949)*

Enacted by ACT LIV of 1948, as amended by Acts: VI of 1953, XX of 1955, V of 1958; Emergency Ordinance XV of 1958; Ordinances: VIII and XVI of 1959, XXV of 1960, XXIV and XLI of 1961, XXV of 1962; Legal Notice 4 of 1963; Acts X and XIV of 1963; V of 1964; Legal Notice 46 of 1965; Acts: XXXI of 1966, XXVII of 1967, VIII of 1969, XXVIII and XXXV of 1972, X and XX of 1973, XLIX and LVIII of 1974; Legal Notice 148 of 1975; Acts: XLII of 1975, XXII, XXIV and XXXIX of 1976, XXVI of 1977, XXVIII of 1978, XXI of 1980, IX and XL of 1981, IX and XIII of 1983, XIV of 1984, VIII of 1987, XXXI of 1988, XIX of 1989, XXXVI of 1990, VIII of 1991, XIII of 1992, XVIII of 1993, I and XVII of 1994, XXII of 1995, XX of 1996.

ARRANGEMENT OF ACT

		Sections
Part I	Preliminary	1 - 3
Part II	Imposition of Income Tax	4 - 11
Part III	Exemptions	12 - 13
Part IV	Deductions	14 - 26
Part V	Special Provisions	27 - 52
Part VI	Personal Deductions	53 - 55
Part VII	Rate of Tax	56
Part VIII	Tax Rebate	57 - 58
Part IX	Persons Assessable	59 - 73
Part X	Relief of Double Taxation	74 - 95
Part XI	Power to make rules	96

* See Section 1 of the Act as originally enacted, part of which has been omitted under the Statute Law Revision Act, 1980.

"continental shelf" has the same meaning as is assigned to it in the Continental Shelf Act;

"debenture interest" means interest payable by a company under or by virtue of a debenture or a debenture trust deed, whether in the form of a mortgage or any other instrument or document acknowledging indebtedness;

"distributable profits" shall mean the total profits which are available for distribution by a company resident in Malta under the laws for the time being in force in Malta, and the distributable profits shall, for the purposes of this Act, be allocated to the following accounts, that is to say, foreign income account, Maltese taxed account, and untaxed account, and for the purposes of this definition these accounts shall comprise the distributable profits as set out in the respective definitions;

"dividend" includes -

(a) bonus shares;

(b) any distribution made by a partnership en commandite the capital of which is divided into shares, or by a partnership anonyme, to its partners or shareholders respectively, and any amount credited to them as partners or shareholders; and

(c) any distribution made by a co-operative society to its members and any amount credited to them as members, including any patronage refund, bonus certificate or bonus share, made, paid or allotted in accordance with the law regulating such societies for the time being in force in Malta;

"equity holding" shall mean a holding of the nominal share capital in a company when the shareholding entitles the shareholder to a right to votes, to profits available for distribution to shareholders and to assets available for distribution on a winding up of that company, and "equity shares", "equity shareholder" and "equity shareholding" shall be construed accordingly;

"foreign income account" shall, with effect from the year immediately preceding the year of assessment 1996, mean any of the following categories of distributable profits arising in that year and in subsequent years to the extent that they result from taxable income:

(a) profits resulting from royalties and similar income arising outside Malta and from dividends, capital gains, interest, rents and any other income derived from investments

situated outside Malta, which are liable to tax in Malta and are receivable by a company resident in Malta not being a company registered under the Malta Financial Services Centre Act, 1994; and

(b) profits resulting to a company licensed as a bank in Malta not being a company registered under the Malta Financial Services Centre Act, 1994 from investments, assets or liabilities situated outside Malta; and

(c) all profits or gains of a company resident in Malta, which are liable to tax in Malta and attributable to a permanent establishment (including a branch) situated outside Malta, and for these purposes "profits or gains" shall be calculated as if the permanent establishment is an independent enterprise operating in similar conditions and at arm's length; and

(d) profits resulting from dividends paid out of the foreign income account of another company resident in Malta:

Provided that in the case of a company carrying on the business of insurance, or any other company which is owned and controlled, directly or indirectly, by such an insurance company, the profits which would, in accordance with the above provisions, stand to be allocated to the foreign income account will, for any financial year, not be so allocated:

Provided further that in the case of a company which is licensed as a bank in Malta or which forms part of a banking group as defined below, any profits which would, in accordance with the above provisions, stand to be allocated to the foreign income account will, for any financial year, not be so allocated unless:

(a) more than ninety-five per cent (95%) of its average daily deposits throughout the financial year are taken from persons who are not resident in Malta; and

(b) where the company forms part of a banking group, such group meets, on a consolidated basis, the requirement specified in paragraph (a) above.

For the purposes of this proviso:

(a) "banking group" shall comprise only Maltese registered companies, at least one of which must be a bank licensed in Malta, and which companies are members of a banking group of companies. Two companies shall be deemed to be members of a banking group of companies if one is the ten per

cent affiliate of the other or both are ten per cent affiliates of a third company. For this purpose, a company shall be deemed to be a ten per cent affiliate of another company (parent company):

(i) if and so long as more than ten per cent of its ordinary share capital and more than ten per cent of its voting rights are owned directly or indirectly by the parent company; or

(ii) the parent company is beneficially entitled either directly or indirectly to more than ten per cent of any profits available for distribution to the ordinary shareholders of the affiliate company; or

(iii) the parent company would be beneficially entitled either directly or indirectly to more than ten per cent of any assets of the affiliate company available for distribution to its ordinary shareholders on winding up:

Provided that notwithstanding the above provisions, a company which has been acquired by a bank in satisfaction of a debt and which does not otherwise form part of the bank's business shall be deemed not to form part of a banking group;

(b) "average daily deposits" shall be computed by taking the total deposits at the end of each day for the financial year and dividing such amounts by the number of days in that financial year and average daily deposits taken from persons who are not resident in Malta shall be computed in like manner. The word "deposits" shall have the meaning assigned to it in the Banking Act, 1994;

(c) the amount of the consolidated average daily deposits of a banking group shall include only deposits accepted by companies forming part of the banking group placed by persons other than such companies:

Provided finally, that in the case of an "International Trading Company", the profits which would, in accordance with the above provisions, stand to be allocated to the foreign income account will, for any financial year, not be so allocated;

"incapacitated person" means any minor, lunatic, idiot, insane person or person under tutorship or curatorship;

"industrial building or structure" includes a building used as a hotel. For the purpose of this definition the word "hotel" includes any number of constructions suitably furnished and equipped, with accommodation in single or double bedrooms, provided that such

constructions are grouped together and have in common ancillary hotel services and amenities within a single and defined parcel of land and are operated by a common management for the accommodation and for the use of guests against payment;

"International Trading Company" means a company registered in Malta which is engaged solely in carrying on trading activities, from Malta but not in Malta, with persons outside Malta who are not resident in Malta and which has its objects expressly limited to such trading activities as well as to such acts and activities as are necessary for the conduct of its operations from Malta. The following activities shall in so far as they are complementary to the carrying on of the said trading activities be allowable activities of an International Trading Company:

(a) purchases for export of goods manufactured, assembled or processed in Malta provided that such purchases are not made from a person who owns directly or indirectly more than 15% of the ordinary share capital of the said International Trading Company;

(b) trading with companies registered in Malta under the Malta Financial Services Centre Act, 1994; and

(c) trading with other International Trading Companies;

"income" except for the purposes of subsection (1) of section 4 and Part IV of this Act shall include capital gains as defined in section 5 of this Act;

"loss" in relation to a trade, business, profession, or vocation means loss computed in like manner as profits;

"Malta" means the Island of Malta, the Island of Gozo and the other islands of the Maltese Archipelago, including the territorial waters thereof and the Continental Shelf;

"Maltese taxed account" means any of those profits of a company that are not included in the foreign income account and:

(a) which have suffered tax; or

(b) which have been exempt from tax under the provisions of any Maltese law and where the distribution of such profits by the company is also exempt from tax in the hands of the shareholders;

"married couple" refers to two spouses who contracted marriage in accordance with the legal provisions of the country where the marriage was executed;

“married individual” refers to a male individual who has a wife or a female individual who has a husband, living with him or with her respectively, as the case may be;

"participating holding" shall mean a holding which arises where:

(a) a company holds directly at least ten percent of the equity shares of a company not resident in Malta whose capital is wholly or partly divided into shares:

Provided that where the shares held confer different percentages of entitlement with respect to votes, to profits available for distribution and to assets available for distribution on a winding up, the lowest percentage figure shall be deemed to be the percentage of equity shares held; or

(b) a company is an equity shareholder in a company not resident in Malta and the equity shareholder company is entitled at its option to call for and acquire the entire balance of the equity shares not held by that equity shareholder company to the extent permitted by the law of the country in which the equity shares are held; or

(c) a company is an equity shareholder in a company not resident in Malta and the equity shareholder company is entitled to first refusal in the event of the proposed disposal, redemption or cancellation of all of the equity shares of that company not held by that equity shareholder company; or

(d) a company is an equity shareholder in a company not resident in Malta and is entitled to either sit on the Board or appoint a person to sit on the Board of that company as a director; or

(e) a company is an equity shareholder which invests a minimum sum of five hundred thousand Maltese liri (or the equivalent sum in a foreign currency) in a company not resident in Malta; or

(f) a company is an equity shareholder in a company not resident in Malta and where the holding of such shares is for the furtherance of its own business:

Provided that a holding of shares whether equity shares or not, in a company not resident in Malta, held as trading stock for the purpose of a trade shall not constitute a "participating holding";

"person" includes -

- (a) a body of persons; and
- (b) a responsible spouse in accordance with section 49 of this Act;

"petroleum" means all natural hydrocarbons liquid or gaseous including crude oil, natural gas, asphalt, ozokerite and cognate substances and natural gasoline;

"prescribed" means prescribed by rule under this Act;

"resident in Malta" when applied to an individual means an individual who resides in Malta except for such temporary absences as to the Commissioner may seem reasonable and not inconsistent with the claim of such individual to be resident in Malta; when applied to a body of persons, means any body of persons the control and management of whose business are exercised in Malta, provided that a company incorporated in Malta on or after 1st July 1994 shall be resident in Malta and any other company incorporated in Malta shall be resident in Malta from 1st January 1995 where the management and control of the business of the company is exercised outside Malta;

"scholarship" includes a bursary, an award, a grant or an endowment of a similar nature, given or established for educational purposes;

"the Special Commissioners" means the Commissioners appointed by the President of Malta under Section 34 of the Income Tax Management Act, 1994;

"tax" means the income tax imposed by the Income Tax Acts;

"the Income Tax Acts" shall collectively mean this Act and the Income Tax Management Act, 1994;

"total income" means the aggregate amount of the income of any person from the sources specified in Part II of this Act, remaining after allowing the exemption under Part III and the deductions under Part IV and computed in accordance with the provisions of Part V:

Provided that any income which is not required to be disclosed and is not disclosed in accordance with the provisions of the Income Tax Acts shall not form part of total income;

"untaxed account" shall consist of those profits (or losses as the case may be), which represent the total distributable profits (a positive amount) or the total accumulated losses (a negative amount) as the case may be, and deducting therefrom the total sum of the amounts allocated to the foreign income account and the Maltese taxed account;

"year of assessment" means the period of twelve months commencing on the first day of January, 1949 and each subsequent period of twelve months.

(2) Words and expressions used in this Act which are not known to the law of Malta but are known to the English Law, shall, so far as may be necessary to give effect to this Act and consistently with the provisions thereof, have the meaning assigned to them in the English Law and be construed accordingly.

Administration of Act.

3. The administration of this Act shall be vested in the Commissioner, and the provisions of sections 3 and 4 of the Income Tax Management Act, 1994, shall apply to the Commissioner in the exercise of his powers and functions under this Act.

PART II

Imposition of Income Tax

Charge of Income Tax.

4. (1) Subject to the provisions of this Act, income tax shall be payable at the rate or rates specified hereafter for the year of assessment commencing on 1st January, 1993 but only with respect to any capital gains made on or after the 25th November, 1992 and for each subsequent year of assessment upon the capital gains as defined in Section 5 of this Act accruing or derived from Malta or elsewhere, and whether received in Malta or not, and for the year of assessment commencing on 1st January, 1949 and for each subsequent year of assessment upon the income of any person accruing in or derived from Malta or elsewhere, and whether received in Malta or not in respect of -

(a) gains or profits from any trade, business, profession or vocation, for whatever period of time such trade, business, profession or vocation may have been carried on or exercised, including the profit arising from the sale by any person of any property acquired by him for the purpose of profit-making by sale, or from the carrying on or carrying out of any profit-making undertaking or scheme;

(b) gains or profits from any employment or office, including the estimated annual value of any quarters or board or residence (after allowing, in cases in which quarters, board or residence are not

free, for any sum paid or payable by way of rent, contribution or otherwise for such quarters, board or residence);

(c) dividends, premiums, interest or discounts;

(d) any pension, charge, annuity or annual payment;

(e) rents, royalties, premiums and any other profits arising from property;

(f) *deleted by Act XX of 1996*

(g) gains or profits not falling under any of the foregoing paragraphs:

Provided that:

(i) in the case of income arising outside Malta to a person who is not ordinarily resident in Malta or not domiciled in Malta, the tax shall be payable on the amount received in Malta;

(ii) no tax shall be payable on capital gains arising outside Malta to a person who is not ordinarily resident in Malta or not domiciled in Malta or to a person who is charged to tax at the rate of 15 cents in the Lm as laid down in subsection (11) of section 56 of this Act;

(iii) in the case of any person who is charged to tax at the rate of 15 cents in the Lm as laid down in subsection (11) of section 56 of this Act, the tax shall be payable only on any income or capital gains arising in Malta and on any amount of income arising outside Malta and received in Malta.

(2) Any sum realised under any insurance against a loss of profits shall be taken into account in the ascertainment of any profits or income.

(3) Where a person carries on in Malta an agricultural, manufacturing or other productive undertaking, the following provisions shall have effect, that is to say:

(a) if such person sells any product of the undertaking, in a wholesale market, outside Malta or for delivery outside Malta, whether the contract is made within Malta or outside Malta, the full profits arising from the sale shall be deemed to be income of such person accruing in or derived from Malta:

Provided that if it is shown to the satisfaction of the Commissioner that the profit has been increased through treatment of the product outside Malta other than handling, grading, blending, sorting, packing or disposal, such increase of profits shall not be deemed to be income accruing in or derived from Malta;

(b) if such person otherwise disposes of, uses or deals with any product of the undertaking, outside Malta, the profit which might have been obtained if such person had sold the product to the best advantage in a wholesale market outside Malta shall be deemed to be the profit arising from such disposal, dealing or use, and to be the income of such person accruing in or derived from Malta.

(4) Where a body of persons carries on a club or similar institution and receives from its members not less than one half of its gross receipts on revenue account (including entrance fees and subscriptions), it shall not be deemed to carry on a business; but where less than one half of its gross receipts are received from members, the whole of the income from transactions both with members and others (including entrance fees and subscriptions) shall be deemed to be receipts from a business, and the body of persons shall be chargeable either in respect of the profits therefrom or in respect of the income which would be assessable if it were not deemed to carry on a business, whichever is the greater.

In this subsection "members" in relation to a body of persons means those persons who are entitled to vote at a general meeting of the body at which effective control is exercised over its affairs.

Nothing in this subsection shall operate to annul or reduce any exemption granted in section 12 of this Act, save as provided in paragraph (k) of subsection (1) thereof.

(5) Where under the provisions of section 24 of this Act, a balancing charge falls to be made, the amount thereof shall be deemed to be income chargeable with tax under this Act.

(6) Subject to the provisions of subsection (7) of this section, on the winding up, in full or in part, of any pension, saving, provident or other society or fund approved by the Commissioner for the purposes of subparagraph (ii) of paragraph (b) of subsection (1) of section 53 of this Act, the following provisions shall have effect:

(a) any refund, reimbursement, gratuity, bonus, payment, compensation or other return or benefit paid or accruing to any person as a consequence of winding up shall, notwithstanding anything to the contrary contained in this Act or in any law, document, deed, contract, agreement or other instrument, be deemed to constitute income chargeable to tax in the hands of the said pension, saving, provident or

other society or fund in the year of assessment in which it is granted or so accrues, and not to constitute income chargeable to tax in the hands of the person to whom it is paid or accrues; and

(b) no refund, reimbursement, gratuity, bonus, payment, compensation or other return or benefit shall be paid as aforesaid before payment has been effected of the tax chargeable in accordance with the provisions of this subsection.

(7) Subsection (6) of this section shall not apply -

(i) to any benefit, or value thereof, chargeable with tax under subsection (6) of this section and which is paid or payable to members of the said pension, saving, provident or other society or fund, or other beneficiaries claiming through or under them, in accordance with the conditions under which the said pension, saving, provident or other society or fund was approved by the Commissioner; or

(ii) to any capital sum exempt from tax under paragraph (h) of subsection (1) of section 12 of this Act.

Capital gains.

5. (1) (a) Capital gains derived by a person from the transfer of a capital asset shall be charged under subsection (1) of section 4 of this Act. Notwithstanding anything contained in any other part of this Act, such gains shall be ascertained as laid down in this section and in such manner as may be prescribed. The capital gains to which the provisions of this section shall apply are:

(i) gains or profits arising from any transfer of the ownership or usufruct of any immovable property or the assignment or cession of any rights over such property; and

(ii) gains or profits arising from the transfer of the ownership or usufruct of or from the assignment or cession of any rights over any securities, business goodwill, copyright, patents, trademarks and tradenames; and

(b) In this section -

"transfer" includes any assignment, sale, emphyteusis, or sub-emphyteusis, partition, donation, sale by instalments, and any alienation under any title, but does not include a transfer *causa mortis*; and

"securities" shall mean shares and stocks and such like instrument that participate in any way in the profits of the company and whose return is not limited to a fixed rate of return,

and units in a collective investment scheme as defined in section 2 of the Investment Services Act, 1994.

(2) For the purpose of ascertaining the gains or profits arising from any transfer of immovable property in terms of sub-paragraph (i) of paragraph (a) of subsection (1) of this section -

(a) there shall be deducted in such manner and amount as may be prescribed, the cost of acquisition, the inflation element, any ground rent paid on the property and for which a deduction is not due to the taxpayer under any other provision of this Act, maintenance, improvements, other expenses that have increased the value of the immovable property since it was acquired and other expenses directly related to the transfer;

(b) any transfer of immovable property by means of a Deed of Exchange shall be considered as if separate deeds of transfer were taking place between the parties to the deed;

(c) where immovable property is granted on emphyteusis or sub-emphyteusis for a period exceeding fifty years, or extendable to such periods, the following rules shall apply:

(i) where the premium exceeds the cost of acquisition in accordance with paragraph (a) hereof, such excess shall be deemed to be gains or profits;

(ii) where the cost of acquisition in accordance with paragraph (a) hereof exceeds the premium such excess shall be deductible from the gains or profits arrived at in accordance with sub-paragraph (iii) hereof;

(iii) no account shall be taken on any ground rent or increase in ground rent involved in the transfer unless and until such ground rent or increase in ground rent is redeemed, or the *directum dominium* or *sub directum dominium*, as the case may be, is transferred and in such case the gains or profits shall be deemed to be the price of redemption or sale less any deduction in accordance with sub-paragraph (ii) hereof;

(d) (i) a transfer shall not include a contract of partition where no owelty is due to any of the co-partitioners, and upon a transfer of any property by a co-partitioner the cost of acquisition shall be deemed to be the cost of acquisition of the property in question at the time of acquisition by the co-partitioner;

(ii) for the purposes of this paragraph only the immovable property held in common and partitioned shall be taken into account,

and where money or other movables held in common is assigned to a co-partitioner in consideration for the reduction in the share of immovables assigned to him the partition shall be deemed to be one where an owelty has been paid;

(iii) where a person receives an owelty on a contract of partition he shall be deemed to have made capital gains as is equivalent to as much of the increase in the value of the property between the time of the acquisition by the co-partitioners and the time of partition, so however that tax on capital gains shall only be payable at the time of partition on such part of the capital gains made as is not included in the increase in the value of the property assigned to that co-partitioner between the time of acquisition by the co-partitioners and the partition, and where such co-partitioner transfers the property assigned to him the cost of acquisition shall be deemed to be the cost of acquisition of the immovables when acquired by the co-partitioners before the partition;

(iv) where a co-partitioner pays an owelty at the time of the partition, he shall be deemed to have made no capital gain at the time of the partition, and where such co-partitioner transfers any immovable property assigned to him in the partition, the cost of acquisition shall be deemed to be such portion of the sum of the cost of acquisition of the co-partitioner's share of all the immovables partitioned together with the owelty paid on the contract of partition, as is equivalent to the portion of the value of the immovable transferred to the total value of immovables assigned to the co-partitioner in the deed of acquisition;

(e) a donation shall be considered as a deemed sale made at the market value of the property at the time of transfer. Provided that no tax shall be payable where the donation is made by a person to:

(i) his spouse, descendants and ascendants in the direct line and their relative spouses, or in the absence of descendants to his brothers or sisters and their descendants, or

(ii) philanthropic institutions approved for the purposes of paragraph (e) of subsection (1) of section 12 of this Act;

(f) without prejudice to the provision of paragraph (e) of subsection (1) of section 12, where the property referred to in paragraph (e) of this subsection is disposed of by the donee within five years of the donation, the donee shall be charged on the gain ascertained in accordance with the provisions of this section by taking into account the cost of acquisition of the property at the time it was acquired by the donor; where the property is sold by the donee after the lapse of five years the cost of acquisition shall be deemed to be the value of the property as declared in the deed of donation;

(g) gains and profits relating to a transfer by donation shall mean the difference in the market value of the property at the time of the donation and the cost of acquisition of the property at the time of acquisition by the donor.

(3) For the purpose of ascertaining the gains or profits arising from any transfer of property in terms of sub-paragraph (ii) of paragraph (a) of subsection (1) of this section:

(a) the acquisition cost of shares acquired before the 25th November, 1992 shall be valued either on the Equity method of share valuation (net asset value) based on the last accounts submitted to the Commissioner by the 18th December, 1992 by taking into account the value of immovable property existing in the said accounts and adjusted in terms of paragraph (a) of subsection (2) of this section or on the actual purchase price, whichever is the higher;

(b) listed shares quoted on a Stock Exchange on the 25th November, 1992, shall be valued at the price existing on that date; and in the case of shares quoted in foreign currency, the rate of exchange (*middle rate* of the Central Bank) on that date shall be used;

(c) shares acquired after the 25th November, 1992, shall be valued on the cost of acquisition;

(d) where on a share transfer the rights pertaining to those shares are changed in any way, the transfer value of the shares shall be taken as if no such change has been made;

(e) any transfer consisting of an exchange shall be considered as if two separate transfers were taking place; and

(f) the provisions of paragraphs (d), (e), (f) and (g) of subsection (2) of this section shall apply *mutatis mutandis* to this subsection.

(4) The provisions of paragraph (d) of subsection (2) shall apply *mutatis mutandis* where the assets partitioned include both assets under sub-paragraphs (i) and (ii) of paragraph (a) of subsection (1).

(5) The provisions of sub-paragraph (i) of paragraph (a) of subsection (1) of this section shall not apply to gains or profits relating to transfer of immovable property:

(a) where a copy of the relevant deed of transfer dated prior to the 25th November, 1992 or of the relevant promise to transfer or acquire also dated prior to the 25th November, 1992, made in favour of the transferee, has been duly registered with the Inland Revenue

Department by the 1st December, 1992 and a certificate to that effect has been issued by the Commissioner or, in the case of a deed of transfer, the deed has been duly enrolled in the Public Registry by the 1st December, 1992;

(b) where the Commissioner is satisfied that the property or undivided part of the property has been owned and occupied for a period of at least three years as the transferor's own residence immediately preceding the date of transfer and provided that the property is disposed of within twelve months of vacating the premises;

(c) for the purposes of paragraph (b) of this subsection "own residence" means the principal residence owned by the taxpayer or his spouse being a dwelling house which has been the owner's only or main residence. A garage attached to or underlying a house or a block of flats, or a garage of not more than 30 square metres situated within 500 metres of the dwelling house, and transferred through the same deed with the principal residence shall be deemed to be included as part of the residence. The period of residence includes the physical occupation of the premises and any absences from Malta such as on account of foreign employment, illness, holiday or study. Any part of the house which is used exclusively for commercial purposes for any time within two years of the transfer shall not be considered as "own residence" and this part shall be apportioned on the basis of the area occupied for this purpose as a proportion of the whole area of the relative dwelling house;

(d) where the property was taken over by Government and in respect of which a declaration by the President of Malta has been issued in terms of the Land Acquisition (Public Purposes) Ordinance before the 25th November, 1992;

(e) where the property is assigned between spouses consequent to a judicial or consensual separation;

(f) where the property formed part of the community of acquests between the spouses or was otherwise owned in common between them and is assigned to one of the spouses on the dissolution of the community or is partitioned between the spouses, or the surviving spouse and the heirs of the deceased spouse;

(g) where the property is assigned on emphyteusis for fifty years or less; and

(h) where the immovable property or the undivided part of the immovable property was obtained by the transferor *causa mortis*, or was obtained by the transferor in a partition of immovable property obtained by the co-partitioners *causa mortis*.

(6) The provisions of sub-paragraph (ii) of paragraph (a) of subsection (1) of this section shall not apply to gains or profits relating to:

(a) transfer of Malta Government Bonds and Stocks;

(b) transfer of securities listed on the Malta Stock Exchange;
and

(c) property transferred in the circumstances listed in paragraphs (e) and (f) of subsection 5 of this section.

(7) Where a person is entitled to capital allowances under paragraphs (f) and (j) of subsection (1) of section 14 of this Act in respect of a capital asset which is sold at a price exceeding its cost of acquisition and any improvements made thereto, the cost of acquisition shall be computed on the cost of acquisition and the cost of any improvement made thereto.

(8) Where an asset referred to in paragraph (a) of subsection (1) of this section used in a business for a period of at least 3 years is transferred and replaced within one year by an asset used solely for a similar purpose in the business, any capital gains realised on the transfer shall not be taxed but the cost of acquisition of the new asset shall be reduced by the said gain. When the asset is disposed of without replacement, the overall gain shall take into account the transfer price and the cost of acquisition reduced as aforesaid.

(9) Where an asset is transferred from one company to another company and such companies are:

(a) deemed to be a group of companies for the purposes of section 16 of this Act, or

(b) controlled and beneficially owned directly or indirectly to the extent of more than fifty percent by the same shareholders,

it shall be deemed that no loss or gain has arisen from the transfer. In ascertaining the capital gain where such an asset is subsequently transferred by a company to another company which does not fall within the provisions of paragraphs (a) or (b) of this subsection, as the case may be, the base cost of the asset that would be considered shall be the original cost existing before the first transfer took place.

(10) (a) A capital loss shall be computed in the same manner as a capital gain.

(b) Any loss resulting from the transactions falling under subsection (1) of this section shall not be set off against other income for the year of assessment but shall be carried forward and set off against capital gains in respect of subsequent years of assessment until the full loss is absorbed.

(c) Bad debts incurred in relation to the said transactions proved to the satisfaction of the Commissioner to have become bad during the year immediately preceding the year of assessment, notwithstanding that such bad debts were due and payable prior to the commencement of the said year, shall be allowed as a deduction against the capital gains in the year in which they were incurred and if there are no gains for that year shall be carried forward and set off against future gains:

Provided that all sums recovered in respect of amounts previously allowed as bad debts shall be treated as gains for the purposes of this section and charged accordingly for the year in which they are recovered.

(11) The gains or profits from any transaction chargeable under paragraph (a) of subsection (1) of section 4 of this Act shall not be chargeable again as capital gains in relation to the same transaction under this section.

(12) (a) The market value of an asset shall be the price which that asset would fetch if sold on the open market at the time of transfer;

(b) where the market value of an asset is required to be determined by the Commissioner he may seek the opinion or assistance of any appraiser, architect or other valuer; and

(c) the person making the appraisal or valuation on behalf of the Commissioner shall for the purpose of carrying out the task so entrusted to him be deemed to be a person serving in the Department of the Commissioner and as having an official duty under this Act.

(13) (a) Where a person transfers an asset which, at the time of acquisition, formed an undivided part of a larger asset (hereinafter in this paragraph referred to as "the whole asset"), the deductions allowable in ascertaining the gain arising from that transfer shall be equivalent to such proportion of the cost of acquisition of the whole asset and of the other deductions that would be due in terms of this section had that person transferred the whole asset, as the consideration for the transfer bears at the time of the transfer to the market value of the whole asset.

(b) A reduction of the share capital of a company shall be deemed to be a transfer of such proportion of the holding of the owner as is equal to the proportion of the reduction of the capital of the company and shall constitute a gain or loss for the purpose of this section in the year in which such reduction is effected.

(c) On any subsequent transfer of the shares in question, the cost of acquisition shall be deemed to be the residual part of the cost of acquisition not taken into account on the reduction of capital.

(14) Where a transfer involving the exchange of shares on restructuring of holding upon mergers, demergers, amalgamation and reorganisations takes place it shall be deemed that no loss or gain has arisen from such transfer and the cost of acquisition upon a subsequent transfer shall be deemed to be the cost of acquisition of the original shares.

(15) Where a business or a partnership *en nom collectif*, as a going concern is incorporated into a limited liability company, which is beneficially owned to the extent of not less than 75% by the same persons who owned the business or the partnership *en nom collectif* and there is a transfer of assets it shall be deemed that no loss or gain has arisen from the transfer. Provided that where such assets are subsequently transferred by the company, the base cost of the assets that would be considered is the original cost existing before the first transfer took place.

(16) For the purposes of this section the value of the usufruct and of the *nuda proprietas* shall be computed in accordance with the provisions set out in the Duty on Documents and Transfers Act, 1993.

Investment Services Expatriate.

6. (1) For the purposes of this section, an "investment services expatriate" shall mean any individual who is an employee of, or provides services to, an investment services company, as defined in section 15 of this Act, and either:

(a) is not ordinarily resident and not domiciled in Malta; or

(b) was not resident in Malta for a minimum period of three years immediately preceding the year in which he commences such employment with or provides services to any investment services company as aforesaid and provided that during the said three years such individual has been engaged on a full time basis in a similar position outside Malta.

(2) An investment services expatriate, for the period from the year preceding the first year of assessment in which he is first liable to tax under the provisions of this Act up to and including the year preceding the tenth year of assessment, shall not be liable to tax on income relating to the following expenditure incurred for the benefit of the investment services expatriate or his immediate family by the investment services company of which he is an employee or to which he provides investment services:

(a) removal costs in respect of relocation to or from Malta;

(b) accommodation expenses incurred in Malta;

(c) travel costs in respect of visits by the investment services expatriate and his immediate family to or from Malta;

(d) provision of a car for the use of the investment services expatriate in Malta;

(e) a subvention of not more than two hundred and fifty liri per calendar month;

(f) medical expenses and medical insurance; and

(g) school fees in respect of the children of the investment services expatriate.

(3) An investment services expatriate shall be treated as not resident in Malta for the purposes of paragraph (c) of subsection (1) of section 12 of this Act.

Year of Assessment 1973.

7. (1) No tax shall be payable upon the income of any person which but for the provisions of this section would have been chargeable for the year of assessment commencing on 1st January, 1973.

(2) Notwithstanding the provisions of subsection (1) hereof, tax shall still be chargeable for the year of assessment 1973 in respect of any bonus share and any unduly large dividend distributed by any company by resolution taken between the 27th July, 1972 and the 31st December, 1972, and in respect of any other unduly inflated income chargeable under any of the paragraphs of subsection (1) of section 4 hereof where the Commissioner is of the opinion that such income accrued to or was derived by any person between the 27th July, 1972 and the 31st December 1972, who was in a position to determine the amount thereof.

(3) The income still chargeable to tax for the year of assessment 1973 in accordance with the provisions of subsection (2) of this section shall be computed by considering the said bonus share and the excessive part of the unduly large dividend and income to be the highest part of the chargeable income which, but for the provisions of that subsection, would have been charged to tax for the year of assessment 1973.

(4) For the purposes of subsection (2) of this section any dividend declared during the period 27th July, 1972 to 31st December, 1972 which exceeds by 20% the highest dividend declared by the same company between the 1st January, 1969 and the 26th July, 1972, shall, unless the contrary is proved, be deemed to be unduly large.

(5) Saving the foregoing provisions of this section, the provisions of this Act shall still apply for the year of assessment 1973.

(6) The provisions of this section shall not apply in the case of any individual who, in any year of assessment up to the year of assessment

1972, was entitled to a deduction under subsection (4), (5) or (6) of section 53 of this Act as in force at the relative time:

Provided that the personal deductions for the year of assessment 1973 shall in any such case be increased by an amount equal to what would have been the individual's chargeable income for the said year but for the provisions of this subsection.

(7) In any case referred to in subsection (6) of this section, no surtax shall be payable for the year of assessment 1973.

(8) Where, in respect of the year of assessment 1973 -

(i) a company is entitled to deduct tax from a dividend paid to any person in accordance with the provisions of subsection (1) of section 59 hereof; or

(ii) tax has been paid by deduction from the income of any person in accordance with the provisions of subsection (6) of section 59 or section 73 hereof,

such tax shall, saving any other provisions of this Act, be set off against the liability to tax of the said person for such year of assessment as the Commissioner may elect.

(9) Any excess remaining after tax has been set off as provided in subsection (8) of this section shall be refunded in accordance with the provisions of section 48 of the Income Tax Management Act, 1994.

(10) The provisions contained in subsection (1) of this section shall not apply to the income of any body of persons arising from activities relating or ancillary to oil-prospecting, banking, sound or television broadcasting, film renting or insurance (excluding commissions derived from the sale of insurance by bodies of persons residing in Malta).

Special provisions in respect of certain formerly undeclared income.

*Ordinance XVIII of 1918, appearing as Chapter 70 in the 1942 Revised Edition of the Laws of Malta. Cap. 239.

8. (1) Notwithstanding the provisions of this Act and of the Succession and Donation Duties Ordinance*, hereinafter in this section referred to as "the Ordinance", or of the Death and Donation Duty Act, the provisions of this section shall apply to any income omitted by any person from a return submitted by him to the Commissioner before the 27th July, 1972 in respect of any year of assessment up to the year of assessment 1972 and to any income not returned to the Commissioner by the said date by any person who has not submitted a return for any year of assessment up to the year of assessment 1972: provided that there shall be excluded any such income -

(a) brought to charge to tax in any assessment -

(i) which became final and conclusive before the 27th July, 1972; or

(ii) which was raised by the Commissioner before the 27th July, 1972 on any person who was not domiciled in Malta during 1971; or

(b) which accrued to or was derived by any person who had no chargeable income for any year of assessment up to the year of assessment 1972.

(2) The income to which this section applies shall be determined by reference to any capital asset which existed on the 31st December, 1971, being an accumulation thereof or the source giving rise to the said income: the value of such asset on the said date being taken to be the cost of acquisition, or the actual amount or value thereof, whichever is the less.

(3) The income to which this section applies shall be deemed to be chargeable income for the year of assessment 1974, separate and distinct from any other chargeable income for the said year of assessment.

(4) The rate of tax applicable to the chargeable income herein contemplated shall be three cents in the lira.

(5) Notwithstanding any other provision of the Income Tax Acts, other than Section 31 of the Income Tax Management Act, 1994, the Commissioner may at any time after the 1st October 1972, raise an assessment on the chargeable income referred to in subsection (3) of this section and proceed for the collection of the tax due.

(6) The provisions of this section shall not apply to the income specified in subsection (1) hereof unless the capital asset referred to in subsection (2) of this section is declared on the prescribed form which shall be filed with the Commissioner within nine months commencing from the 1st October, 1972.

(7) The declaration referred to in subsection (6) hereof shall not be deemed to have been filed with the Commissioner unless the prescribed form is fully and accurately completed.

(8) Tax charged under the provisions of this section shall not be deemed to be part of any tax paid or payable under this Act for the purposes of sections 59, 76 and 89 of this Act.

(9) No proceedings under this Act or under the Ordinance or under the Death and Donation Duty Act, shall be taken against any person in respect of the income referred to in subsection (1) hereof, nor shall any fiscal penalty apply thereunder in respect of the said income, if the person in

question was liable to have proceedings taken against him or to have a fiscal penalty applied by reason of any act or event happening before the 27th July, 1972.

(10) No tax or duty beyond the tax specified in subsection (4) hereof shall be levied under this Act or under the Ordinance or under the Death and Donation Duty Act, on the income in respect of which immunity from proceedings is granted by subsection (9) hereof.

(11) The provisions of subsections (9) and (10) hereof shall apply to the duties, penalties and proceedings contemplated by the Ordinance or by the Death and Donation Duty Act, only in so far as the assets referred to in subsection (2) of this section -

(i) were left out from a notice in which they should have been declared for the purposes of the Ordinance if the said notice was filed with the Commissioner before the 27th July, 1972, or

(ii) were transmitted under a succession opening on the death of a person or on the taking of vows by a person in a monastic order outside Malta and no notice thereof was filed with the Commissioner before the 27th July, 1972, provided that the time-limit set out in sub-paragraph (iii) of paragraph (a) of section 33 of the Ordinance for the filing of the said notice had lapsed before the said date, or

(iii) were transmitted under a gratuitous disposition *inter vivos* and no notice thereof was filed with the Commissioner before the 27th July, 1972, provided that the time-limit set out in paragraph (c) of section 33 of the Ordinance for the filing of the said notice had lapsed before the said date.

(12) Nothing contained in this section shall apply to the duty charged under the Ordinance in respect of any assessment raised before the 27th July, 1972.

(13) Notwithstanding the other provisions of this section, where the capital asset referred to in subsection (2) of this section remains undeclared by any person either in whole or in part within the period specified in subsection (6) -

(a) the rate of tax set out in subsection (4) shall be substituted by the rate of thirty cents in the lira in respect of such undeclared income or part thereof; and

(b) if such person is convicted on a charge that he has knowingly failed to declare the said capital asset, he shall be liable to a

fine (*multa*) of not less than Lm100 and not exceeding Lm1000, and to imprisonment for a term not exceeding two years.

Cap. 219

(14) The amount of any levy paid under the Bearer Accounts Levy Act by the 31st December, 1971 shall be deducted from any tax charged under the provisions of this section in respect of any holding in the relative bearer account and of any interest derived therefrom, so however that such deduction shall not exceed the tax chargeable under this section in respect of such holding:

Provided that nothing in this section contained shall be deemed to empower the Commissioner to charge to tax any holding in a bearer account with any bank except by way of an assessment raised on the person holding the title to such an account.

(15) Any person may elect by notice in writing filed with the Commissioner within the period specified in subsection (6) hereof that the provisions of this section shall not apply to the income referred to in subsection (1):

Provided that in such cases nothing in this Act contained shall prevent the Commissioner from raising an assessment on such income at any time in accordance with the provisions of the other sections of this Act.

Further special provisions in respect of certain formerly undeclared income.

9. (1) Subject to the provisions of this section, section 8 of this Act shall also apply to the income of any person not returned to the Commissioner in respect of the year preceding any year of assessment up to the year of assessment 1972, if -

(a) the Commissioner is satisfied that the said person had submitted to him before the 27th July, 1972, a return for any other year of assessment but not for the year of assessment in question; and

(b) the income accrued to or was derived by any person other than a company.

(2) In any case falling under subsection (1) of this section, or under the said subsection and subsection (1) of section 8 of this Act, the minimum amount of tax payable shall be the higher of the following two amounts:

(a) the tax computed in accordance with the provisions of subsections (2), (3), (4), and (5) of section 8, or

(b) the total amount of tax charged under subsections (1), (2), (3) and (8) of section 56 of this Act for the last year of assessment on account of which an assessment or assessments to tax that were all final and conclusive on the 27th July, 1972, had been raised by the said date,

multiplied by the number of years for which no returns had been filed as aforesaid.

(3) Any person may elect not to avail himself of the provisions of this section.

(4) If a person does not elect as provided in subsection (3) of this section, the requirements of section 10 of the Income Tax Management Act, 1994 shall not be enforced in his regard in respect of any year of assessment on account of which the provisions of subsection (1) of this section apply.

Spontaneous Declaration
of undeclared income

9A. (1) Notwithstanding any other provision of the Income Tax Acts, a person, apart from the return for the year of assessment 1995, may present a Spontaneous Declaration on the prescribed form and the income of that person falling under sections 4 and 5 of this Act for the years of assessment prior to the said year of assessment shall be deemed to be the income as arrived at under the following provisions of this section.

(2) The Spontaneous Declaration shall show as income falling under subsection (1) of section 4 of this Act for years of assessment 1994, 1993, 1992 and 1991 a sum based on a true declaration of the income declared by that person falling under the said subsection (1) of section 4 (but excluding any investment income as defined in section 41 of this Act and capital gains falling under section 5 of this Act) for the year of assessment 1995 as follows:

(a) for the year of assessment 1994, a sum equivalent to 80% of the relative income declared in the return for the year of assessment 1995, excluding any investment income as defined in section 41 of this Act and capital gains falling under section 5 of this Act as aforesaid;

(b) for the year of assessment 1993, a sum equivalent to 90% of the sum declared under paragraph (a) hereof;

(c) for the year of assessment 1992, a sum equivalent to 90% of the sum declared under paragraph (b) hereof; and

(d) for the year of assessment 1991, a sum equivalent to 90% of the sum declared under paragraph (c) hereof:

Provided that where a person was in any of the years of assessment 1991 to 1994 not registered as a taxpayer and had no income liable to tax under this Act, he shall under paragraphs (a) to (d) hereof, only declare that he received no income for the years of assessment therein referred to previous to the year of assessment in which he first became liable to tax under this Act.

(3) The Spontaneous Declaration shall also make a statement of any undeclared capital gains falling under section 5 of this Act in respect of each year of assessment where such gains were so undeclared.

(4) Where a Spontaneous Declaration has been made in accordance with the provisions of this section:

(a) the income of the person making the declaration and subject to tax under the provisions of this Act other than this section shall be deemed to be the income declared by that person in the return for the relative year of assessment:

Provided that:

(i) where in respect of any year of assessment the income of that person has been arrived at in an assessment which is final and conclusive the income so arrived at shall be deemed to be the income so declared; and

(ii) where any income falling under subsection (1) of section 4 of this Act has been or is reported by an employer or other person paying the income to the Commissioner in any return required for the purposes of the Deduction of Tax (PAYE) Rules, 1972, or in accordance with such rules ought to be so reported, such income shall be deemed declared by such person;

(b) the assessment for the relative year of assessment shall be raised on the basis of the income declared or deemed declared in accordance with paragraph (a) hereof:

Provided that in the case where a return was not submitted to the Commissioner by the 31st March 1995, the assessment for the relative year of assessment shall be raised on the following basis:

(i) If the return is in respect of any of the years of assessment 1991 to 1994, the income for the relative year of assessment shall subject to the provisions of subparagraph (ii) of paragraph (a) hereof be considered to be that declared by such person in the relative return of the income determined in accordance with subsection (2) of this section, whichever is the higher;

(ii) If the return is in respect of a year of assessment prior to year of assessment 1991, the income for the relative year of assessment shall subject to the provisions of subparagraph (ii) of paragraph (a) hereof be considered to be that declared by such person in the relative return or a sum equal to the income

determined in accordance with paragraph (d) of subsection (2) of this section, whichever is the higher; and

(c) any additional tax under subsection (12) of section 56 of this Act in respect of any year of assessment for which there is not an assessment which is final and conclusive, shall be waived.

(5) For the purposes of subsections (2), (4) and (7) of this section, income under subsection (1) of section 4 and capital gains falling under section 5 of this Act, means the income as adjusted in accordance with the provisions of this Act.

(6) The income declared in a Spontaneous Declaration in accordance with this section shall be deemed to be separate chargeable income for the year of assessment 1995, and shall, subject only to the deductions as provided in subsection (7) of this section be subject to tax at the rate of 25 cents in the lira.

(7) There shall only be deducted from the income declared in respect of each year of assessment under subsection (2) of this section, the income declared or deemed declared in accordance with subsection (4) of this section, by the taxpayer for the respective year of assessment being income falling under subsection (1) of section 4 of this Act not being investment income as defined in section 41 of this Act or capital gains falling under section 5 of this Act:

Provided that:

(a) where in respect of a year of assessment the income falling under paragraph (a) of subsection (1) of section 4 as declared in accordance with subsection (4) of this section is a loss, such income shall for the purposes of this section be deemed to be nil; and

(b) where in respect of a year of assessment the income declared in accordance with subsection (4) of this section falling under subsection (1) of section 4 of this Act (excluding investment income as defined in section 41 of this Act or capital gains falling under section 5 of this Act) is greater than the income declared under subsection (2) of this section in respect of the same year of assessment, the income declared in accordance with subsection (4) of this section shall be deemed to be equal to that declared under subsection (2) in respect of the same year of assessment.

(8) The tax on income chargeable under this section shall be payable in three instalments as follows:

(a) 50 per cent by not later than the 15th December, 1995 together with the submission of the Spontaneous Declaration to the Commissioner;

(b) 20 per cent by not later than the 29th March, 1996, and

(c) 30 per cent by not later than the 30th September, 1996.

(9) The Commissioner shall send by registered post to each person who makes a valid Spontaneous Declaration in accordance with this section, a notice stating the amount of his separate chargeable income for the year of assessment 1995 and the amount of tax payable thereon by him, and the provisions of Part VII and of section 32 of the Income Tax Management Act, 1994, shall apply to such notice.

(10) The Spontaneous Declaration referred to in the previous subsections to this section shall be deemed not to have been filed with the Commissioner unless:

(a) the prescribed form is fully and accurately completed and is submitted in duplicate to the Commissioner not later than the 15th December, 1995;

(b) all returns for the years of assessment up to and including the year of assessment 1995 are submitted to the Commissioner by the time the declaration is made; and

(c) payment of the first instalment of tax is made as laid down in subsection (8) of this section.

(11) Where it results to the Commissioner that a person who filed a valid Spontaneous Declaration under this section has underdeclared his income for the year of assessment 1995 or has underdeclared any income which ought to be declared under subsection (3) hereof or has under the proviso to subsection (2) hereof declared that he has received no income for any year of assessment in which he was liable to tax, the Commissioner shall recompute the separate chargeable income on the basis of the reassessed income for the year of assessment 1995, and, or as ought to have been declared under subsection (3) of this section, and, or disregarding the provisions of the proviso to subsection (2) hereof as the case may be, and raise a tax thereon at the rate of 65 cents in the lira. The Commissioner shall thereupon issue a fresh notice of assessment and any previous notice issued under this section shall be cancelled and any tax already paid in respect of the previous notice or together with the filing of the Spontaneous Declaration shall be set off from any tax due in accordance with this subsection.

(12) The relevant provisions of Part VII of the Income Tax Management Act, 1994, shall apply to the tax due under subsection (11) of this section:

Provided that a person shall have a right of objection and appeal as laid down in sections 33, 35 and 37 of the Income Tax Management Act, 1994, against a notice of assessment issued in accordance with subsection (11) of this section.

(13) (a) Tax charged under the provisions of this section shall not be deemed to be part of any tax paid or payable under this Act for the purposes of sections 59, 76, and 89 of this Act.

(b) Nothing contained in this section shall affect the provisions of sections 43, 44 and 45 of this Act.

(14) Where a person makes a Spontaneous Declaration in accordance with the provisions of this section, the Commissioner shall disregard the provisions of paragraph (g) of subsection (1) of section 14 of this Act regarding the carrying forward of losses incurred during any year preceding the year of assessment 1995 with respect to the year of assessment 1995 and subsequent years of assessment.

(15) The Minister may make rules generally for carrying out the provisions of this section and may in particular by those rules provide for the form of returns, claims, statements and notices under this section.

Basis of Assessment.

10. Tax shall be charged, levied and collected for each year of assessment upon the chargeable income of any person for the year immediately preceding the year of assessment.

Accounting periods.

11. (1) Every person shall each year make up the accounts of his trade or business which he is required to keep in accordance with the provisions of this Act to the day immediately preceding the next following year of assessment.

(2) Notwithstanding the provisions of subsection (1) hereof, the Commissioner may permit any person to whom this subsection applies to make up the said accounts to a date other than the day immediately preceding a year of assessment and, where permission has been granted as aforesaid, the gains or profits for that year of assessment and subsequent years of assessment shall be computed on the income of the year terminating on the date in the year immediately preceding the year of assessment on which the Commissioner has permitted that the accounts be made up.

(3) Subsection (2) of this section applies to any -

(a) company;

(b) commercial partnership *en nom collectif*, or commercial partnership *en commandite* the capital of which is not divided into shares;

(c) body corporate established by law;

(d) undertaking required by paragraph (d) of subsection (7) of section 30 of this Act to be dealt with as a separate body of persons.

(4) In granting his permission for the purposes of subsection (2) of this section, the Commissioner may impose such conditions as he deems fit and reasonable, and where the person who has requested permission for a change in accounting date accepts the conditions laid down by the Commissioner and the accounting date of the trade or business is changed accordingly, such conditions shall be operative notwithstanding any other provisions of this Act.

(5) The Minister responsible for finance may make rules prescribing -

(a) the method by which changes in an accounting date may be authorised by the Commissioner for the purposes of this section; and

(b) the conditions which may be imposed or required by the Commissioner in authorizing changes as aforesaid.

PART III Exemptions

Exemptions.

12. (1) There shall be exempt from the tax -

(a) the income of the University of Malta;

(b) the allowances and benefits as may be specified by the Minister responsible for finance by notice published in the Gazette and which are payable under the Social Security Act, 1987, or in consequence of any measure announced in the annual Budget Speech.

Cap. 147

(c) (i) any interest or royalties accruing to or derived by any person not resident in Malta:

Provided that the exemption under this sub-paragraph shall not apply in respect of any year in which the said person is engaged in trade or business in Malta through a permanent establishment situated therein and where the royalties or the debt claim in respect of which the

interest is paid are effectively connected with such permanent establishment;

(ii) any gains or profits accruing to or derived by any person not resident in Malta on a disposal of any units in a collective investment scheme as defined in section 2 of the Investment Services Act, 1994 and of any shares or securities in a company (which for the avoidance of doubt includes redemption, liquidation or cancellation) which is not a company the assets of which consist wholly or principally of immovable property situated in Malta:

Provided that such non-resident person is the beneficial owner of the interest, royalty, gain or profit as the case may be, and that such person is not owned and controlled by, directly or indirectly, nor acts on behalf of a person who is ordinarily resident and domiciled in Malta;

(d) the income of any pension fund, provident fund or other fund approved by the Minister responsible for finance;

(e) the income of any institution, trust, bequest or foundation, of a public character, and of any other similar organization or body of persons, also of a public character, which is engaged in philanthropic work and either qualifies for exemption under this paragraph in accordance with rules made for this purpose by the Minister responsible for finance under section 96 of this Act or is named by the said Minister as engaged in philanthropic work for the purposes of this paragraph and there is not in respect of it a declaration by the said Minister that it has ceased to be so named;

(f) the income of any political party including the income of clubs adhering to political parties;

(g) wound and disability pensions granted in respect of wounds or disabilities caused by war and any pensions granted to dependent relatives of members of the armed forces of the Commonwealth killed on war service;

(h) any capital sum received by way of commutation of pension, retiring or death gratuity or received as consolidated compensation for death or injuries;

(i) the income arising from a scholarship held by a person receiving full-time instruction at a university, college or similar educational institution:

Provided that this paragraph shall not apply to income, by whatever name called, paid out of funds disbursed or otherwise

provided by the employer of the recipient which the recipient would have received by reason of his employment if he had not held such scholarship; and any income to which this paragraph does not apply shall be deemed to be income chargeable to tax in accordance with the provisions of paragraph (b) of subsection (1) of section 4 of this Act;

(j) the income of any trade union registered under the Industrial Relations Act in so far as such income is not derived from a trade or business carried on by such trade union;

(k) the profits of a non-resident shipowner as defined in section 28 of this Act, provided that the country to which such non-resident shipowner belongs extends a similar exemption to shipowners who are not resident in such country but who are resident in Malta;

(l) the income of a club or similar institution which the Commissioner is satisfied is organized and operated exclusively for social welfare, civic improvement, pleasure or recreation, or for any other purpose except profit, no part of the income of which is payable to, or is otherwise available for the personal benefit of, any proprietor, member or shareholder, so long as such club or similar institution is not deemed to carry on a business in accordance with subsection (4) of section 4 of this Act;

(m) *deleted by Act XX of 1996*

(n) the income of a philharmonic society which the Commissioner is satisfied constitutes a *bona fide* band club, provided that such society has regular premises registered with the Police as a club and that such premises are in daily use as a place of resort by its members;

(o) the income of a club or similar institution which the Commissioner is satisfied constitutes a *bona fide* sports club, provided that no part of the income of which is payable to, or is otherwise available for the personal benefit of, any proprietor, member or shareholder, and provided also on winding up of such club or institution, no funds are distributed or available to such proprietor, member or shareholder;

(p) any dividend paid or payable out of gains or profits chargeable at the rate provided for in subsection (13) of section 56 of this Act;

(q) the income of a co-operative society;

(r) *deleted by Act XX of 1996*

(s) the income of a collective investment scheme:

Provided that nothing in this subsection shall be construed as granting any exemption from the filing of a return in respect of any such income, or as exempting in the hands of the recipients any dividends, interests, annuities, emoluments, pensions or other gains or profits paid wholly or in part out of the income so exempted.

(2) The Minister responsible for finance may exempt any person or class of persons with or without retrospective effect from all or any of the provisions of this Act on any ground which to him may seem sufficient. Any such exemption may be made subject to such conditions or the payment of such other rate or rates of tax, whether related to income or otherwise, or to both such conditions and payment, as the Minister may deem appropriate.

(3) The Minister responsible for finance may by order published in the Government Gazette provide that the interest payable on any loan charged on the Consolidated Fund shall be exempted from the tax, either generally or only in respect of interest payable to persons not resident in Malta, and such interest shall, as from the date and to the extent specified in the order, be exempt accordingly.

(4) The Minister responsible for finance may by order published in the Government Gazette provide that the interest payable on any debentures, debenture stock or other securities issued by the Malta Development Corporation under the Malta Development Corporation Act, as security for any authorized borrowing of the said Corporation, shall be exempted from the tax, either in whole or in part and to such extent as he may deem appropriate, and such interest shall, as from the date and to the extent specified in the order, be exempt accordingly.

(5) A collective investment scheme (which is not constituted as a unit trust) may waive its right to exemption from tax. Such waiver shall not be applicable in respect of any gains or profits realised on a disposal (which for the avoidance of doubt includes redemption, liquidation or cancellation) of any investments, assets or liabilities held by the aforesaid scheme. Such waiver shall be exercised by advance notice in writing to the Commissioner. The said notice shall set out the year of assessment in respect of which the waiver shall become applicable, and shall be notified to the Commissioner not later than the first day of the said year of assessment.

Cap. 202

Temporary residents.

13. Tax shall not be payable in respect of any income arising outside Malta to any person who is in Malta for some temporary purpose only and not with any intent to establish his residence therein and who has not actually resided in Malta at one or more times for a period equal in the whole to six months in the year preceding the year of assessment.

PART IV
Deductions

Deductions allowed.

14. (1) For the purpose of ascertaining the total income of any person there shall be deducted all outgoings and expenses incurred by such person during the year preceding the year of assessment to the extent to which such outgoings and expenses were wholly and exclusively incurred in the production of the income, including -

(a) sums payable by such person by way of interest upon any money borrowed by him, where the Commissioner is satisfied that the interest was payable on capital employed in acquiring the income;

(b) rent paid by any tenant of land or buildings occupied by him for the purpose of acquiring the income;

(c) any sum expended for repairs of premises, plant or machinery employed in acquiring the income, or for the renewal, repair or alteration of any implement, utensil or article so employed;

(d) bad debts incurred in any trade, business, profession or vocation, proved to the satisfaction of the Commissioner to have become bad during the year immediately preceding the year of assessment notwithstanding that such bad debts were due and payable prior to the commencement of the said year:

Provided that all sums recovered during the said year on account of amounts previously written off or allowed in respect of bad debts shall for the purposes of this Act be treated as receipts of the trade, business, profession or vocation for that year;

(e) any sum contributed by an employer to a pension, saving, provident or any other society or fund which may be approved by the Commissioner as may be prescribed;

(f) a deduction in respect of the wear and tear of any plant and machinery, and any premises being an industrial building or structure, arising out of the use or employment of such property in the production of the income; and where such property is employed on such terms that the burden of wear and tear thereof falls upon the person making use of the property in the production of the income, but such property does not belong to him, he shall be entitled to any deduction to which he would have been entitled had the property belonged to him:

Provided that -

(i) the amount to be deducted in respect of premises being an industrial building or structure shall not exceed two per cent of the cost thereof, not including the cost of the land on which the building or structure is erected;

(ii) where the total deductions allowable under this paragraph and under paragraph (j) cannot be given effect to in full in any year because there are no profits or gains chargeable for that year from the source of income in respect of which they are allowable or because the profits or gains chargeable from that source are less than the deductions, the deductions or such part of the deductions to which effect has not been given, shall be added to the deduction for wear and tear in respect of that source for the following year and deemed to be part of that deduction, or if there is no such deduction in respect of that source for that year, be deemed to be the deduction for that year and so on for subsequent years;

(iii) the aggregate of the deductions made under this paragraph and under paragraph (j), added to the wear and tear, if any, or to such part thereof as may be appropriate, which occurred prior to the commencement of this Act, shall not exceed the original cost, or such part of it as may be appropriate, of such plant, machinery or premises, having regard to the extent to which they were wholly and exclusively used in the production of the income, and -

(a) the wear and tear which occurred prior to the commencement of this Act shall be computed at the prescribed rates, and

(b) the cost of the land on which the building or structure is erected shall in all cases be excluded from the original cost of the premises;

(g) the amount of a loss incurred by any person, solely or in partnership, in any trade, business, profession or vocation during the year preceding the year of assessment which, if it had been a profit, would have been assessable under this Act; and in computing such loss account shall be taken of all deductions which would have been allowable under the other paragraphs of this subsection, except paragraphs (f) and (j), if it had been a profit; and where the amount of a loss incurred and computed as aforesaid is such that it cannot be set off against capital gains or income from other sources for the year preceding the year of assessment, it shall, to the extent to which it cannot be wholly set off against capital gains or income for the said year, be carried forward and set off against what would otherwise have been the total income for subsequent years in succession:

Provided that nothing in this paragraph shall be construed as permitting the set-off of any loss incurred outside Malta which, if it had been a profit and had been retained outside Malta, would not have been chargeable to tax under this Act;

(h) any expenditure on scientific research incurred by a person engaged in any trade, business, profession or vocation and proved to the satisfaction of the Commissioner to have been incurred for the use and benefit of the trade, business, profession or vocation:

Provided that any such expenditure of a capital nature, unless it is an expenditure in respect of which a deduction is allowable under paragraphs (f) and (j) of this subsection, shall be spread equally over the year in which it has been incurred and the five succeeding years:

Provided further that no deduction shall be allowed under the provisions of this paragraph in the case of any such expenditure on plant or machinery or premises, in respect of which any deduction is allowable under paragraphs (f) and (j) of this subsection;

(i) any expenditure on patents or patent rights incurred by a person engaged in a trade, business, profession or vocation and proved to the satisfaction of the Commissioner to have been incurred for the use and benefit of the trade, business, profession or vocation:

Provided that any such expenditure of a capital nature shall be spread over the life of the patent or patent rights in a reasonable manner to the satisfaction of the Commissioner:

Provided further that any sums receivable from any sales of such patents or patent rights or any part thereof and all royalties or other income receivable in respect thereof shall be included as total income for the year when receivable;

(j) in respect of plant and machinery first used and employed in the year immediately preceding the year of assessment, an initial deduction of one-fifth of the capital expenditure thereon, and in respect of premises being an industrial building or structure first used and employed in the year immediately preceding the year of assessment, an initial deduction of one-tenth of the capital expenditure thereon:

Provided that deductions made under this paragraph shall be restricted, set off and carried forward as laid down in the second and third provisos to paragraph (f) of this subsection;

(k) any sum or expenses proved to the satisfaction of the Commissioner to have been paid or incurred by or on behalf of a

candidate for election as member of the House of Representatives on account of or in respect of the conduct or management of such election:

Cap. 102

Provided that such deduction shall only be allowed in the case of an elected candidate and shall not exceed the maximum amount of expenditure permissible under the Electoral (Polling) Ordinance in respect of one candidate or the amount actually incurred by such candidate, whichever is the lesser:

Provided that where a person engaged in trade or business derives gains or profits wholly or in part -

Cap. 156

(i) from the sale or disposal of petroleum produced in Malta under a licence granted before 1st January, 1981, under the Petroleum (Production) Act, or under that Act and under the Continental Shelf Act, the total income of such person shall be ascertained in accordance with the provisions of section 23 of this Act;

(ii) from operations in Malta relating to the production of petroleum and the sale or disposal of such petroleum, whether under a licence granted as aforesaid after 1st January, 1981, or under a petroleum production sharing contract or any other arrangement, the total income of such person shall be ascertained in such manner as may be prescribed,

and the provisions of this subsection and of section 24 of this Act shall not apply.

(2) The Minister responsible for finance may make rules prescribing the method of calculating or estimating the deductions allowable under this section, and may by such rules also determine the amount of the deduction.

(3) Where any vehicle to which this subsection applies is acquired at a cost exceeding Lm3,000 on or after the first day of January, 1980, and such vehicle is used and employed in the production of the income, any allowance due or charge made in respect of the vehicle under the provisions of -

(i) paragraphs (f) and (j) of subsection (1) of this section; and of

(ii) section 24 of this Act,

shall be computed as if the cost of acquisition was Lm3,000.

(4) Subsection (3) of this section applies to mechanically propelled vehicles constructed or adapted as a means of transport for individuals, but shall not apply to vehicles of a type not commonly used as private vehicles and unsuitable to be so used, or to vehicles used wholly or mainly for the purpose of hire to or the carriage of members of the public in the ordinary course of trade or business.

Alimony payments.

14A. Notwithstanding anything to the contrary contained in this Act, if an individual proves to the satisfaction of the Commissioner that in the year preceding a year of assessment he has paid to his estranged spouse an alimony payment as determined by the Courts of Malta, he shall be allowed as a deduction against his income the lesser of these amounts -

(a) the amount actually paid in accordance with the Court order;

(b) the individual's chargeable income for the year.

Investment services companies.

15. (1) For the purposes of this section investment services company shall mean a company which holds an investment services licence issued under section 6 of the Investment Services Act, 1994 and whose activities solely comprise the provision of management, administration, safekeeping, or investment advice to collective investment schemes as defined in the aforesaid Act;

(2) For the purposes of ascertaining the total income of an investment services company, the amounts specified in paragraphs (a) to (e) of this subsection shall, at the company's option, be allowed as deductions in addition to or as a replacement for, as the case may be, the amounts allowed under subsection (1) of section 14 of this Act and shall be subject to the conditions stipulated in that section. For this purpose:

(a) rental, energy costs, building maintenance, building insurance and other building occupancy costs incurred in the period from the year preceding the first year of assessment in which the investment services company first becomes liable to tax under this Act up to and including the year preceding the tenth year of assessment shall be allowed as an additional one hundred percent of such expenditure;

(b) a one hundred per cent deduction shall replace the deductions provided for under paragraphs (f) and (j) of subsection (1) of section 14 of this Act in respect of expenditure which is incurred in the period commencing from the year preceding the first year of assessment in which the investment services company first becomes liable to tax under the provisions of this Act up to and including the year preceding the fifth year of assessment and, in addition, expenditure in respect of office premises shall be eligible for such deduction as if the said premises were industrial buildings;

(c) the amounts invested by an investment services company for its own account in a collective investment scheme managed by that company shall be allowed as a deduction if such investment is made during the period commencing from the year preceding the first year of assessment in which the investment services company first becomes liable to tax under the provisions of this Act up to and including the year preceding the fifth year of assessment:

Provided that such funds so invested are not disinvested from such collective investment scheme within two years of the making of the said investment:

Provided further that this additional deduction shall not affect the amount which is to be taken as the cost of acquisition of such investment for the purposes of any other provision of this Act, and also provided that such deductions shall not be carried forward as part of a loss to be set off against the company's liability in respect of a capital gain arising on the disposal of its investments in the collective investment scheme;

(d) remuneration paid by an investment services company to its employees who are resident in Malta shall be allowed as an additional one hundred percent of that remuneration if such expenditure is incurred during the period commencing from the year preceding the year of assessment in which the investment services company first becomes liable to tax under the provisions of this Act up to and including the year preceding the tenth year of assessment;

(e) there shall be allowed as a deduction any other expenses and outgoings incurred by the investment services company wholly and exclusively for the purposes of carrying on its business and which would otherwise not have been allowed as a deduction under the provisions of subsection (1) of section 14 of this Act.

(3) Where an investment services company incurs expenditure before it begins to carry on its business, and the expenditure -

(a) is incurred not more than five years before that time; and

(b) is not deductible in ascertaining the total income of the investment services company, but would have been so deductible under subsection (1) of section 14 or under paragraph (e) of subsection (2) of this section had it been incurred after that time, such expenditure shall be treated as incurred on the day on which the business is first carried on by the investment services company, and paragraphs (a) to (d) of subsection (2) of this section shall apply in respect of such expenditure.

(4) The additional deductions specified in subsection (2) of this section represent the maximum deductions allowed for the purposes of that subsection, and an investment services company need not claim the full amount of such maximum deductions in respect of any year of assessment.

(5) The additional deductions provided for in this section shall not be taken into account in determining the amount of loss, if any, available for surrender under the provisions of sections 16 to 22 (group relief provisions) of this Act.

Definition of group.

16. For the purposes of this section and of sections 17 to 22 of this Act, hereinafter collectively referred to (including this section) as the "group relief provisions", two companies resident in Malta but neither of which is resident for tax purposes in any other country shall be deemed to be members of a group of companies if one is the fifty-one percent subsidiary of the other or both are fifty-one percent subsidiaries of a third company resident in Malta.

For the purposes of the group relief provisions, a company shall be deemed to be a fifty-one percent subsidiary of another company, hereinafter referred to as the "parent company":

(a) if and so long as more than fifty percent of its ordinary share capital and more than fifty percent of its voting rights are owned directly or indirectly by the parent company; and

(b) the parent company is beneficially entitled either directly or indirectly to more than fifty percent of any profits available for distribution to the ordinary shareholders of the subsidiary company; and

(c) the parent company would be beneficially entitled either directly or indirectly to more than fifty percent of any assets of the subsidiary company available for distribution to its ordinary shareholders on a winding up.

Surrender of relief between members of groups.

17. (1) Subject to, and in accordance with, the provisions of this section and of sections 18 to 22 of this Act, allowable losses may, in the case set out in subsection (2) of this section, be surrendered by a company, hereinafter referred to as "the surrendering company", and, on the making of a claim by another company, hereinafter referred to as "the claimant company", be allowed to the claimant company as a deduction called "group relief". A claim made by virtue of this subsection is hereinafter referred to as a "group claim".

(2) Group relief shall be available where the surrendering company and the claimant company are both members of the same group throughout the year preceding the year of assessment for which the relief is claimed.

(3) For any year of assessment, two or more claimant companies may make group claims relating to the same surrendering company.

(4) A payment for group relief -

(a) shall not be taken into account in computing profits or losses of either company for the purposes of tax imposed by this Act; and

(b) shall not, for any of the purposes of this Act, be regarded as a distribution.

For the purposes of this subsection "a payment for group relief" means a payment made by the claimant company to the surrendering company in pursuance of an agreement between them in respect of an amount surrendered by way of group relief, being a payment not exceeding that amount.

Losses which may be surrendered by way of group relief.

18. (1) (a) If in the year preceding a year of assessment the surrendering company has incurred an allowable loss, the amount of the loss may be set off for the purposes of tax against the total income of the claimant company for the corresponding year of assessment and, where applicable, for subsequent years of assessment provided that in the year in which the surrendering company incurs the loss both companies have accounting periods which begin and end on the same dates:

Provided that where the surrendering company makes up accounts and pays tax in a currency other than that of the claimant company any loss surrendered shall be set off against the total income of the claimant company as aforesaid, after such amount is converted to the currency in which the claimant company makes up accounts and pays tax. Such conversion shall be carried out by reference to the mean rate or rates of exchange between such currency or currencies and the Maltese Lira ruling on the last day of the accounting period to which such loss refers as issued by the Central Bank of Malta.

(b) A surrendering company may surrender allowable losses by way of group relief in excess of the total income of the claimant company in the year preceding a year of assessment, in which case the claimant company may carry forward and set off those losses in accordance with the provisions of paragraph (g) of subsection (1) of section 14 of this Act as if they were losses of its own trade.

(c) Where the allowable loss, had it been a profit, would have been allocated to the Maltese taxed account of the surrendering company, the claimant company may only deduct such loss from its total income as would stand to be allocated to its Maltese taxed account and such loss may

only be carried forward against the claimant company's total income arising in subsequent years as would stand to be allocated to its Maltese taxed account.

(d) Where the allowable loss, had it been a profit, would have been allocated to the foreign income account of the surrendering company, the claimant company may only deduct such loss from its total income as would stand to be allocated to its foreign income account and such loss may only be carried forward against the claimant company's total income arising in subsequent years as would stand to be allocated to its foreign income account.

(2) Notwithstanding the provisions of subsection (1) of this section, a company which is either -

(a) newly incorporated and at all times after its incorporation satisfies the conditions to be deemed a member of the same group of companies as another company in the year preceding a year of assessment and has the same accounting period end date as that other company in that year preceding the year of assessment, or

(b) wound up part way through its accounting period and until it is so wound up satisfies the conditions to be deemed a member of the same group as another company in the year preceding a year of assessment and has the same accounting period start date as that other company in that year preceding the year of assessment,

will be deemed for the purposes of paragraph (a) of subsection (1) of this section to have an accounting period which begins and ends on the same date as that of that other company and group relief shall be available in full for that year.

Group relief -
anti-avoidance.

19. If, apart from this section, a company is a member of a group of companies, and arrangements are in existence the sole or main purpose of which is to reduce any company's tax liability, and by virtue of the said arrangements that company would cease to be a member of that group of companies, then that company shall be treated as not being a member of that group of companies for any year preceding a year of assessment in which the said arrangements are in existence.

Exclusion of double reliefs.

20. (1) Relief shall not be given more than once, whether by giving group relief and by giving some other relief (in respect of any year of assessment) to the surrendering company, or by giving group relief more than once, in respect of the same amount.

(2) In accordance with the provisions of subsection (1) of this section, two or more claimant companies cannot, in respect of any one loss, obtain in total more relief than could be obtained by a single claimant company.

Claims and adjustments.

21. A claim for group relief:

(a) need not be for the full amount available,

(b) shall include the consent of the surrendering company set out in such form as the Commissioner may require, and

(c) must be made not later than twelve months following the end of the company's accounting period which date falls within the year immediately preceding the year of assessment for which the claim is made.

Definitions.

22. For the purpose of the group relief provisions:

(a) a reference to "allowable loss" or "allowable losses" shall be construed as a reference to the loss or losses referred to in paragraph (g) of subsection (1) of section 14 of this Act, to the extent that they are incurred in the year preceding the year of assessment and are not unrelieved losses carried forward from previous years; and

(b) references to "total income" shall have the meaning assigned to it by section 2 of this Act but shall be computed before any deduction is made in respect of group relief.

Profits from production of petroleum.

23. (1) Where any person engaged in trade or business derives gains or profits wholly or in part from the sale or disposal of petroleum produced in Malta or of rights and interests pertaining to such petroleum, then, so far as concerns the gains or profits derived by such person from the sale or disposal of such petroleum or of rights and interests pertaining thereto, the total income of such person shall be ascertained by deducting all outgoings and expenses, wholly and exclusively incurred during the year immediately preceding the year of assessment by such person in the production of the income, and properly attributable thereto, whether incurred in Malta or elsewhere, including, but without in any way limiting the generality of the foregoing, the following:

(a) rents and emphyteutical ground-rents paid or payable for the enjoyment by the person of any right in or over any land in Malta or in or over any part of the continental shelf excluding any expenditure of a capital nature incurred for the acquisition of rights of ownership and easements:

Provided that in the cases of acquisition of rights of ownership and easements an appropriate yearly rental shall be allowed as a deduction;

(b) royalties in cash or in kind and/or other exactions of a like nature;

(c) the intangible exploration, drilling and development costs, including all expenditure incurred by the person in geological and geophysical exploration for petroleum in Malta, and the preparation of the area of the wells and the drilling of them, and the cost of all services necessary thereto, but excluding expenditure for the acquisition of physical assets with an average useful life exceeding one year. If the person so elects, the intangible exploration, drilling and development costs or any part thereof incurred in any year shall be capitalized and amortized in accordance with the provisions of paragraph (f) of this subsection;

(d) losses arising out of sales of goods purchased by the person for the purposes of his operations in Malta but not used in or charged to such operations (any profit arising out of such sales being deemed to be income) and the cost to the person of services rendered by the person in connection with the carrying on of his operations in Malta;

(e) administrative, overhead and establishment expenses and rents or other charges for the use of any property;

(f) an annual allowance in respect of the exhaustion, depreciation and amortization of the tangible and intangible assets used in the production of the income during the year immediately preceding the year of assessment; the allowance shall be calculated at the following rates on the depreciated value of the assets:

(i) buildings, roads and bridges, jetties and wharves and other assets of similar nature	4%;
(ii) office furniture and fittings	5%;
(iii) plant and machinery, tanks, pipelines, motor vehicles, drilling equipment, harbour craft and other assets of similar nature	12.5%;
(iv) intangible exploration, drilling and development costs	25%;

Provided that no allowance shall be given under this paragraph (f) in respect of expenditure which the person has elected to write off under the provisions of paragraph (c) of this subsection.

The depreciated value of an asset for the year of assessment shall be the total cost to the person of the asset in question incurred during all

years preceding the year of assessment less annual allowances, if any, given in all previous years of assessment.

Where in any year immediately preceding the year of assessment an asset which qualifies for an allowance under this paragraph (f) is lost, sold or otherwise disposed of, no annual allowance shall be given in respect of such asset for that year of assessment, but in lieu thereof there shall be given an allowance, to be called a "balancing allowance", in respect of such asset equal to the excess of the depreciated value of such asset over the proceeds, if any, arising on the loss, sale or disposal thereof; provided that where the proceeds arising on the loss, sale or disposal of such asset exceed the depreciated value thereof, the excess, limited to the difference between the cost and the depreciated value of such asset, shall be added to the gains or profits of the person for the year immediately preceding the year of assessment;

(g) any sum contributed by the person as employer to a pension, saving, provident or any other society or fund which may be approved by the Commissioner as may be prescribed;

(h) bad debts proved to the satisfaction of the Commissioner to have become bad during the year immediately preceding the year of assessment, notwithstanding that such bad debts were due and payable prior to the commencement of the said year:

Provided that all sums recovered during the said year on account of amounts previously written off or allowed in respect of bad debts shall for the purposes of this Act be treated as receipts of the trade for that year;

(i) the cost of training citizens of Malta for the purpose of the carrying on of the operations of the person in Malta:

Provided that the Minister responsible for finance may, on any ground which to him may seem sufficient, allow the deduction of payments of a voluntary nature wholly and exclusively incurred in the year immediately preceding the year of assessment by the person in the production of the income and properly attributable thereto.

(2) Any expenditure incurred on or after the 1st April, 1969, wholly and exclusively for the purposes of a trade or business to which this section 23 applies and properly attributable thereto by a person about to carry on such trade or business, shall be treated for the purposes of this section 23 as if it had been incurred by that person on the first day on which he does carry it on.

(3) Nothing hereinbefore contained shall be construed as authorizing the inclusion in the above mentioned outgoings and expenses of interest on capital.

(4) Where in any year immediately preceding the year of assessment the outgoings and expenses referred to in subsection (1) of this section wholly and exclusively incurred in the production of the income of the year immediately preceding the year of assessment and properly attributable thereto exceed such income, the excess shall be carried forward and deducted in arriving at the total income of the next and subsequent years of assessment up to a maximum of ten years.

(5) For the purposes of this Act -

(a) each licence granted under the Petroleum (Production) Act, or under that Act and under the Continental Shelf Act shall be deemed to give rise to a trade or business separate and distinct from any other trade or business;

(b) any person to whom more than one licence referred to in paragraph (a) of this subsection is granted shall be deemed to constitute as many separate persons subject to tax under this Act as the number of such licences granted to him;

(c) where outgoings and expenses are incurred in common in respect of separate trades or businesses referred to in paragraph (a) of this subsection or by separate persons referred to in paragraph (b) of this subsection, such outgoings and expenses shall be apportioned as necessary notwithstanding any other provision of this Act.

Balancing statement,
balancing allowance and
balancing charge.

24. (1) Where, under the provisions of paragraph (f) and (j) of subsection (1) of Section 14 of this Act, any deduction has been allowed in any year of assessment in ascertaining the total income of any person and any of the following events occurs in the year immediately preceding the year of assessment in the case of any property in respect of which any deduction has been allowed as aforesaid, that is to say, either the property or any part thereof

-

(a) is sold or otherwise transferred under an onerous title, whether still in use or not; or

(b) is destroyed; or

(c) is put out of use as being worn out or obsolete or otherwise useless or no longer required,

and the event in question occurs before the source of income in respect of which the deduction has been allowed has ceased to exist or to belong to the

said person, he shall, in the year of assessment, render to the Commissioner, at the same time as he renders his return of income under section 10 of the Income Tax Management Act, 1994, a statement (hereinafter referred to as a "balancing statement"), in respect of the property in question showing the following items, that is to say:

(i) the amount of the capital expenditure on the provision thereof; and

(ii) the total depreciation which has occurred by reason of wear and tear since the date of the acquisition of such property, taking into account the aggregate amount of all deductions previously allowed under the provisions of paragraphs (f) and (j) of subsection (1) of section 14 of this Act and of any deductions or charges previously allowed or made under paragraph (a) or (b) of subsection (2) of this section; and

(iii) the amount of all sale, insurance, salvage or compensation monies in respect thereof and, where the property has been transferred by exchange, the value thereof, or if put out of use, the disposal value thereof.

(2) In ascertaining the total income of a person who is required under subsection (1) of this section to render a balancing statement to the Commissioner, a deduction (hereinafter referred to as a "balancing allowance") shall be allowed or, as the case may be, an addition (hereinafter referred to as a "balancing charge") shall be made and such balancing allowance or balancing charge shall be calculated by reference to the balancing statement or statements rendered by the person in respect of the year immediately preceding the year of assessment, as follows:

(a) the amount of a balancing allowance shall be the amount by which the amount of item (i) of the balancing statement exceeds the sum of the amounts of item (ii) and item (iii) of that statement; or

(b) the amount of the balancing charge shall be the amount by which the sum of the amounts of item (ii) and item (iii) of the balancing statement exceeds the amount of item (i) of that statement:

Provided that -

(i) the balancing charge shall in no case exceed the aggregate amount of any deductions previously allowed under the provisions of paragraphs (f) and (j) of subsection (1) of section 14 of this Act and included in item (ii) of the balancing statement;

(ii) where the property in respect of which a balancing allowance falls to be allowed or a balancing charge falls to be

made was used only partly in the production of the income, only so much of the balancing allowance that would otherwise have been allowed, or of the balancing charge that would otherwise have been made shall be allowed or made as may be appropriate having regard to the extent of use for the said purpose.

(3) Where property, in the case of which any of the events mentioned in subsection (1) of this section has occurred, is replaced by the owner thereof and a balancing charge falls to be made on him by reason of that event or, but for the provisions of this subsection, would have fallen to be made on him by reason thereof, then, if by notice in writing to the Commissioner he so elects, the following provisions shall have effect, that is to say:

(a) if the amount of the balancing charge which would have been made is greater than the capital expenditure on providing the new property -

(i) the balancing charge shall be an amount equal to the difference; and

(ii) no balancing allowance under subsection (2) of this section and no deduction under paragraphs (f) and (j) of subsection (1) of section 14 of this Act shall be made or allowed in respect of such new property or the capital expenditure on the provision thereof; and

(iii) in considering whether any, and, if so, what balancing charge falls to be made in respect of the capital expenditure on providing such new property, the aggregate amount of all deductions, previously allowed in respect of such property under the provisions of this section and paragraphs (f) and (j) of subsection (1) of section 14 of this Act, shall be deemed to be equal to the full amount of such expenditure;

(b) if the capital expenditure on providing the new property is equal to, or greater than the amount of the balancing charge that would have been made -

(i) the balancing charge shall not be made; and

(ii) the amount of any deductions in respect of the said expenditure under the provisions of paragraphs (f) and (j) of subsection (1) of section 14 of this Act shall be calculated as if the capital expenditure on providing such new property had been reduced by the amount of the balancing charge which would have been made; and

(iii) in considering whether any, and, if so, what balancing allowance or balancing charge falls to be made in respect of the capital expenditure on providing such new property, the aggregate amount of all deductions, previously allowed in respect of such property under the provisions of this section and under paragraphs (f) and (j) of subsection (1) of section 14 of this Act, shall be deemed to have been increased by an amount equal to the amount of the balancing charge that would have been made:

Provided that where the new property is only partly employed in the production of the income, only so much of the capital expenditure incurred in providing the property shall be taken into account for the purposes of this subsection as may be appropriate having regard to the extent to which such property is wholly and exclusively employed in the production of the income.

(4) Where any person has delivered a balancing statement, the Commissioner may -

(a) accept the statement and make a balancing allowance or balancing charge accordingly; or

(b) refuse to accept the statement and, to the best of his judgment, determine the amount of the balancing allowance or balancing charge and make a balancing allowance or balancing charge accordingly.

(5) Where a person has not delivered a balancing statement and the Commissioner is of the opinion that a balancing charge would fall to be made upon such person in respect of any such property, then the Commissioner may, according to the best of his judgment, determine the amount of such balancing charge and assess him accordingly.

(6) Nothing in subsections (4) and (5) of this section contained shall prevent the decision of the Commissioner in the exercise of the power conferred upon him by those subsections from being questioned in an appeal in accordance with the provisions of sections 35 and 37 of the Income Tax Management Act, 1994.

(7) For the purpose of this section -

(a) the expression "property" means plant and machinery, and premises being an industrial building or structure owned and employed by any person in the production of his income;

(b) the capital expenditure on providing any property shall be the amount which, in the opinion of the Commissioner, such property

would have cost if bought in the open market at the time it was provided;

(c) the price in respect of any property sold or the value of any property otherwise transferred under an onerous title shall be the amount which, in the opinion of the Commissioner, such property would have fetched if sold or otherwise transferred under an onerous title on the open market at the time it was sold or transferred;

(d) the disposal value in respect of any property which is put out of use shall be the amount which, in the opinion of the Commissioner, such property would have fetched if sold or otherwise transferred under an onerous title in the open market at the time it was put out of use.

(8) Where in any year of assessment full effect cannot be given to any balancing allowance owing to there being no profits or gains chargeable for that year from the source of income in respect of which such allowance is claimed or owing to the profits or gains chargeable from that source being less than the allowances, then so long as the source of income in respect of which the allowance falls to be made continues to exist and to belong to the person entitled to the said allowance, the balance of such allowance shall be added to, and be deemed to form part of, the allowance, if any, for the next succeeding year of assessment, and if no such allowance falls to be made for that year, shall be deemed to constitute the allowance for that year, and so on for subsequent years of assessment.

Applicability of sections 14 to 24.

25. For the purposes of sections 14 to 24, both inclusive, of this Act, expenses incurred in the production of, and allowable deductions given in respect of, profits which are allocated to the foreign income account must first be deducted against the income from which such profits are derived.

Deductions not to be allowed.

26. For the purpose of ascertaining the total income of any person no deduction shall be allowed in respect of -

(a) domestic or private expenses other than alimony payments as provided for in section 14A of this Act;

(b) any outgoings and expenses to the extent to which they are not wholly and exclusively incurred in the production of the income and, in the case of gains or profits chargeable under paragraph (b) of subsection (1) of section 4 of this Act, not being furthermore necessarily incurred in the performance of the duties of the relative employment or office;

(c) any loss, diminution, exhaustion or withdrawal of capital, any sum employed or intended to be employed as capital or any

expenditure for a capital purpose or of a capital nature save as provided in section 14 and 23;

(d) the cost of any improvements;

(e) any loss or expense which is recoverable under any insurance or contract of indemnity;

(f) rent of any premises or part of premises not paid for the purpose of producing the income;

(g) any payments of a voluntary nature.

PART V Special Provisions

Special provisions as to certain income.

27. Where any person engaged in trade or business derives gains or profits wholly or in part from the business of insurance then, so far as concerns the gains or profits derived by such person from the business of insurance, the total income of such person shall be ascertained as follows:

(a) in the case of a person doing general insurance business (other than a person carrying on the business of life insurance) the total income shall be ascertained by taking all sums received by such person by way of premiums, interest, gains, profits or other income, and adding thereto a reserve for unexpired risks at the percentage adopted by such person in relation to such operations as a whole for such risks at the commencement of the year preceding the year of assessment and deducting from the aggregate of the above, the aggregate of the following:

(i) any premiums returned to the insured and premiums paid on re-insurance;

(ii) a reserve calculated as above for unexpired risks at the end of the year preceding the year of assessment;

(iii) actual claims paid or payable (excluding any amount recovered or recoverable in respect thereof under re-insurance); and

(iv) the expenses incurred wholly and exclusively in the production of the sums received as aforesaid;

(b) in the case of a person doing life insurance business, either exclusively or in addition to general insurance business, the total

income derived from the general insurance business shall be ascertained as provided in paragraph (a) of this section and the total income derived from the life insurance business shall be the investment income relating to that business less the management expenses including commission incurred in relation thereto:

Provided that in either case, where the person is not resident in Malta and the gains or profits accrue in part in Malta and in part outside Malta, the total income on which tax shall be payable shall be a proportion of the total income computed as aforesaid equal to the proportion which the premiums received in Malta bore to the total premiums received by such person in Malta and elsewhere:

Provided further that for the purposes of ascertaining as aforesaid the gains or profits of any person from the business of insurance the provisions of paragraph (g) of subsection (1) of section 14 of this Act shall not have effect regarding the carrying forward of losses incurred during the year preceding the year of assessment 1979 and earlier years of assessment.

Non-resident shipowners.

28. (1) Subject to the provisions of paragraph (k) of subsection (1) of section 12 of this Act where a person not resident in Malta carries on the business of shipowner or charterer and any ship owned or chartered by him calls at a port in Malta, his full profits arising from the carriage of passengers, mails, livestock or goods shipped in Malta shall be deemed to accrue in Malta:

Provided that this section shall not apply to goods which are brought to Malta solely for transshipment.

(2) Where for any accounting period such person produces the certificate mentioned in subsection (3) of this section, the profits arising in Malta from his shipping business for such period, before deducting any allowances for depreciation, shall be a sum bearing the same ratio to the sums receivable in respect of the carriage of passengers, mails, livestock and goods shipped in Malta as the ratio for the said period shown by that certificate of the total profits to the total sum receivable by him in respect of the carriage of passengers, mails, livestock and goods.

(3) The certificate shall be one issued by or on behalf of any income tax authority with regard to which the Commissioner is satisfied that it computes and assesses the full profits of the non-resident person from his shipping business, on a basis not materially different from that prescribed by this Act, and shall certify for any accounting period as regards such business -

(a) the ratio of the profits or, where there are no profits, of the loss, as computed for the purposes of income tax by that authority, without making any allowance by way of depreciation, to the total sums receivable in respect of carriage of passengers, mails, livestock or goods; and

(b) the ratio of the allowance for depreciation as computed by that authority to the said total sums receivable in respect of the carriage of passengers, mails, livestock and goods.

(4) Where at the time of assessment, the provisions of subsection (2) of this section cannot for any reason be satisfactorily applied, the profits arising in Malta may be computed on a fair percentage of the full sum receivable on account of the carriage of passengers, mails, livestock and goods shipped in Malta:

Provided that where any person has been assessed for any year of assessment by reference to such percentage, he shall be entitled to claim at any time within six years after the end of such year of assessment that his liability to tax for that year be recomputed on the basis provided by subsection (2) of this section.

(5) Where the Commissioner decides that the call of a ship belonging to a particular non-resident shipowner or charterer at a port in Malta is casual and that further calls by that ship or others in the same ownership are improbable, the provisions of this section shall not apply to the profits of such ship and no tax shall be chargeable thereon.

Non-resident air transport,
cable and wireless undertakings

29. The provisions of this Act relating to non-resident shipowners and charterers, including the provisions relating to their agents, shall apply *mutatis mutandis* to any person not resident in Malta who carries on the business of air transport or the business of the transmission of messages by cable or wireless telegraphy, and to the agent of any such person.

Ecclesiastical and allied income.

30. (1) Notwithstanding anything to the contrary contained in this Act, the provisions of this section shall apply in the case of any of the following:

(a) a diocese, including, in respect of any income accruing to him or vested in him by reason of his office, the bishop thereof;

(b) a parish;

(c) a church not falling under the jurisdiction of a parish and not due to be dealt with under paragraph (d) of this subsection;

(d) an ecclesiastical community as defined in subsection (9) hereof;

(e) a province or similar division of any religious order;

and each of the aforesaid is in this section referred to as "entity":

Provided that the Commissioner may, in such circumstances and subject to such conditions as he may deem appropriate, treat as one entity any two or more of the entities aforesaid.

(2) There shall be brought to charge to tax in the hands of any entity to which this section applies the income accruing to or derived by such entity as well as the income accruing to or derived by any associated, linked or allied institution, trust, foundation, bequest, or other similar organisation or body of persons.

(3) The total gross receipts on revenue account of any entity to which this section applies, ascertained in accordance with the provisions of subsection (2) of this section, shall be deemed to be receipts of a trade or business and the entity shall be chargeable accordingly:

Provided that the provisions of paragraph (g) of subsection (1) of section 14 of this Act shall not apply in respect of any such entity.

(4) In the case of any ecclesiastical community, there shall be included in the gross receipts on revenue account any income received in his own right by any individual member thereof during the year immediately preceding the year of assessment:

Provided that any part of such income which is in excess of one thousand liri shall be excluded.

(5) An entity shall be chargeable to tax in respect of its income for the year immediately preceding any year of assessment on the greater of the following two amounts:

(a) the income from all sources ascertained in accordance with the provisions of subsections (2), (3) and (4) of this section;

(b) that part of the income chargeable to tax under the provisions of paragraphs (c), (d) and (e) of subsection (1) of section 4 of this Act to which there shall be added, in the case of an ecclesiastical community, the income received in his own right by any individual member thereof; in ascertaining the total amount of the income as aforesaid -

(i) the provisions of subsection (2) of this section shall be taken into account;

(ii) no deductions shall be allowed in respect of expenses or other charges other than ground-rent and other burdens on immovable property;

(iii) there shall be excluded such part of the income received in his own right by any individual member of an ecclesiastical community which is in excess of one thousand liri.

(5A) An ecclesiastical community shall be entitled to a further deduction against its income as established under subsection (5) of this section equivalent to one thousand liri in respect of every individual who was a member thereof during the year immediately preceding the year of assessment:

Provided that no such deduction shall be allowed under this subsection in respect of any individual member who receives remuneration or other income from the ecclesiastical community of which he is an individual member.

(6) The provisions of subsections (4) and (5) and (5A) of this section shall not affect the liability to tax of any individual member of an ecclesiastical community on any income received by him in his own right.

(7) For the purposes of this section -

(a) a parish which is entrusted to an ecclesiastical community shall be deemed to be a separate entity from the said community;

(b) where more than one ecclesiastical community belong to the same religious order, each such community shall be dealt with as a separate entity for the purposes of this section if it is so considered by the statute of the order;

(c) the province or similar division of a religious order shall be deemed to be a separate entity from any of the communities falling under that order;

(d) where an entity to which this section applies operates on its own account a trading or commercial undertaking, including a school, printing press, hospital or cinema, the entity and the undertaking shall be assessed to tax separately and only the entity shall be dealt with in accordance with the provisions of this section, the undertaking being considered and dealt with as a separate body of persons for all purposes of this Act:

Provided that -

(i) no profits or other income arising from the said undertaking in favour of the entity shall be included with the gross receipts of the entity for the purpose of any of the provisions of this Act;

(ii) no deductions shall be allowed in computing the total

income of the undertaking in respect of any payments made to the entity on account of any expenses or charges whatsoever;

(e) total gross receipts on revenue account in all cases shall include income chargeable to tax in accordance with the provisions of section 4 of this Act.

(8) Where any income accrues to or is in any way vested in the head of a diocese in virtue of his office and does not actually constitute personal gains or profits of the said head, such income together with any income accruing to or vested in the diocese, shall, for the purposes of this section, be deemed to be derived by one separate entity under the management and control of the head of the diocese; and the income accruing to the Archbishop of Malta and to the Bishop of Gozo in virtue of their office shall, notwithstanding any other provision of the law, be deemed to be Lm2,800 and Lm1,500 per annum respectively, or such higher sum as the Minister responsible for finance, from information given or otherwise obtained, determines to be the income received by them in virtue of their office, and the said income shall be added for assessment purposes to their personal income:

Provided that the Commissioner shall grant such relief from the tax to any other person or entity as will, in his opinion, prevent the said amounts of Lm2,800 and Lm1,500 (or any higher sums determined as aforesaid) being brought to charge both in the hands of the said bishops and in the hands of any other person or entity in the same year of assessment.

(9) For the purposes of this section and of subsection (4) of section 56 of this Act -

“ecclesiastical community” means a number of individuals living together in a community in accordance with the rules of a religious order recognised as such by the Commissioner;

“individual member”, in relation to an ecclesiastical community, means any individual, lay or religious, who formed part of such community on the thirty first day of December during the year immediately preceding the year of assessment.

Income from certain dividend to include tax thereon.

31. The income of a person arising from a dividend paid by a company liable to tax under this Act shall, where such tax has been deducted therefrom, be the gross amount before making such deduction: where no such deduction has been made, the income arising shall be the amount of the dividend increased by an amount on account of such taxes corresponding to the extent to which the profits, out of which the said dividend has been paid, have been charged with such taxes.

Taxation of certain investment income by deduction.

32. Notwithstanding anything to the contrary contained in this Act, sections 33 to 42, both inclusive, and which together with this section are referred to as "the investment income provisions", shall apply wherever the context so requires.

Obligation of payor to deduct tax from investment income.

33. (1) A payor shall deduct tax from every payment to a recipient of investment income, howsoever made, at a rate of fifteen cents on every lira of such payment.

(2) A payor shall render an account to the Commissioner of all amounts so deducted, but shall not specify the identity of the recipient and, subject to the provisions of subsection (3) of this section, every amount deducted shall be a debt due from such payor to the Commissioner payable not later than the fourteenth day following the end of the month in which the payment was made and shall be recoverable as such.

(3) The payor shall upon making a payment of investment income furnish each recipient with a certificate in a form acceptable to the Commissioner setting forth the gross amount paid by the payor, and the tax deducted.

(4) Where a payor makes a payment of investment income to a person not resident in Malta (and therefore not a recipient within the definition contained in paragraph (c) of section 41 of this Act), the payor shall be obliged to obtain a certificate of non-residence from the person receiving such payment in such form as the Commissioner shall require.

Payor not to deduct tax where recipient elects to be paid gross.

34. (1) A payor shall not deduct tax under section 33 of this Act where a recipient elects under the provisions of section 35 of this Act, to be paid investment income without such deduction being made.

(2) A payor shall, at the request of the Commissioner, render an account to the Commissioner of all payments of investment income made during any year in respect of which an election has been made. The account shall be submitted to the Commissioner by the 31st January following the year for which the election has been made, or within thirty days of the request, whichever date is later. Such account shall include details of the recipient's name, address and the income tax registration number as well as the amount of investment income paid gross by the payor to the recipient during that year:

Provided that the Commissioner may only request such an account for a complete year which has passed in respect of which an election has been made under the provisions of section 35 of this Act:

Provided further that a payor shall not be required to render an account to the Commissioner once nine years have elapsed following the end of the year in which the investment income becomes payable.

Election by recipient to be paid without deduction of tax.

35. (1) A recipient may elect to be paid investment income, which does not constitute capital gains within the meaning of section 41(a)(v) of this Act, without deduction of tax being made and such an election shall be made in writing and sent to the payor.

(2) Subject to the provisions of subsection (3) of this section, an election will be effective as from 14 days following the receipt of such notice of election by the payor. Such an election may be revoked at the option of the recipient by notice in writing and such revocation shall be effective as from 14 days following the receipt by the payor of such notice.

(3) An election made on the opening of a bank account in respect of which investment income is payable, or on the purchase of bonds, loanstock, debentures, or any other instrument in respect of which the investment income is payable, shall have immediate effect.

Obligation on recipient to declare where an election is made.

36. Where an election under the provisions of section 35 of this Act has been made, a recipient shall declare the investment income to which the election relates on his tax return for the relevant year of assessment and where a declaration is made as aforesaid any tax due shall be determined as if the investment income provisions had not been enacted.

Option for recipients to declare where no election has been made.

37. (1) Where no election under section 35 of this Act has been made, a recipient who is an individual may declare investment income on his tax return and, where a declaration is made as aforesaid, any tax due shall be determined as if the investment income provisions had not been enacted.

(2) Where a recipient has declared investment income on his tax return any tax withheld in respect of such income under the investment income provisions shall be available as a credit against the recipient's tax liability, or for a refund as the case may be, for the relevant year of assessment.

Presumption of deduction.

38. Except in respect of a year of assessment for which an election under section 35 of this Act applies, it shall be presumed, so far as the tax liability of the recipient is concerned, that a deduction and payment which ought to have been made pursuant to the provisions of section 33 of this Act have been made.

Where presumption applies, no need to declare.

39. Where the presumption referred to in section 38 of this Act applies:

(a) a recipient who is an individual shall not be obliged to disclose the existence of the investment income in any return made pursuant to the provisions of this Act, and

(b) subject to the provisions of subsection (1) of section 37 of this Act, no person shall be charged to further tax in respect of the investment income under this Act.

Extent of payor's liability.

40. Where a payor fails to deduct and pay tax in accordance with the investment income provisions, the provisions of subsection (4) of section 73 of this Act and subsection (1) of section 40 of the Income Tax Management Act, 1994, shall apply *mutatis mutandis*.

Interpretation of the investment income provisions.

41. For the purposes of the investment income provisions, the following phrases shall have the meanings given below:

(a) "investment income" shall mean only the following categories of income:

(i) interest payable by a person carrying on the business of banking under the Banking Act, 1994, in respect of a sum of money in whatever currency deposited with it in any account whatever (except interest payable in respect of any bearer account);

(ii) interest, discounts or premiums payable by the Government of Malta or by any agency thereof;

(iii) interest, discounts or premiums payable by a corporation or authority established by law;

(iv) interest, discounts or premiums payable in respect of a public issue by a company resident in Malta; and

(v) capital gains arising on the disposal of shares or units in a collective investment scheme licensed under the Investment Services Act, 1994, where the collective investment scheme redeems, liquidates or cancels such shares or units as the case may be - such capital gains to be calculated by reference to the price at which the shares or units were allotted or issued by the collective investment scheme;

(b) "payor" shall mean the person who is liable to make or, if different, who makes a payment of investment income;

(c) "recipient" shall mean:

(i) a person who is resident in Malta during the year in which investment income is payable to him or which is payable to a person under sub-paragraphs (ii) or (iii) of this paragraph (other than a person who during that year carried on banking business under the Banking Act, 1994, or a person carrying on the business of insurance or any other company which is owned and controlled, directly or indirectly, by such persons or a company

which is registered under Section 24 of the Malta Financial Services Centre Act), or

(ii) a receiver, guardian, tutor, curator, judicial sequestrator or committee acting on behalf of a person referred to in sub-paragraph (i) of this paragraph, or

(iii) a trustee or foundation pursuant to or by virtue of which any money or other property whatsoever shall for the time being be paid or applied to or for the benefit of a person referred to in sub-paragraph (i) of this paragraph.

Anti-avoidance provisions.

42. Where, in the opinion of the Commissioner, a series of transactions is effected with the sole or main purpose of reducing the amount of tax payable by a person by reason of the operation of the investment income provisions, such a person shall be assessable as if the aforesaid provisions did not apply, and any tax withheld in respect of income received under one or more of the aforesaid transactions shall be available as a credit against the tax liability of the person receiving such income, or for a refund as the case may be, for the relevant year of assessment.

For the purposes of this section, a "series of transactions" shall mean any two or more corresponding or circular transactions, carried out by the same person, either directly or indirectly, as the case may be.

Certain undistributed profits to be deemed to be distributed.

43. (1) Where the Commissioner is of the opinion that any company (other than a company incorporated or registered outside Malta and not resident therein) has not distributed as dividends its profits or some part of its profits, and that the effect of such non-distribution is the avoidance or reduction of tax otherwise payable by the shareholders, he may order by notice in writing that such undistributed profits or part thereof shall be deemed, for the purposes of this Act, to have been distributed by way of dividend by the company in such amount, and on such date or dates, as to him appears to be reasonable, and the shareholders concerned shall be assessed thereon accordingly:

Provided that -

(a) no order shall be issued as aforesaid if the company proves that the main purpose or one of the main purposes of non-distribution was -

(i) to provide for the development or expansion of its trade or business from internal sources, whether alone or in combination with other sources; or

(ii) to repay any loan, overdraft or other capital borrowed from external sources (which are neither directly nor

indirectly linked with the company's shareholders) and used in the expansion of the company's trade or business;

(b) no order issued under this subsection shall have effect -

(i) where it is made in respect of any profits chargeable in the company's hands in respect of any year of assessment prior to that beginning on 1st January, 1976, if an assessment has been raised for that year or, where no such assessment has been raised, if the order is made after 31st December 1979;

(ii) where it is made in respect of any profits chargeable in the company's hands in respect of any year of assessment prior to that beginning on 1st January, 1984, if it is made after 31st December, 1986; and

(iii) where it is made in respect of any profits so chargeable for any other year of assessment, if it is made after the lapse of eight years from the end of the year of assessment in which the profits to which the order relates were chargeable to tax;

(c) where, under the provisions of this subsection any dividend would require to be treated as received by any shareholder of a company (in this proviso referred to as "the first company") and the shareholder in question is also a company (in this proviso referred to as "the second company"), that dividend shall not be chargeable to tax as income of the second company, but shall be treated as distributed by the second company by way of dividend on the date determined by the Commissioner as aforesaid, and the shareholders of the second company shall be assessed thereon accordingly; and where any shareholder of the second company is again a company, then, in relation to the sum which is to be treated as distributed to that shareholder, the preceding provisions of this proviso shall apply *mutatis mutandis* as though references therein to the first company were references to the second company and as though references therein to the second company were references to that shareholder, and so on until, applying the principles of this proviso, there remains no part of the undistributed profits to which the directions of the Commissioner relate which falls to be treated as distributed to a company.

(2) Where any person who has been assessed to tax, or has had his assessment revised, in accordance with the provisions of subsection (1) fails to pay on due date the tax, or any part of the tax, attributable to his share of any undistributed profits which are treated as distributed, such tax or the part thereof shall thereupon become a debt due to Government from the company by reason of whose failure to distribute the profits the directions of

the Commissioner under subsection (1) were given, and shall be recoverable as such.

(3) Where any undistributed profits taxable by virtue of subsection (1) are subsequently distributed, they shall not be treated as taxable income in the hands of the recipients thereof.

(4) Where any undistributed portion of the profits taxable by virtue of subsection (1) has been deemed, by notice given under the provisions of this section, to have been distributed as dividends to the shareholders of that company, the company shall within twenty-one days of the date of service of the said notice furnish each shareholder with a certificate setting forth the amount of the dividend deemed to have been distributed to that shareholder and the amount of tax which the company would have been entitled to deduct from such dividend under the provisions of section 59 of this Act if such dividend had been paid.

(5) Nothing contained in this section shall prevent the decision of the Commissioner in the exercise of the power conferred upon him by subsection (1) of this section from being questioned in an appeal in accordance with the provisions of sections 35 and 37 of the Income Tax Management Act, 1994.

Special provisions in respect of certain profits deemed distributed.

44. (1) A company (other than a company incorporated or registered outside Malta and not resident therein) may apply to the Commissioner in writing to have any profits which the Commissioner has ordered to be deemed distributed in terms of Section 43 of this Act to be deemed distributed as follows:

(a) twenty *per centum* of the said profits on such date or dates as the Commissioner has ordered;

(b) eighty *per centum* of the said profits in the year immediately preceding the year of assessment 1991:

Provided that where an assessment raised on a shareholder as a consequence of the said deemed distribution has become final and conclusive, the assessment shall not be reopened by way of the provisions of this subsection:

Provided further that an application made by a company for the purposes of this subsection shall not be valid if it is made after the 30th June, 1991.

(2) In the case where a company is served with a deemed distribution order by the Commissioner in terms of section 43 of this Act in respect of any year immediately preceding any of the years of assessment 1984 to 1989 and after the publication of this Act in the Gazette, the company may

apply to the Commissioner in writing to have the undistributed profits for the said years to be deemed distributed by the Commissioner as follows:

(a) twenty *per centum* of the said profits on such date or dates as the Commissioner may order;

(b) eighty *per centum* of the said profits in the year immediately preceding the year of assessment 1991:

Provided that an application made by a company for the purposes of this subsection shall not be valid if it is made after the lapse of 30 days from the date of service of the deemed distribution order or the 30th June 1991, whichever is the later.

(3) Notwithstanding any other provisions of this Act, where an application is made in terms of this section, the profits deemed distributed by the Commissioner shall be charged to tax on the company at the following additional rate of tax:

(a) 25c on every lira of profits deemed distributed for any year preceding the year of assessment 1990;

(b) 2c5 on every lira of profits deemed distributed for the year of assessment 1991.

(4) (a) For the purposes of this section, when the profits deemed distributed are subsequently distributed by the company to the shareholders, the dividend shall be grossed up as set out in section 31 of this Act without taking into account the tax charged additionally on the company in terms of subsection (3) of this section.

(b) The tax payable by the company under subsection (3) of this section shall not be availed of for set-off in terms of section 60 of this Act when the profits deemed distributed are subsequently distributed to the shareholders.

Further special provision in respect of profits deemed distributed.

45. Any distribution made by a company after the 1st January, 1990 in respect of its profits for any year preceding the year of assessment 1989 shall be considered as having not been distributed in determining the amount of undistributed profits for the purposes of section 43 of this Act.

Loans to shareholders.

46. (1) If any amounts are advanced or any assets distributed by a company to any of its shareholders by way of advances or loans, or any payment is made by the company on behalf of, or for the individual benefit of, any of its shareholders, so much, if any, of these advances, loans or payment, as, in the opinion of the Commissioner, represents distribution of income shall, for all purposes of this Act, be deemed to be dividends paid by the company to those shareholders out of profits derived by it.

(2) Where the amount of any advance, loan or payment is deemed, under the last preceding subsection, to be a dividend paid by a company to its shareholders, and in any year subsequent to that in which the dividend is so deemed to be paid, the company sets off any dividend distributed by it in that subsequent year, in satisfaction of the whole or part of the amount of that advance, loan or payment, that dividend shall, to the extent to which it is so set off, be deemed not to be a dividend for the purposes of this Act.

Certain distribution to shareholders or to partners deemed to be dividends or profits.

47. Distributions to shareholders of a company or to partners in any partnership by a liquidator in the course of winding up the company or the partnership, to the extent to which they represent income derived by the company or by the partnership (whether before or during liquidation) shall, for the purposes of this Act, be deemed to be dividends paid to the shareholders by the company out of the profits derived by it, or profits distributed to the partners, as the case may be.

Special provisions for computation of income derived from sale or other disposal of trading stock.

48. (1) Where any trading stock is sold together with other assets of a business, the part of the consideration attributable to the trading stock shall, for the purposes of this Act, be determined by the Commissioner, and the part of the consideration so determined shall be deemed to be the price paid for the trading stock by the purchaser.

(2) For the purposes of this section any trading stock which has been disposed of otherwise than by sale shall be deemed to have been sold, and any trading stock so disposed of and any trading stock which has been sold for a consideration other than cash shall be deemed to have realised the market price of the day on which it was so disposed of or sold, but, where there is no market price, trading stock shall be deemed to have realised such price as the Commissioner determines.

(3) Nothing contained in this section shall be deemed to impair the right of an assessee to appeal against an assessment of tax under the provisions of sections 35 and 37 of the Income Tax Management Act, 1994.

Special provisions regarding certain income derived by outworkers on a part-time basis.

48A. (1) Where a VAT registered person engages any individual for the carrying out of hand knitting, lace making, crochet and embroidery activities at home against a net remuneration in any one year preceding a year of assessment not exceeding Lm200 the tax due in respect of the income paid to any such outworker and the deductions that may be made in respect thereof by the person engaging them shall be regulated in accordance with such rules as may be made under this section:

Provided that the work carried out by such outworkers shall in all cases be handmade and not machinemade.

(2) The Minister may by order extend the provisions of subsection (1) of this section to the remuneration of such workers as may be prescribed in the Order under such conditions as may be set out in the said Order.

Married couples.

49. (1) The income of a married couple, where both spouses are living together, shall be declared in a return pursuant to the provisions of the Income Tax Acts signed by both spouses, and will be charged to tax in the name of the responsible spouse so elected by the spouses themselves for the purposes of the Income Tax Acts:

Provided that if the return is signed only by the responsible spouse, or the other spouse on behalf of the responsible spouse, the return shall in all cases be presumed *juris et de jure* to have been made with the consent of both spouses:

Provided further that if the spouses fail to appoint the responsible spouse, the Commissioner shall at his discretion decide who of the spouses shall be the responsible spouse.

(2) Where a joint return is required to be filed by a married couple in accordance with the provisions of subsection (1) hereof, both spouses will be jointly and severally responsible for the performance of all obligations pursuant to the provisions of the Income Tax Acts, and in default the Commissioner shall be entitled, at his discretion, to take such action to enforce performance of those obligations against either or both of the spouses:

Provided that in no case may any criminal action be taken against a spouse for any act or omission for which he or she may not be directly responsible.

(3) Where a married couple elects that one of the spouses is to be the responsible spouse, such election shall remain effective for a minimum period of five successive years unless the Commissioner, at his sole discretion and for a reasonable cause, authorises a change following a petition signed by either spouse and filed with the Commissioner not later than six months before the first day of the year of assessment in respect of which such change is requested.

Separate computation on certain income derived by married couples.

50. (1) Notwithstanding the provisions of section 49 of this Act, where in any year immediately preceding the year of assessment the spouse not being the responsible spouse, derives income subject to tax under the provisions of paragraphs (a) or (b) of subsection (1) of section 4 of this Act or of paragraph (d) of the said subsection in so far as it refers to a pension which is received in view of the past employment the responsible spouse may elect in writing that the tax on the chargeable income in respect of such income derived by the other spouse be computed separately. In such a case the spouse's income shall not be aggregated with the responsible spouse's total income for that year of assessment.

(2) The tax computed separately for each year of assessment in respect of the income referred to in subsection (1) hereof shall be charged in the name of the responsible spouse.

Tax avoidance.

51. (1) Where any scheme which reduces the amount of tax payable by any person is artificial or fictitious or is in fact not given effect to, the Commissioner shall disregard the scheme and the persons concerned shall be assessable accordingly.

(2) Where any person, as a direct or indirect result of any scheme of which the sole or main purpose was the obtaining of any advantage which has the effect of avoiding, reducing or postponing liability to tax, or of obtaining any refund or set-off of tax, has obtained or is in a position to obtain such an advantage, the Commissioner shall, by order in writing, determine the liability to tax or the entitlement to a refund or set-off of tax of the said person, or of any other person, for any year of assessment, in such manner and in such amount as may be necessary, in the circumstances of the case, to nullify or modify the said scheme and the consequent advantage.

(3) Where, as a direct or indirect result of any disposition made during the life of the disponer, any income is payable to or for the benefit of a child in the year immediately preceding the year of assessment, the income shall, if at the commencement of that year the child was unmarried or has not yet reached the age of eighteen years, be treated for the purposes of this Act as the income of the disponer for that year and not the income of the said child.

(4) Where, as a direct or indirect result of any scheme or of any change in the shareholding of a company, income has been received by or has accrued to the company in the year immediately preceding the year of assessment, then, unless it is proved that the said scheme had not been entered into, or the said change had not been effected, solely or mainly for the purpose of obtaining the benefit of any loss, or of the balance of any loss incurred by the company in any year preceding the year of assessment, or of any wear and tear or initial allowances, or of the balance of any such allowances due in respect of any year as aforesaid, so as to avoid liability on the part of that company or of any other person to the payment of any tax -

(a) the provisions of paragraph (g) of subsection (1) of section 14 of this Act shall not apply in respect of any loss incurred by the company during the year in which such scheme was entered into or such change was effected, or in respect of any loss or balance of loss which would otherwise fall to be carried forward into that year or from that year into subsequent years;

(b) the provisions of the second proviso to paragraph (f) of subsection (1) of section 14 of this Act shall not operate so as to allow any deductions to which the company may otherwise be entitled during the year in which such scheme was entered into or such change was effected, in respect of allowances contemplated under the provisions of paragraphs (f) and (j) of subsection (1) of that section, or in respect of such deductions or of the balance of such deductions which may otherwise fall to be carried forward from that year into subsequent years;

(c) the provisions of section 24 of this Act shall be applied as though the provisions of the preceding paragraphs of this subsection had not taken effect.

(5) In this section -

"child" includes:

(a) a stepchild, or an adopted child, or an illegitimate child of the individual or of the individual's spouse; or

(b) a child orphan of or abandoned by either of the parents and living with the individual or the individual's spouse;

"scheme" includes any disposition, agreement, arrangement, trust, grant, covenant, transfer of assets and alienation of property, whatsoever, irrespectively of the date on which such scheme was made, entered into or set up.

Advance Revenue Rulings.

52. (1) The Commissioner shall, on the application of a company which is a party to any transaction, notify his ruling that the provisions of section 51 of this Act shall not apply to that transaction provided that the Commissioner is satisfied that the transaction is to be effected for *bona fide* commercial reasons.

(2) The Commissioner shall, on the application of any person, notify his ruling that the provisions of paragraph (f) of the definition of "participating holding" as defined in section 2 of this Act in respect of a participating holding will apply to a particular shareholding or to a shareholding which is to be acquired by the applicant.

(3) The Commissioner shall, on the application of any person which is a company, notify his ruling on the tax treatment of any transaction which concerns any financial instrument or other security.

(4) The Commissioner shall, on the application of any person, notify his ruling on the tax treatment of any transaction which involves international business, provided that the determination of what constitutes international business for the purposes of this subsection shall be at the discretion of the Commissioner.

(5) The Commissioner shall, on the application of any person, notify his ruling as to whether a company qualifies as an international trading company.

(6) The notification of a ruling specified in this section may be given in advance of any transaction in respect of which an application for a ruling is made.

(7) (a) All applications under this section shall be made in writing and shall contain all material particulars of the transactions to be effected.

(b) Where the Commissioner requires further particulars for the purposes of enabling him to make a decision on an application under this section, the Commissioner shall, within thirty days of the receipt of the application, or of the receipt of any further particulars previously required under this paragraph, by written notice, require the applicant to furnish such further particulars, and if any such notice is not complied with within thirty days, or such longer period as the Commissioner may allow, the Commissioner need not proceed further with the application.

(c) The Commissioner shall notify his ruling to the applicant within thirty days of receiving the application or, if he gives a notice under paragraph (b) of this subsection, within thirty days after the notice has been complied with.

(d) If any particulars furnished under this section do not fully and accurately disclose all facts and considerations material for the ruling of the Commissioner, any resulting ruling shall be void.

(8) (a) Subject to the provisions of paragraph (d) of subsection (7) of this section, a ruling by the Commissioner will be and shall remain binding on the Commissioner for a period of two years from the time of any relevant change in statutory provisions subsequent to such ruling, or for a period of five years from the time of such ruling, whichever is the lesser.

(b) A ruling by the Commissioner may, at the option of the applicant, be renewed for a further period of five years. An application

for renewal shall be submitted in writing to the Commissioner, stating whether or not there have been any material changes to the facts and considerations contained in the original application and the nature of any such changes. Such renewal shall not be unreasonably withheld by the Commissioner.

PART VI Personal Deductions

Resident individual.	53. <i>Repealed by Act XX of 1996</i>
Non-resident allowances.	54. <i>Repealed by Act XX of 1996</i>
Claims under this Part.	55. <i>Repealed by Act XX of 1996</i>

PART VII Rate of Tax

Normal rates of tax on individuals and certain bodies of persons.

56. (1) Saving the other provisions of this section, the tax upon the chargeable income of every person shall be charged at the following rates:

(a) in the case of a married couple resident in Malta in the year immediately preceding the year of assessment and to whom section 49 of this Act applies saving where the responsible spouse has opted for a separate computation for the purposes of section 50 of this Act -

For every lira of the first Lm4000	0c
For every lira of the next Lm1500	15c
For every lira of the next Lm1500	20c
For every lira of the next Lm1500	25c
For every lira of the next Lm1500	30c
For every lira of the remainder	35c

(b) in the case of any other individual resident in Malta including each spouse where the responsible spouse has opted for a separate computation for the purposes of section 50 of this Act -

For every lira of the first Lm3000	0c
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For every lira of the next Lm1000	15c
For every lira of the next Lm1000	20c
For every lira of the next Lm1500	25c
For every lira of the next Lm1500	30c
For every lira of the remainder	35c

(c) in the case of any individual who is not resident in Malta during the year immediately preceding the year of assessment -

For every lira of the first Lm300	0c
For every lira of the next Lm1500	20c
For every lira of the next Lm1500	25c
For every lira of the next Lm1500	30c
For every lira of the remainder	35c

(d) in the case of any other person -

For every lira of the first Lm1000	15c
For every lira of the next Lm1000	20c
For every lira of the next Lm1000	25c
For every lira of the next Lm1500	30c
For every lira of the remainder	35c.

(2) Notwithstanding the provisions of subsection (1) of this section, the tax upon the chargeable income of individuals referred to in the said subsection shall be charged at the following special rates:

(a) In the case of an individual born outside Malta who was resident in Malta in the year immediately preceding the year of assessment and who proves to the satisfaction of the Commissioner that he has received in Malta at one or more times during the year immediately preceding the year of assessment an amount of income of not less than eight hundred liri arising outside Malta and chargeable to tax under the provisions of this Act -

(i) being a married individual who files a joint return in terms of section 49 of this Act -

For every lira of the first Lm2500	0c
For every lira of the remainder	15c

(ii) being any other such individual -

For every lira of the first Lm1800	0c
For every lira of the remainder	15c

Provided that subject to the provisions in the next following paragraph, the rates laid down in subparagraphs (i) and (ii) hereof will

not apply if the individual was domiciled in Malta or ordinarily resident in Malta before the first day of January, 1958.

(b) The Minister responsible for finance may in his discretion authorise the application of paragraph (a) of this subsection in regard to any individual born outside Malta, notwithstanding that he was domiciled and/or ordinarily resident in Malta before the first day of January, 1958, if the Minister is satisfied that the said individual was absent from Malta in the period between the said date and the thirty-first day of December, 1963, saving occasional visits.

(c) In the case of an individual born in Malta who was resident in Malta in the year immediately preceding the year of assessment and who proves to the satisfaction of the Commissioner that he has actually resided outside Malta for an aggregate period of not less than twenty years after the first day of January, 1938 and that he has received in Malta at one or more times during the year immediately preceding the year of assessment an amount of income of not less than five hundred liri arising outside Malta and chargeable to tax under the provisions of this Act, the rates laid down under subparagraph (i) or (ii) of paragraph (a) hereof, as the case may be, shall apply:

Provided that -

(i) no such rates shall apply unless the Commissioner is satisfied that the individual was ordinarily resident and domiciled in Malta in the year immediately preceding the year of assessment;

(ii) in computing the said aggregate period of twenty years there shall be excluded all calendar years during which the individual was ordinarily resident in Malta, and all periods prior to a date which precedes by thirty years the first day of the year of assessment in which the individual first satisfies all the other conditions stipulated in this subsection.

(d) In paragraphs (a), (b) and (c) of this subsection -

“individual born outside Malta” means an individual not born in Malta whose parents were not domiciled in Malta or not ordinarily resident in Malta on the date of his birth or at any time during the ten years previous to such date;

“received in Malta” means the excess of the amount of income arising outside Malta and received in Malta over any sum transferred out of Malta.

(e) The rates mentioned in paragraphs (a), (b) and (c) of this subsection shall apply only to any individual who was entitled to a

further personal deduction of five hundred liri in any year of assessment up to the year of assessment 1972, and, in the event of his demise, to the surviving spouse.

(f) Notwithstanding the provisions of section 49 the responsible spouse shall for the purpose of this section be the spouse in whose name the residence permit has been issued.

(3) Nothing in subsection (2) of this section shall in any way be considered as overriding the provisions of subsection (13) of this section.

(4) The tax shall be charged at the rate of 20c on every lira of the chargeable income of -

(a) every entity to which section 30 of this Act applies; and

(b) any foundation, bequest, trust, institution, or other organisation or body of persons the income whereof is specifically due to be wholly applied in providing income to members of the clergy:

Provided that where the Commissioner is satisfied that any part of such income has in fact been so applied in respect of members of the clergy resident in Malta or of ecclesiastical communities so resident, such part of the said income shall be exempt from the tax in the hands of the foundation, bequest, trust, institution or other organisation or body of persons aforesaid, even where such foundation, bequest, trust, institution or other organisation or body of persons is one to which subsection (2) of section 30 of this Act applies.

(5) Notwithstanding the provisions of subsection (4) of this section, no tax charged under the provisions of that subsection shall be deemed to be part of any tax available for set-off for the purpose of collection in accordance with section 60 of this Act.

(6) The tax shall be charged at the rate of 35c on every lira of the chargeable income of every -

(a) company;

(b) body corporate established by law; and

(c) undertaking required by paragraph (d) of subsection (7) of section 30 of this Act to be dealt with as separate body of persons.

(7) The tax shall be charged at the rate of 25c on every lira of the chargeable income of a collective investment scheme which, under the provisions of subsection (5) of section 12 of this Act, has waived its right to exemption from tax.

(8) Notwithstanding any other provisions of this section, a person in receipt of a dividend from an international trading company shall be charged to tax in respect of such dividend at a rate of twenty-seven and a half percent (27.5%) of such amount as if such dividend constitutes separate chargeable income, where such person is either :

(a) not resident in Malta and who is, where applicable, not owned and controlled, directly or indirectly by, nor acts on behalf of, a person or persons ordinarily resident and domiciled in Malta; or

(b) a company resident in Malta which is wholly owned by a person or persons not resident in Malta, provided that such person or persons are not owned and controlled by, directly or indirectly, nor acts on behalf of, a person or persons ordinarily resident and domiciled in Malta.

Maximum rate of tax in certain cases.

(9) Saving the provisions of subsection (10) of this section, the tax chargeable under the other provisions of this section shall in no case exceed the rate of -

(a) 10c on every lira of the chargeable income of every trade union; and

(b) 30c on every lira of the chargeable income of every club or other similar non-proprietary institution if the Commissioner is satisfied that no part of the income is distributable to, or is otherwise available for the personal benefit of any proprietor or member thereof in his capacity as such.

Special rates of tax and minimum tax liability.

(10) Notwithstanding the provisions of subsections (1) and (2) of this section -

Cap. 217

(a) in the case of an individual who has been granted a residence permit under section 7 of the Immigration Act, the tax upon the chargeable income, other than income mentioned in paragraph (b) of this subsection shall be charged at the rates laid down in subparagraph (i) or (ii), as the case may be, of subsection (2) hereof:

Provided that the minimum tax payable in respect of any year of assessment shall be one thousand liri if the individual has been granted such residence permit on or after the fourteenth day of November, 1972 but before the first day of January, 1988:

Provided further that in the case of an individual who has been granted such residence permit on or after the first day of January, 1988 the minimum liability in respect of any year of assessment shall, after

taking into account any double taxation relief to which such individual may be entitled, be one thousand liri;

(b) income derived from Malta and chargeable to tax under paragraphs (a) and (b) of subsection (1) of section 4 of this Act, shall be deemed to constitute chargeable income to be taxed separately at the rates laid down in paragraph (a) or (b) of subsection (1) of this section starting at the rate of 15c on every lira.

(11) (a) (i) The tax upon the chargeable income other than income mentioned in subparagraph (ii) of this paragraph, of any individual born in Malta who, after emigrating has returned as a resident in Malta after the first day of January, 1988, shall be charged at the rates laid down in subsection (1) of this section, or if he so elects, and until such election is not renounced by him, at the rates laid down in subparagraph (i) or (ii) of subsection (2) thereof. The said election may not be availed of again once it is renounced:

Provided that the provisions of this subsection shall only apply where such an individual proves to the satisfaction of the Commissioner that either:

(a) he had actually resided outside Malta for an aggregate period of 20 years falling within a period of 25 years preceding the first day of the year of assessment in which the individual returns as resident in Malta after the first day of January 1988, and that he has received in Malta at one or more times during the year immediately preceding the year of assessment an amount of income of not less than six thousand liri arising outside the island and chargeable to tax under the provisions of this Act, provided that in the case of a married person the said amount of income of six thousand liri shall be increased by one thousand liri in respect of every dependant relative including a spouse; or

(b) he is not a Maltese national and does not satisfy the period of residence outside Malta referred to in paragraph (a) of this proviso and that he satisfies conditions similar to those established by the Minister responsible for immigration under section 7 of the Immigration Act, or the issue of a residence permit as existing at the time such an individual returns to Malta:

Provided further that the minimum liability of any such individual for any year of assessment in which the individual elects to pay at the rates laid down in subparagraph (i) or (ii) of paragraph (a) of subsection (2) hereof shall, after taking into account any double taxation relief to which such an individual may be entitled, be one thousand liri.

(ii) In the case of income derived from Malta and chargeable to tax under paragraphs (a) and (b) of subsection (1) of section 4 of this Act, such income shall be deemed to constitute chargeable income to be taxed separately at the rates laid down in paragraph (a) of subsection (1) of this section starting at the rate of 15c on every lira.

(b) In the event of the demise of any individual to which paragraph (a) of this subsection applies and who is charged to tax at the rates laid down in subparagraph (i) of paragraph (a) of subsection (2) hereof, the surviving spouse shall be entitled to elect to be charged to tax in the same manner and under the same conditions as the deceased individual and charged at the rates laid down in subparagraph (ii) of paragraph (a) of subsection (2) hereof, and until such election is not renounced, the surviving spouse shall be considered to have satisfied in his own right the qualifying period of absence from Malta stipulated therein.

(12) Any person who -

(a) makes default in furnishing a return in respect of the year of assessment commencing on the first day of January, 1949 or any subsequent year of assessment, shall be chargeable for such year of assessment with a tax of treble the amount of tax for which he is liable for that year under the other subsections of this section or with such lesser amount of tax as may be determined by the Commissioner but which shall in no case be less than ten liri or one-half per cent of the said amount of tax for which he is liable whichever is the greater; or

(b) omits from his return for the year of assessment commencing on the first day of January, 1949 or any subsequent year of assessment any amount which should have been included therein, shall be chargeable with an amount of tax equal to twice the difference between the tax as calculated in respect of the income returned by him and the tax properly chargeable in respect of his income as determined after including the amounts omitted, and shall be required to pay such amount of tax in addition to the tax properly chargeable in respect of his true income:

Provided that if the Commissioner is satisfied that the default in rendering the return or any such omission was not due to any fraud, art, contrivance or gross or wilful neglect, he shall remit the whole of the said treble or additional tax and in any other case may remit such part or all of the said treble or additional tax as he may think fit:

Provided further that in the case of a body of persons the Commissioner shall not reduce any tax chargeable under paragraph (a) of this subsection to less than Lm1 or ten per cent of the total tax chargeable under

the other subsections of this section for the relative year of assessment, whichever is the greater:

Provided also that where the Commissioner has sent to any person a notice referred to in subsection (3) of section 12 of the Income Tax Management Act, 1994, such person shall be required to pay, in respect of each such notice, an additional tax as may be specified in such notice for the year of assessment in respect of which the default has occurred but which shall in no case exceed ten liri. The Commissioner may only remit this additional tax where he is satisfied that owing to absence from Malta, sickness or other reasonable cause such person was prevented from submitting a return in accordance with the provisions of section 10 or 11 of the Income Tax Management Act, 1994:

Provided further that:

(i) the powers conferred upon the Commissioner by this subsection shall be in addition to any right conferred upon him to commence proceedings in respect of an offence under Part IX of the Income Tax Management Act, 1994;

(ii) any person who in determining his total income, as disclosed by his return, deducts or sets off any amount, the deduction or set-off whereof is not allowed under the provisions of the Income Tax Acts, or shows as an expenditure or loss any amount which he has not in fact expended or lost, shall be deemed for the purposes of this subsection to have omitted such amount from his return;

(iii) any tax charged under the provisions of this subsection shall be deemed not to be part of any tax paid or payable for the purposes of the preceding subsections of this section, or of sections 59, 76 and 89 of this Act, or of sections 51 and 52 of the Income Tax Management Act, 1994;

(iv) where the default or omission has been made in connection with a return required by the provisions of the Income Tax Acts to be furnished by another person on behalf of a company, such company shall be liable for the additional tax chargeable under the provisions of this subsection.

(13) The tax upon the chargeable income of any person engaged in the production of petroleum produced in Malta shall be -

(a) where the gains or profits are ascertained as provided in paragraph (i) of the proviso to subsection (1) of section 14 of this Act, at the rate of fifty cents on every lira of such part of his chargeable income as is derived therefrom and at the appropriate rates set out in the other subsections of this section on that part which is not so derived; or

(b) where the gains or profits are ascertained as provided in paragraph (ii) of the proviso to subsection (1) of section 14 of this Act, at the rate of fifty cents on every lira of such part of his chargeable income as is derived therefrom, and at the appropriate rates set out in the other subsections of this section on that part which is not so derived:

Provided that in the case of a Production Sharing Contract signed after 1 January, 1996, the tax shall be charged at the rate stipulated in subsection (6) hereof.

(14) Every person referred to in subsection (13) of this section shall -

(a) in the case of a person referred to in paragraph (a) thereof, have and maintain a permanent office in Malta where all contracts for the sale or disposal of petroleum produced in Malta or of rights and interests pertaining to such petroleum shall be made, and the sale or disposal prices of such petroleum or rights and interests to be used in all accounting documents and in all returns submitted for the purposes of this Act shall not be less than the values attributed thereto for royalty purposes in accordance with the terms of the licence granted to such person under the Petroleum (Production) Act, or under that Act and under the Continental Shelf Act.

(b) in the case of a person referred to in paragraph (b) thereof, have and maintain a permanent office in Malta for the conduct of operations under the licence, contract or other arrangement, as the case may be, and the values to be used by such person in all accounting documents shall, for the purposes of this Act, be established in the manner provided under paragraph (ii) of the proviso to subsection (1) of section 14 of this Act.

(15) Any person engaged in trade or business who derives gains or profits in part from the sale or disposal of petroleum produced in Malta or of rights or interests pertaining to such petroleum and in part from any other trade, business, profession or vocation shall, in respect of the first mentioned part of his trade or business, allocate a separate capital and keep separate books and other records and accounts and shall not pool the accounts of such part of his trade or business with those of his other trade, business, profession or vocation. The accounts of the trade or business, or as the case may be, that part of the trade or business of a person whereof the gains or profits are derived from the sale or disposal of petroleum produced in Malta or of rights and interests pertaining to such petroleum shall be drawn up in accordance with consistent and generally accepted accounting practice.

(16) The provisions of subsection (15) of this section shall apply *mutatis mutandis* to any person operating in Malta under a licence,

contract or other arrangement as is mentioned in paragraph (ii) of the proviso to subsection (1) of section 14 of this Act.

(17) Where, during the year immediately preceding any year of assessment, any individual derives income subject to tax under paragraph (b) of subsection (1) of section 4 of this Act, being emoluments payable under a contract of employment requiring the performance of work or of duties mainly outside Malta, excluding however any service on board a ship, aircraft or road vehicle owned, chartered or leased by a Maltese company and any service for the Government of Malta, and received in respect of work or duties carried out outside Malta, or in respect of any period spent in Malta in connection with such work or duties, or on leave during the carrying out of such work or duties -

(a) notwithstanding anything to the contrary contained in this Act, such income shall be deemed to constitute the last part of that individual's total income for that year and, saving the provisions of paragraph (c) of this subsection, shall not be liable to an amount of tax in excess of -

(i) Lm300 per annum in the case of an unskilled worker;

(ii) Lm450 per annum in the case of a skilled worker;

(iii) Lm500 per annum in the case of a technician; and

(iv) Lm1,000 per annum in the case of an individual rendering managerial or professional services;

(b) in each particular case the Commissioner shall determine in his absolute discretion which of the categories set out in paragraph (a) hereof is applicable;

(c) where the said work or duties are not carried out during the whole year, the maximum amounts applicable under paragraph (a) hereof shall be reduced in the proportion which the period during which the work or duties are so carried out bears to the whole year;

(d) where the tax is reduced in accordance with the provisions of this subsection, it shall be further reduced by the amount of any contribution paid by the individual under the Social Security Act 1987 during the period in which the relative work or duties were carried out.

(18) The tax on the income referred to in subsection (6) of section 4 of this Act shall be at the rate of ten cents on every lira thereof, and, notwithstanding anything to the contrary contained in this Act, no set-off or refund shall be granted to any person in respect of the tax so charged.

(19) Notwithstanding the other provisions of this section, but without prejudice to those of subsection (12), the Minister responsible for finance may, in the interests of economic expediency, direct by notice published in the Gazette, that:

(a) in the case of small assessments charging tax not exceeding an amount specified in the said notice, the assessment shall not be raised; and

(b) in determining the chargeable income and the amount of tax due by any person and in allowing any set-offs, the Commissioner may round up or down any amount to the nearest lira.

PART VIII Tax Rebate

Rebate of tax. **57.** *Repealed by Act XX of 1996*

Further rebate **58.** *Repealed by Act XX of 1996*

PART IX Persons Assessable

Deduction of tax. **59.** (1) Every company resident in Malta shall be entitled to deduct from the amount of any dividend, other than a dividend paid out of distributable profits allocated to the untaxed account and other than a dividend referred to in paragraph (p) of subsection (1) of section 12 of this Act, paid to any shareholder, a tax at the rate paid or payable by the company, relief of double taxation being left out of account, on the income out of which such dividend is paid:

Provided that where tax is not paid or payable by the company on the whole income out of which the dividend is paid, the deduction shall be restricted to that portion of the dividend which is paid out of income on which tax is paid or payable by the company.

(2) Where in respect of any year of assessment the rate of tax chargeable under section 56 upon the chargeable income of a company is increased and any company constituted under the law in force in Malta or resident in Malta has, before the date of the commencement of the enactment imposing the increased rate of tax, deducted from a dividend paid to a shareholder (hereinafter in this subsection referred to as "the original dividend") tax at a rate lower than that paid or payable by the company for that year in respect of the income out of which such dividend is paid, the company shall be entitled -

(a) on the occasion of the next payment of dividend by the company (hereinafter in this subsection referred to as "the next dividend"), to make up from that dividend the amount of such under-deduction in addition to making any other deductions which the company is entitled to make from that dividend, irrespective of whether or not the person who is entitled to the next dividend, is the person who was entitled to the original dividend; or

(b) with the written permission of the Commissioner, to recover from the person to whom the original dividend was paid the amount of such under-deduction (which shall be specified in such written permission) as if such amount were a debt due to the company; and in any proceedings for the recovery of such amount, such written permission shall be evidence of such debt, and proof of the Commissioner's signature upon such written permission shall not be required unless the court for special cause directs otherwise.

(3) Where in respect of any year of assessment any company constituted under the law in force in Malta or resident in Malta has deducted from a dividend paid to a shareholder (hereinafter in this subsection referred to as "the original dividend") tax at a rate higher than that paid or payable by the company for that year in respect of the income out of which such dividend is paid, then, unless the company has paid the amount of such over-deduction in accordance with the provisions of subsection (4), the company shall, on the occasion of the next payment of dividend by the company (hereinafter in this subsection referred to as "the next dividend") make good such amount by a reduction of the amount of tax deducted by the company from that dividend, irrespective of whether or not the person who is entitled to the next dividend is the person who was entitled to the original dividend.

(4) Where any such company has, in paying a dividend to a shareholder, made such an over-deduction as is mentioned in subsection (3), the company shall, within fourteen days from the date of service upon it of the notice of assessment in respect of the income out of which such dividend was paid, render an account to the Commissioner of the amount of such over-deduction and the Commissioner may, at any time after such account has been rendered as aforesaid but before such over-deduction has been made good in

accordance with the provisions of subsection (3), by notice in writing served upon the company, require the company to pay such amount to the Commissioner and such amount shall thereupon become a debt due to the Government, payable within one month from the date of service of such notice, and shall be recoverable as such.

(5) (a) Every company shall upon payment of a dividend, whether tax is deducted therefrom or not, furnish the shareholder with a dividend certificate.

(b) The dividend certificate shall be in such form as the Commissioner shall require and shall show, in respect of the dividend distributed to the particular shareholder, the following information:

(i) the gross amount of the distributed profits, in respect of each account, before deduction of any tax chargeable on the company in respect of such distributed profits;

(ii) the total tax chargeable on the company in respect of the distributed profits, showing separately:

(1) the Malta tax payable after all reliefs of double taxation have been given; and

(2) the foreign tax in respect of which relief of double taxation has been given under the double taxation relief, relief in respect of Commonwealth income tax, and unilateral relief provisions; and

(3) the amount which has been set off against Malta tax pursuant to a claim for relief of double taxation under the flat-rate foreign tax credit provisions;

(iii) the amount of the distributed profits from each account, after deducting the tax referred to in sub-paragraph (ii) of this paragraph;

(iv) the tax payable on distribution pursuant to sections 62, 67 and 67A which shall be shown separately from the tax referred to in sub-paragraph (ii) of this paragraph;

(v) the net amount of the dividend paid to the shareholder;

(vi) where the tax paid or payable by the company on the profits so being distributed is affected by relief of double taxation, the rate, hereinafter in this Act referred to as "the net Malta rate", of the tax

paid or payable by the company after taking relief of double taxation into account;

(vii) where the profits being distributed have been exempt from tax and the distribution of such profits by the company is exempt from tax in the hands of the shareholder, a note quoting the relevant law giving such exemption;

(viii) where the profits being distributed by a company (the first company) include a dividend received from another company (the second company), in respect of which the first company is entitled to make a claim for a refund under subsection (4) of section 48 of the Income Tax Management Act, 1994, in respect of the tax paid thereon by the second company, a statement declaring that the first company is entitled to make such a claim in respect of those distributed profits;

(ix) such other information as the Commissioner shall require.

(6) Every company constituted under the law in force in Malta or resident in Malta shall, upon payment of debenture interest or of interest on any other loan advanced to a company for a capital purpose (excluding interest on customer's deposits and current accounts), deduct therefrom tax at the rate of twenty-five cents on every lira of such interest where such payment is made to a person other than a company, and at the rate chargeable under subsection (6) of section 56 of this Act on such interest where the payment is made to a company, and shall forthwith render an account to the Commissioner of the amount so deducted and every such amount shall be a debt due from such company to the Government payable within one month from the date of payment of such interest and shall be recoverable as such:

Provided that where the Commissioner gives a certificate in writing that to the best of his belief the total income of a recipient will be less than the minimum liable to income tax or, in the case of a person other than a company, such income will be liable to a rate of income tax less than twenty-five per cent, the company shall, until such certificate is cancelled by the Commissioner, pay the debenture interest or interest on any other loan without deduction or deduct tax at such less rate as the case may be.

(7) Every such company shall upon payment of such interest furnish each person to whom such payment is made with a certificate setting forth the amount of the interest paid to him and the amount of the tax which the company has deducted from such interest.

(8) Any account required to be rendered or any certificate required to be furnished under this section shall be rendered or furnished, as the case may be, by the manager or other principal officer of the company.

(9) In this section the expression "relief of double taxation" means any credit or other relief for foreign tax allowable by virtue of the reliefs stipulated in section 74 of this Act.

Set-off tax in certain cases.

60. Any tax which a company has deducted or is entitled to deduct under section 59 of this Act from a dividend paid to a shareholder, from debenture interest payable to a debenture holder or from interest on any other loan payable to a creditor, and any tax applicable to the share to which any person is entitled in the income of a body of persons assessed under this Act, shall, when such dividend or interest or share is included in the chargeable income of such shareholder or person, be set off for the purposes of collection against the tax charged on that chargeable income:

Provided that, notwithstanding anything in this section or in the last preceding section but subject to the following proviso, where a company has deducted tax, the amount of tax actually deducted by a company from any dividend paid by the company to a shareholder shall be set off against the tax due from the recipient of such dividend, irrespective of whether in paying the dividend the company has made an under-deduction or an over-deduction or any adjustment of a previous under-deduction or over-deduction of tax, except where a company has recovered the amount of any under-deduction under the provisions of paragraph (b) of subsection (2) of section 59 in which case a set-off shall be allowed of the amount of tax actually deducted by the company and of the amount of tax recovered by the company under those provisions:

Provided further that no set-off as aforesaid shall be made unless the certificate referred to in subsection (5) or in subsection (7) of section 59 is produced to the Commissioner and unless tax has actually been paid:

Provided also that in no case shall any set-off be made in respect of-

(a) any tax which a company has deducted or is entitled to deduct from any dividend paid to any person who, in virtue of any exemption granted by or under section 12 of the Act, is not chargeable to tax thereon; and

(b) any tax charged on any body of persons under subsection (4) of section 56 of this Act, or under subsections (3) and (4) of section 27 of the Income Tax Management Act, 1994.

Definitions.

61. For the purposes of sections 62 to 69 of the Act:

(i) a "recipient" shall mean:

(a) a person, other than a company, resident in Malta in the year in which a dividend is received by him or by any person on his behalf; or

(b) a non-resident person (including a non-resident company) who is owned and controlled by, directly or indirectly, or who acts on behalf of, a person who is ordinarily resident and domiciled in Malta;

(ii) an "untaxed dividend" shall mean a dividend paid by a company resident in Malta to the extent that it is paid out of distributable profits allocated to its untaxed account.

Tax on dividend from untaxed account.

62. (1) Every company shall, on payment of untaxed dividend to a recipient, deduct therefrom tax at a rate of fifteen percent.

(2) Every amount deducted under subsection (1) of this section shall be a debt due from such company to the Commissioner payable not later than the fourteenth day following the end of the month in which such dividend was paid and shall be recoverable as such:

Provided that the provisions of this section shall not apply in respect of untaxed dividend payments to persons who are exempt from tax.

Presumption of deduction.

63. It shall be presumed, so far as the tax liability of the recipient of a dividend is concerned, that a deduction and payment which ought to have been made pursuant to the provisions of section 62 of this Act have been made.

Where presumption applies.

64. Where the presumption referred to in section 63 of this Act applies:

(a) a recipient of a dividend shall not be obliged to disclose the dividend in any return made pursuant to the provisions of this Act; and

(b) subject to the provisions of section 65 of this Act, no person shall be charged to further tax under this Act in respect of the dividend.

Option for recipients to declare.

65. A recipient of an untaxed dividend may declare such dividend on his tax return and where a declaration is made as aforesaid any tax (or repayment) due shall be determined as if section 64 of this Act did not apply, and any tax withheld pursuant to section 62 of this Act shall be credited against the recipient's income tax liability and, where applicable, shall be available for any refund which may be due in respect of that tax for the relevant year of assessment.

Untaxed dividend paid to non-recipient.

66. Where an untaxed dividend is paid to a person, who is not a recipient as defined under section 61 of this Act, such dividend shall not be charged to tax under this Act in the hands of such person and where such person is not resident in Malta such person shall not be obliged to disclose the existence of the dividend in any return made pursuant to the provisions of the Income Tax Acts.

Payment of dividend out of taxed account or foreign income account.

67. (1) Where a company pays a dividend to a person resident in Malta out of profits allocated to the Maltese taxed account or the foreign income account and which profits have suffered tax at a rate of tax which is less than the rate of tax chargeable applicable at the time of the distribution, under subsection (6) of section 56 of this Act, only by reason of the fact that a different rate of tax was applicable at the time the profits being distributed were chargeable to tax, the company shall deduct tax at a rate equivalent to the difference between the current rate and that actually suffered as aforesaid on the amount of the dividend before deducting any tax which it has suffered on the profits so being distributed:

Provided that the provisions of this subsection shall not apply in respect of such dividend payments to persons who are exempt from tax.

(2) Every amount deducted under subsection (1) of this section shall be a debt due from such company to the Commissioner payable not later than the fourteenth day following the end of the month in which such dividend was paid and shall be recoverable as such.

(3) The provisions of sections 63 to 65 of this Act shall apply *mutatis mutandis* as they apply to distributions from the untaxed account and references in those sections to section 62 shall be construed as references to subsection (1) of this section.

(4) For the purposes of this section a person resident in Malta shall include a non-resident person (including a non-resident company) who is owned and controlled by, directly or indirectly or who acts on behalf of a person who is ordinarily resident and domiciled in Malta.

Profits distributed by a Collective Investment Scheme.

67A. (1) Where a collective investment scheme, which is constituted as a company pays a dividend to a person resident in Malta out of profits allocated to the foreign income account it shall deduct tax at the rate of fifteen percent on the net amount of the dividend, that is after deducting any tax it is entitled to deduct under subsection (1) of section 59 of this Act:

Provided that the provisions of this subsection do not apply in respect of such dividend payments to persons who are exempt from tax.

(2) Where a collective investment scheme, which is not constituted as a company, distributes profits to persons resident in Malta, there shall be deducted tax as if, for the purposes of this section, such a collective

investment scheme is constituted as a company. In this respect tax shall be deducted from every distribution of profits which, had the collective investment scheme been constituted as a company, would have been allocated to either the foreign income account or the untaxed account:

Provided that the provisions of this subsection do not apply in respect of such payments to persons who are exempt from tax.

(3) Every amount deducted under subsections (1) and (2) of this section shall be a debt due from such collective investment scheme to the Commissioner payable not later than the fourteenth day following the end of the month in which the distribution was made and shall be recoverable as such.

(4) Sections 63 to 65 of this Act shall apply *mutatis mutandis* in the circumstances set out in subsections (1) and (2) of this section as they apply to distributions from the untaxed account. References in those sections to section 62 shall be construed as references to subsection (1) or (2) of this section, as the case may be, and references to dividend or untaxed dividend shall be construed as a reference to profits distributed by a collective investment scheme where the context so requires.

(5) For the purposes of section 61 and of subsections (1) and (2) of this section, in the case of a collective investment scheme which is exempt from tax under paragraph (s) of subsection (1) of section 12 of this Act, the profits which would be allocated to the Maltese taxed account had such a collective investment scheme not been so exempt, shall, notwithstanding any other provision contained in this Act, be so allocated:

Provided that if such profits would have been allocated to the foreign income account had the collective investment scheme not been exempt from tax and not been excluded from allocating profits to its foreign income account, such profits shall, for the purposes of this subsection, not be allocated to the Maltese taxed account but shall be allocated to the untaxed account.

(6) For the purposes of this section a person resident in Malta shall include a non-resident person (including a non-resident company) who is owned and controlled by, directly or indirectly, or who acts on behalf of a person who is ordinarily resident and domiciled in Malta.

No obligation to disclose.

68. (1) (a) Any person who is not resident in Malta or any individual who is resident in Malta and who is in receipt of a dividend paid out of the distributable profits allocated to the foreign income account or to the Maltese taxed account shall not be obliged to disclose the existence of such dividend in any return made pursuant to the provisions of the Income Tax Acts.

(b) No person shall be charged to further tax under this Act in respect of the income referred to in paragraph (a) of this subsection.

(2) (a) Any person, not being a company resident in Malta, shall not be obliged to disclose in any return made pursuant to the provisions of the Income Tax Acts those profits distributed by a collective investment scheme not constituted as a company, where such profits would have been allocated to the foreign income account or to the Maltese taxed account, had the collective investment scheme been constituted as a company.

(b) No person shall be charged to further tax under this Act in respect of the profits referred to in paragraph (a) of this subsection.

Extent of liability.

69. Where any person fails to deduct and pay tax in accordance with the provisions of sections 62, 67 and 67A of this Act, the provisions of subsection (4) of section 73 of this Act and the provisions of subsection (1) of section 40 of the Income Tax Management Act, 1994, shall *mutatis mutandis* apply.

Chargeability of trustees, etc.

70. (1) A receiver, trustee, guardian, tutor, curator, judicial sequestrator or committee, having the direction, control or management of any property or concern on behalf of any person shall be chargeable to tax in respect of income derived from such property or concern in like manner and to the like amount as such person would be chargeable if he had received such income, and every such receiver, trustee, guardian, tutor, curator, judicial sequestrator or committee shall be answerable for doing all matters and things required to be done under this Act for the purposes of assessment and payment of tax:

Provided that nothing in this section shall affect the liability of any person represented by any such receiver, trustee, guardian, tutor, curator, judicial sequestrator or committee to be himself charged to tax in his own name.

(2) Any person who is entrusted with the management or administration of any property referred to in section 30 of this Act, or of any foundation, bequest, trust, institution or other organization or body of persons referred to in paragraph (b) of subsection (4) of section 56 of this Act, or who is in receipt of income on their behalf, shall, for the purposes of subsection (1) of this section, be deemed to be a trustee in respect of that property or income.

Deceased persons.

71. Where any individual dies during the year preceding the year of assessment and such individual would but for his death have been chargeable to tax for the year of assessment or where any individual dies during the year of assessment or within five years after the expiration thereof and he has not been assessed or has been assessed at a lesser amount than that which ought to have been charged for the year of assessment, the heirs or the legal representative of such individual shall be liable to and charged with the payment of the tax with which such individual would have been chargeable and shall jointly and severally be answerable for doing all such acts, matters and things as such individual if he were alive would be liable to do under this Act. In the case of any individual dying during the year preceding the year of assessment, if his estate is distributed before the commencement of the year of assessment, the heirs or such legal representative shall pay the tax at the rate or rates in force at the time of his death.

Joint trustees.

72. Where two or more persons act in the capacity of trustees of a trust, they may be charged jointly or severally with the tax with which they are chargeable in that capacity and shall be jointly and severally liable for payment of the same.

Income paid to non-residents.

73. (1) Where any person pays to a person not resident in Malta, or to a person resident in Malta on behalf of a non-resident person, any income chargeable to tax under the provisions of this Act, he shall upon paying such income, unless he is himself liable to pay tax thereon under the provisions of section 5 of the Income Tax Management Act, 1994, deduct tax therefrom:

(a) at the rate of twenty-five cents in the lira where payment is made to or on behalf of any non-resident person other than a company; and

(b) at the rate chargeable under subsection (6) of section 56 of this Act where payment is made to or on behalf of a non-resident company:

Provided that the Commissioner may, by notice in writing given to any person who is required to effect a deduction of tax in accordance with the foregoing provisions of this section, authorise such person to deduct tax at a rate lower than that hereinbefore mentioned, or to pay such income without any deduction of tax:

Provided further that the provisions of this subsection shall not apply to income from which tax has been deducted under the provisions of section 59 of this Act or under the provisions of section 23 of the Income Tax Management Act, 1994.

(2) Any amount of tax deducted from income in accordance with the provisions of subsection (1) of this section shall be a debt due to the

Government by the person effecting the deduction as aforesaid, payable within thirty days from the making of the deduction, and such amount shall be accounted for and remitted to the Commissioner within the said period.

(3) Deductions of tax made under the provisions of subsection (1) of this section shall, when paid to the Commissioner as provided in subsection (2) of this section, be set off for the purposes of collection, against the tax charged on the non-resident person in respect of the relative income. Any excess shall be refunded in accordance with the provisions of section 48 of the Income Tax Management Act, 1994.

(4) Where any person fails to deduct tax in accordance with the provisions of this section or, after deducting such tax, fails to pay it to the Commissioner within the period mentioned in subsection (2) of this section -

(a) such person shall be chargeable with the tax which should have been deducted or paid as aforesaid and, in addition, with twice the amount of such tax;

(b) the tax and additional tax shall be recoverable from the said person in the same manner as other tax assessed and charged upon him under this Act;

(c) a notice given by the Commissioner to any person and stating the tax which was due to be deducted or paid by him as aforesaid and any additional tax to which he became liable for having failed to deduct or pay the tax shall, unless the contrary is proved, be sufficient evidence that the amount shown in the said notice is the amount due to be paid to the Commissioner by the said person;

(d) the Commissioner may in his discretion remit wholly or in part any additional tax chargeable under the provisions of this subsection;

(e) additional tax charged under this subsection shall be borne by the person required to deduct or pay the tax and shall not be recoverable by such person, whether wholly or in part, from the person receiving the income;

(f) additional tax charged under the provisions of this subsection shall not be deemed to be part of any tax paid or payable for the purposes of sections 59, 76 and 89 of this Act and sections 42, 51 and 52 of the Income Tax Management Act, 1994.

PART X

Relief of Double Taxation

Four reliefs of double taxation.

74. There shall be four types of reliefs of double taxation, namely:

(a) double taxation relief, as provided in sections 76 to 78, both inclusive, of this Act;

(b) unilateral relief, as provided in sections 79 to 88, both inclusive, of this Act;

(c) relief in respect of Commonwealth income tax, as provided in section 89 of this Act; and

(d) a flat-rate foreign tax credit, as provided in sections 92 to 95, both inclusive, of this Act.

Interaction of the reliefs.

75. In respect of any claim for relief of double taxation:

(a) the provisions concerning unilateral relief shall be applied in calculating a person's tax liability in those cases where, subject to the provisions of subsection (2) of section 82 of this Act, double taxation relief and relief in respect of Commonwealth income tax are not available to the person making the claim; and

(b) the provisions concerning the flat-rate foreign tax credit shall be applied in calculating a person's tax liability only in those cases where double taxation relief, relief in respect of Commonwealth income tax and unilateral relief, as governed by sections 79 to 88 of this Act, are not available to the person making the claim.

Double taxation arrangements.

76. (1) If the Minister responsible for finance by order declares that arrangements specified in the order have been made with the Government of any territory outside Malta with a view to affording relief from double taxation in relation to income tax and any tax of a similar character imposed by the laws of that territory, and that it is expedient that those arrangements should have effect, the arrangements shall have effect in relation to income tax notwithstanding anything in any enactment:

Provided that no arrangement as aforesaid made after 1st October, 1968 shall have effect in so far as it applies to tax paid or payable in respect of gains or profits chargeable at the rate provided for in subsection (13) of section 56 of this Act:

Provided further that no arrangement shall have effect insofar as it applies to a collective investment scheme which is exempt from tax under the provisions of paragraph (s) of subsection (1) of section 12 of this Act and which collective investment scheme has not exercised its right of waiver of exemption under the provisions of subsection (5) of section 12 of this Act.

(2) On the making of an order under this section with respect to arrangements relating to any territory forming part of the Commonwealth, section 89 of this Act shall cease to have effect as regards that territory except in so far as the arrangements otherwise provide.

(3) An order made under this section may be revoked by a subsequent order.

(4) The Minister responsible for finance may make rules for carrying out the provisions of any arrangements having effect under this section.

Tax credits.

77. (1) The provisions of this section shall have effect where, under arrangements having effect under section 76 of this Act, tax payable in respect of any income in the territory with the Government of which the arrangements are made is to be allowed as a credit against tax payable in respect of that income in Malta; and in this section the expression "foreign tax" means any tax payable in that territory which under the arrangements is to be so allowed and the expression "income tax" means tax charged on the chargeable income at the rates laid down in Part VII of this Act.

(2) The amount of the income tax chargeable in respect of the income shall be reduced by the amount of the credit:

Provided that credit shall not be allowed against income tax for any year of assessment unless the person entitled to the income is resident in Malta for the year immediately preceding the year of assessment.

(3) The credit shall not exceed the amount which would be produced by computing the amount of the income in accordance with the provisions of this Act and then charging it to income tax at a rate ascertained by dividing the income tax chargeable (before allowance of credit under any arrangements having effect under section 76 of this Act) on the total income of the person entitled to the income by the amount of his total income.

(4) Without prejudice to the provisions of the preceding subsection, the total credit to be allowed to a person for any year of assessment for foreign tax under all arrangements having effect under section 76 of this Act shall not exceed the total income tax payable by him for that year of assessment, less any tax payable by him under the provisions of sections 40, 69 and 73 of this Act.

(5) In computing the amount of the income -

(a) no deduction shall be allowed in respect of foreign tax (whether in respect of the same or any other income);

(b) where the income tax chargeable depends on the amount received in Malta the said amount shall be increased by the appropriate amount of the foreign tax in respect of the income;

(c) where the income includes a dividend and under the arrangements foreign tax not chargeable directly or by deduction in respect of the dividend is to be taken into account in considering whether any, and if so what, credit is to be given against income tax in respect of the dividend, the amount of the income shall be increased by the amount of the foreign tax not so chargeable which falls to be taken into account in computing the amount of the credit.

(6) Paragraphs (a) and (b) of the preceding subsection (but not the remainder thereof) shall apply to the computation of total income for the purposes of determining the rate mentioned in subsection (3) of this section, and shall apply thereto in relation to all income in the case of which credit falls to be given for foreign tax under arrangements for the time being in force under section 76 of this Act.

(7) Where -

(a) the arrangements provide, in relation to dividends of some classes, but not in relation to dividends of other classes, that foreign tax not chargeable directly or by deduction in respect of dividends is to be taken into account in considering whether any, and if so what, credit is to be given against income tax in respect of the dividends, and

(b) a dividend is paid which is not of a class in relation to which the arrangements so provide, then, if the dividend is paid to a company which controls, directly or indirectly, not less than one-half of the voting power in the company paying the dividend, credit shall be allowed as if the dividend were a dividend of a class in relation to which the arrangements so provide.

(8) Credit shall not be allowed under the arrangements against income tax chargeable in respect of the income of any person for any year of assessment if he elects that credit shall not be allowed in the case of his income for that year.

(9) Any claim for an allowance by way of credit shall be made not later than two years after the date on which the assessment in respect of which it is made has become final and conclusive, and in the event of any dispute as to the amount allowable the claim shall be subject to objection and appeal in like manner as an assessment.

(10) Where the amount of any credit given under the arrangements is rendered excessive or insufficient by reason of any adjustment of the amount of any tax payable either in Malta or elsewhere, nothing in this

Act limiting the time for the making of assessments or claims for relief shall apply to any assessment or claim to which the adjustment gives rise, being an assessment or claim made not later than two years from the time when all such assessments, adjustments and other determinations have been made, whether in Malta or elsewhere, as are material in determining whether any, and if so what, credit falls to be given.

Dividends and tax credits.

78. (1) Where the tax paid or payable by a company is affected by double taxation relief the amount to be set off under section 60 of this Act or to be repaid under section 48 of the Income Tax Management Act, 1994, in respect of the tax deductible from any dividend paid by the company, shall be reduced as follows:

(a) if no tax is chargeable on the recipient in respect of the dividend, the reduction shall be an amount equal to tax on the gross dividend at the rate of double taxation relief applicable thereto;

(b) if the rate of tax chargeable on the recipient in respect of the dividend is less than the rate of double taxation relief applicable to the dividend, the reduction shall be an amount equal to tax on the gross dividend at the difference between those two rates.

(2) For the purposes of this section -

(a) if the income of the person chargeable includes one dividend such as is mentioned in the preceding subsection, that dividend shall be deemed to be the highest part of his total income;

(b) if his income includes more than one such dividend, a dividend shall be deemed to be a higher part of his total income than another dividend if the net Malta rate applicable to the former dividend is lower than that applicable to the latter dividend;

(c) where tax is chargeable at different rates in respect of different parts of any such dividend, or where tax is chargeable in respect of some part of any such dividend and is not chargeable in respect of some other part thereof, each part shall be deemed to be a separate dividend;

(d) the expression "double taxation relief" has the same meaning as in section 59 of this Act and the expression "the rate of double taxation relief" means the rate which represents the excess of the rate of tax deductible from the dividend over the net Malta rate applicable thereto.

Unilateral relief.

79. In this Act the phrase "unilateral relief" means the relief given pursuant to the provisions of sections 80 to 88 of this Act, and in those sections the phrase "income tax" shall have the meaning attributed to it in subsection (1) of section 77 of this Act.

Availability of unilateral relief.

80. Unilateral relief may be available in respect of a claim for relief of double taxation where tax under this Act is computed by reference to income which:

(a) arises outside Malta; and

(b) is subject to any tax of a similar character to that imposed under the Income Tax Acts under the laws of a territory outside Malta.

For the purposes of paragraph (b) of this section, a tax shall not be prevented from being of a similar character by reason only that it is payable under the law of a province, state or other part of a country, or is levied by or on behalf of a municipality or other local body.

Relief by way of credit.

81. The amount of the tax referred to in paragraph (b) of section 80 of this Act which is payable in a territory other than Malta is to be allowed as a credit against the income tax chargeable in Malta in respect of the income under section 80 of this Act, and the amount of the income tax so chargeable shall be reduced by the amount of the credit:

Provided always that the credit shall not be allowed against income tax for any year of assessment unless the person entitled to the income is resident in Malta for the year immediately preceding the year of assessment.

Credit for the underlying tax.

82. (1) The provisions concerning unilateral relief shall, when applied in respect of a company as described in subsection (2) of this section and where the income under section 80 of this Act includes a dividend, have effect so that tax not chargeable directly or by deduction in respect of the dividend shall be deemed to fall under the provisions of paragraph (b) of section 80 of this Act and shall be taken into account in computing the credit to be given against income tax in respect of the dividend.

(2) The provisions of this section shall apply to a company if it controls, directly or indirectly, not less than ten percent of the voting power in the company paying the dividend and where credit for underlying tax is not otherwise available under the provisions of section 77 of this Act.

Limitation on the credit.

83. The credit given under section 81 of this Act shall not exceed the amount which would be produced by computing the income of a person in accordance with the provisions of this Act and then charging it to income tax at a rate ascertained by dividing the income tax chargeable (before allowance of credit pursuant to section 81 of this Act) on the total income of the person entitled to it, by his total income.

Amount of total credit.

84. Without prejudice to the provisions of section 87 of this Act, the total credit to be allowed pursuant to section 81 of this Act to a person for any year of assessment shall not exceed the total income tax payable by him for that year of assessment, less any tax payable by him for that year of assessment under the provisions of sections 40, 69 and 73 of this Act.

Computation of income.

85. In computing the amount of the income for purposes of unilateral relief:

(a) no deduction shall be allowed in respect of tax paid and referred to in paragraph (b) of section 80 of this Act, whether in respect of the same or any other income;

(b) where the income chargeable depends on the amount received in Malta the said amount shall be increased by the appropriate amount of the tax paid and referred to in paragraph (b) of section 80 of this Act in respect of the income;

(c) where the income includes a dividend and, in determining the amount of credit to be given under section 81 of this Act, credit is given for tax which is not chargeable directly or by deduction under section 82 of this Act, the amount of the income shall be increased by the amount of that credit.

Applicability of section 85.

86. The provisions of paragraphs (a) and (b) of section 85 shall apply to the computation of total income for the purposes of determining the rate of tax referred to in section 83 of this Act.

Dividends and tax credits, etc.

87. The provisions of subsections (8), (9) and (10) of section 77 and of section 78 of this Act shall apply *mutatis mutandis* in relation to unilateral relief as they apply to double taxation relief.

No relief without proof.

88. Unilateral relief shall not be available to a person unless that person has proved to the satisfaction of the Commissioner that the income referred to in the provisions of paragraph (a) of section 80 of this Act has borne tax under the provisions of paragraph (b) of section 80 of this Act and has proved the amount of that tax.

Relief in respect of
Commonwealth income tax.

89. (1) If any person resident in Malta who has paid, by deduction or otherwise, or is liable to pay, tax under this Act for any year of assessment on any part of his income, proves to the satisfaction of the Commissioner that he has paid, by deduction or otherwise, or is liable to pay, Commonwealth income tax for that year in respect of the same part of his income, he shall be entitled to relief from tax in Malta paid or payable by him on that part of his income at a rate thereon to be determined as follows:

(a) if the Commonwealth rate of tax does not exceed one-half of the rate of tax appropriate to his case under this Act in Malta, the rate at which relief is to be given shall be the Commonwealth rate of tax;

(b) in any other case the rate at which relief is to be given shall be half the rate of tax appropriate to his case under this Act.

(2) If any person not resident in Malta who has paid, by deduction or otherwise, or is liable to pay, tax under this Act for any year of assessment on any part of his income, proves to the satisfaction of the Commissioner that he has paid, by deduction or otherwise, or is liable to pay, Commonwealth income tax for that year of assessment in respect of the same part of his income, he shall be entitled to relief from tax paid or payable by him under this Act on that part of his income at a rate thereon to be determined as follows:

(a) if the Commonwealth rate of tax appropriate to his case does not exceed the rate of tax appropriate to his case under this Act, the rate at which relief is to be given shall be one-half of the Commonwealth rate of tax;

(b) if the Commonwealth rate of tax appropriate to his case exceeds the rate of tax appropriate to his case under this Act, the rate at which relief is to be given shall be equal to the amount by which the rate of tax appropriate to his case under this Act exceeds one-half of the Commonwealth rate of tax.

(3) For the purposes of this section, "Commonwealth income tax" means any income tax or tax of a similar nature charged under any law in force in any country of the Commonwealth, other than Malta or the United Kingdom of Great Britain and Northern Ireland, if the legislature of such country has provided for relief in respect of tax charged on income both in that country and in Malta in a manner which appears to the Commissioner to correspond to the relief granted by this section.

(4) For the purposes of this section, the expression "rate of tax" when applied to tax paid or payable under this Act means the rate determined by dividing the amount of tax paid or payable for the year (before the deduction of any relief granted under this section) by the amount of the income in respect of which the tax paid or payable under this Act has been charged for that year, except that where the income which is the subject of a claim to relief under this section is computed by reference to the provisions of this Act on an amount other than the ascertained amount of the actual profits, the rate of tax shall be determined by the Commissioner.

(5) Where a person is for any year of assessment resident both in Malta and in a part, place or territory in which Commonwealth income tax

is charged, he shall for the purposes of this section be deemed to be resident where during that year he resides for the longer period.

(6) Any claim for relief under this section shall be made not later than two years after the date on which the assessment in respect of which it is made has become final and conclusive.

(7) The provisions of this section shall not apply to tax paid or payable in respect of gains or profits chargeable at the rate provided for in subsection (13) of section 56 of this Act.

Relief in respect of Bearer
Accounts Levy.

90. (1) If it be proved to the satisfaction of the Commissioner that any person has paid levy in any year in respect of any bearer account under the Bearer Accounts Levy Act, the tax chargeable under this Act on the interest accruing or derived from such account for that year shall be reduced by the amount of the said levy.

(2) For the purposes of the reduction granted by subsection (1) hereof, the interest on any bearer account shall be deemed to be the highest part of the total income of the assessment in which such interest is brought to charge to tax.

Tax on part-time work.

90A. (1) With effect from the 1st day of January 1996, where an individual is receiving full-time instruction at a university, college or other similar educational institution or was serving an apprenticeship with a view to qualifying in a trade or calling, or where an individual has income in his own right falling under paragraph (b) or (d) of subsection (1) of section 4 of this Act, and has during the year immediately preceding the year of assessment other income from such part-time work as may be prescribed, he shall subject to the other provisions of this section pay tax at the rate of 15 cents on every lira of such other income, and he shall not be required to declare any such other income, in any return made pursuant to the Income Tax Acts:

Provided that where the other income derived from part-time work is income as is described in paragraph (a) of subsection (1) of section 4 of this Act, the provisions of this section shall apply with respect to that other income only up to such limit as may be prescribed.

(2) Notwithstanding the provisions of subsection (1) of this section an individual may declare all his income from part-time work together with the rest of his income in his return made in accordance with the Income Tax Acts, and he will be charged tax on all his income in accordance with the provisions of paragraph (a) or (b) (as the case may be) of subsection (1) of section 56 of this Act, and in any such case any tax paid on such other income in accordance with this section shall be available as a credit against the individual's tax liability and where any tax so paid is in excess of such liability, it shall be refunded.

(3) Notwithstanding the provisions of subsection (1) of this section an individual, whose projected total income for a calendar year, including income derived from part-time work, is not expected to exceed such sum over which he would become liable to tax, may, if the income from part-time work falls under the description in paragraph (b) of subsection (1) of section 4 of this Act, at any time of the year by notice in writing on the prescribed form, direct the employer with whom he is performing part-time work not to deduct tax on his income from part-time work. Such notice shall be valid only up to the end of the calendar year in which it is given.

(4) For the purposes of subsection (3) hereof where an individual's annual wages or salary from his full time employment exceeds such amount over which he would become liable to tax, or where in the previous year his total income rendered him liable to tax, his projected total income for the relevant year will be expected to exceed such sum over which he would become liable to tax.

(5) Where the total income of an individual who has given notice as is provided in subsection (3) of this section, during the year in which the said notice has been given reaches such sum as would render such individual liable to tax, such individual shall inform the Commissioner accordingly on the prescribed form and if he elects to pay tax on his other income derived from part-time work in accordance with the provisions of subsection (1) of this section he shall direct his employer to deduct tax at the rate of 15 cents in the lira, and furthermore, where he elects to pay tax on his other income derived from part-time work in accordance with the provisions of subsection (1) of this section he shall either -

(a) direct his employer to make such further deductions from his income so that the tax due in accordance with subsection (1) of this section on all income deriving from part-time work as aforesaid is so deducted by the 31st December of that year; or

(b) pay such tax due to the Commissioner by not later than the 31st December of the year.

(6) Where an employer who in accordance with this section is to deduct tax at 15 cents in the lira fails for any reason to deduct such tax it shall be the duty of the individual from whose income such deduction is to be made to inform the Commissioner accordingly and to make payment of the tax due directly to the Commissioner:

Provided that the employer shall still remain liable for any liability under subsection (4) of section 23 of the Income Tax Management Act, 1994.

(7) (a) Where the income from part-time work is income falling under paragraph (b) of subsection (1) of section 4 of this Act, the person paying the income shall, at the time of payment, unless otherwise

directed in accordance with subsection (3) of this section and in accordance with the provisions of section 23 of the Income Tax Management Act, 1994, deduct tax at the rate of 15 cents in the lira, and any tax so deducted shall be remitted to the Commissioner accordingly.

(b) Where the income from part-time work is income falling under paragraph (a) of subsection (1) of section 4 of this Act, the individual shall pay to the Commissioner an amount equivalent to 15 cents for every lira of the income from part-time work in such manner as may be prescribed in accordance with the provisions of section 42 of the Income Tax Management Act, 1994, where applicable.

(8) Where an individual who is to pay tax on part-time work at the rate of 15 cents in the lira as provided in subsection (1) of this section, fails to pay such tax on all his income from part-time work subject to such tax by the end of the year, all the income from part-time work shall be added with the rest of the individual's income and tax shall be assessable thereon in accordance with the provisions of section 56 of this Act.

(9) In the case of a married couple the provisions of this section shall apply to either or each of the spouses where such spouse is receiving full-time instruction or is serving an apprenticeship or has income in his or her own right as described in subsection (1) of this section and has other income from part-time work as therein described.

(10) Where an individual declares that income is derived from part-time work and the Commissioner has reason to believe that such income was derived from an activity which is not on a part-time basis or is the individual's normal activity or is ancillary thereto, the Commissioner shall consider such income as not qualifying to be subject to tax under subsection (1) of this section and shall assess it as if the foregoing provisions of this section did not apply thereto, and any tax remitted in respect of such income shall be available as a credit against the individual's tax liability for the relevant year of assessment and where any tax so remitted is in excess of such liability it shall be refunded.

Computation of certain tax reductions.

91. Where through the operation of the provisions of sections 56, 78 and 90 of this Act a part of the income subject to tax falls to be deemed the last part of the total income and the total income in respect of any year of assessment includes more than one such part to be so deemed, the provisions of section 78 shall have precedence over the provisions of section 56 and the provisions of either of these two sections shall have precedence over those of section 90, as the case may be.

Flat-rate foreign tax credit.

92. For the purposes of the Income Tax Acts, the flat-rate foreign tax credit shall be a credit given in respect of income or gains:

(a) which are receivable by a company resident in Malta; and

(b) which fall to be allocated to the foreign income account as defined in section 2 of this Act, but excluding profits resulting from dividends paid out of the foreign income account of another company resident in Malta; and

(c) in respect of which documentary evidence is available which indicates to the satisfaction of the Commissioner that such income or gains, as the case may be, fall to be allocated to the foreign income account as provided in paragraph (b) of this section. For the purposes of this requirement, a certificate issued by a certified public accountant and auditor shall be satisfactory documentary evidence.

Amount of flat-rate foreign tax credit.

93. (1) The flat-rate foreign tax credit shall be twenty-five percent of the income or gains receivable by the company within the provisions of section 92 of this Act, before any deductions or payments whatsoever are made from the said income or gains.

(2) In the case of income comprising dividends, capital gains, interest, royalties, rents and other income which are receivable by a company resident in Malta and derived, where applicable, from investments situated outside Malta, the flat-rate foreign tax credit shall be computed on the amount receivable, after deducting any foreign tax (charged directly or by way of withholding) but before any other deductions or payments whatsoever are made.

Operation of the flat-rate foreign tax credit.

94. (1) Where the flat-rate foreign tax credit is due in respect of the income or gains referred to in section 92 of this Act, it shall be added to the said income or gains. The aggregate sum so obtained shall be the amount that is chargeable to tax.

(2) For a year of assessment in respect of the income computed in accordance with the provisions of subsection (1) of this section, the amount of tax payable under this Act shall be reduced by the amount of the flat-rate foreign tax credit due in respect of that income:

Provided that where the amount of the flat-rate foreign tax credit exceeds eighty-five percent of the tax payable computed by taking the tax payable on those profits which are to be allocated to the foreign income account and deducting therefrom any foreign tax set-off under the double taxation relief, Commonwealth income tax relief and unilateral relief provisions, the amount of such excess shall not be available for set-off or refund for any purposes of the Income Tax Acts.

(3) The provisions of subsections (8), (9) and (10) of section 77 and of section 78 of this Act shall apply *mutatis mutandis* in relation to the flat-rate foreign tax credit as they apply to double taxation relief.

Anti-avoidance provisions.

95. Where, in the opinion of the Commissioner, a series of transactions is effected with the sole or main purpose of reducing the amount of tax payable by any person by reason of the operation of the flat-rate foreign tax credit provisions as contained in sections 92 to 94 of this Act, such a person shall be assessable as if the provisions did not apply.

For the purposes of this section, a series of transactions shall mean any two or more corresponding or circular transactions carried out by the same person, either directly or indirectly, as the case may be.

PART XI
Power to make rules

Power to make rules.

96. The Minister responsible for finance may from time to time make rules generally for carrying out the provisions of this Act and for such matters as are authorised by this Act to be prescribed.