

Lecture 3

Tax & National Insurance Part 1



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What is National Insurance?

- Under the Social Security Act any contract of service or apprenticeship, written or oral, whether expressed or implied, by or under the Government of Malta, is insurable employment. The term "gainfully occupied" also refers to a person who is employed in insurable employment or is self occupied.

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What is National Insurance?

- There can only be one insurable employment at the same time, and in case of more than one concurrent employments, the insurable employment will be that which provides the highest income or earnings.



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What is National Insurance?

- Insurable employments are classified into 3 categories:
 1. Employed Persons (employed with a provider of employment or employer);
 2. Self Occupied Persons; and
 3. Self Employed Persons.



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Self Employed vs Self Occupied

- The term Self-Employed as referred to in the Social Security Act and its meaning differ to the way we use them in normal conversation.
- Strictly speaking, the terms 'self-employed person' or a 'self-occupied person' both refer to a person who
- is not an employee working for an employer;
- derives income of more than €910 per annum from an activity;
- pays class (II) social security contributions.
- Normally, the term self-employed is referred to anybody who works for himself/herself. It is the type of activity that differs.

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Self Employed vs Self Occupied

Self Occupied Persons – persons who earn income from Trade, Business, Profession, Vocation or any other economic activity that exceeds €910 per annum.

Self Employed Persons – persons who receive income from rents, investments, capital gains or any other passive income (the person is not actively involved, yet there are incoming earnings)

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Self Employed vs Self Occupied

Both pay class II social security contributions



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Social Security Contributions

All persons who are over the age of sixteen (16) and who have not yet attained retirement age of 65 years, and who are in insurable employment, are liable to pay Social Security Contributions. Social Security contributions are paid in weekly rates, and each year of gainful occupation will carry 52 or 53 social security contributions (depending on the annual number of Mondays) on the payee's contribution record.



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Employed Person

Employed Persons who are not excepted under Part II of the First Schedule of the Social Security Act, shall be liable to pay Class 1 Social Security Contributions with applicable contribution rates according to Part I of the Tenth Schedule of the Social Security Act.

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Employed Person

All full-time or part-time employees who are employed for less than eight (8) hours in any one calendar week are not considered as being in insurable employment for Social Security Contribution purposes.

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Employed Person

Social Security Contributions by Employed persons are called Class 1 Contributions and are paid by direct deductions from the same employees' wages/salary. In a normal case scenario, an equivalent rate paid or deducted from the employee's wage/salary, is also paid by the employer.

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Employed Person

The Social Security Contribution rate due is based on earning derived from the Basic Weekly Wage. The basic weekly wage does not include allowances, bonuses, and/or overtime earned in a particular week.

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Employed Person

Part-time employees who therefore work less than 40 hours per week and who earn less than the National Minimum (weekly) Wage, can opt to have their share on social security contributions, paid at the rate of 10% of their basic weekly wage. This contribution rate is called the Pro-rata rate and does not apply to the employer's share who has to pay the full applicable weekly rate. One should also consider that when paying social security contributions by 10% pro-rata, these will not be considered as one contribution per week for records purposes, but carry a lesser albeit proportional weight against the applicable full weekly rate.

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Employed Person

Both employer and employee's share of social security contributions are paid to the Commissioner of Inland Revenue in monthly payments by the employer..

<https://cfr.gov.mt/en/rates/Pages/SSC2/SSC2-2021.aspx>

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Class 1 Social Security Contributions

Category	Description
A	Persons under 18 years of age earning not more than the amount indicated below.
B	Persons aged 18 and over, earning not more than the amount indicated below.
C	All persons whose basic weekly wage is between the amounts indicated below.
D	All persons whose basic weekly wage is equal to or exceeds the amount indicated below.
E	Students* under 18 years of age.
F	Students* 18 years old and over.

*Students who are following a full-time course of studies or instruction under the Student/Worker Scheme, or other similar schemes (including the Extended Skills Training Schemes, but excluding the Worker-Student Schemes) involving distinct work and study periods for which they are receiving remuneration.

2021

Category	Basic Weekly Wage ¹ €		Weekly Rate Payable ² €			
	From	To	by Employee	by Employer	Total	Maternity
A	0.10	181.08	6.62	6.62	13.24	0.20
B	0.10	181.08	18.11*	18.11	36.22	0.54

¹Or if the employer chooses, 10% of the basic weekly wage. This rate of contribution entitles the contributor to pre-rate contributory benefits.

Persons born up to 31st December 1961						
C	181.09	372.35	10%	10%	n/a	0.30%
D	372.36	n/a	37.24	37.24	74.48	1.12

Persons born from 1st January 1962 onwards						
C	181.09	485.73	10%	10%	n/a	0.30%
D	485.74	n/a	48.57	48.57	97.14	1.46

E	n/a	n/a	10% Max.4.38	10% Max.4.38	n/a	0.3% Max.0.13
F	n/a	n/a	10% Max.7.94	10% Max.7.94	n/a	0.3% Max.0.24

¹ Basic Weekly Wage or the weekly equivalent of the basic monthly salary
² For percentage rates, the weekly rate payable is calculated to the nearest cent



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Self Occupied Persons

A self-occupied person is one who:

- is not an employed person;
- is excepted under Part II of the First Schedule of the Social Security Act;
- is engaged in any activity through which earnings exceeding €910 *per annum* are being derived.

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Self Occupied Persons

Social Security Contributions by Self Occupied persons are called Class 2 Social Security Contributions with applicable contribution rates according to Part III of the Tenth Schedule of the Social Security Act.

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Self Occupied Persons

- Full-time or part-time employees who are employed for less than eight (8) hours per week but earn more than €17.50 per week (€910 per annum); are considered as Self Occupied persons for Social Security Contribution purposes.
- The Social Security Contribution rate due is based on income derived from the net annual income from trade or profession; earned during the previous calendar year of that of payment.

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Self Occupied Persons

- Full-time or part-time employees who are employed for less than eight (8) hours per week but earn more than €17.50 per week (€910 per annum); are considered as Self Occupied persons for Social Security Contribution purposes.
- The Social Security Contribution rate due is based on income derived from the net annual income from trade or profession; earned during the previous calendar year of that of payment.

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Self Occupied Persons

- Self occupied persons' social security contributions are paid to the Commissioner of Inland Revenue every four months; namely in April, August and December respectively.

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Class 2 Social Security Contributions

Class Two Contributions are to be paid by all individuals who derive income of more than €910 from an economic activity and who are not employed.

The Social Security Act defines two categories of persons that are required to pay Class 2 Contributions as follows:

Self Occupied Persons - persons who earn income from Trade, Business, Profession, Vocation or any other economic activity that exceeds €910 per annum.

Self Employed Persons - persons who receive income from rents, investments, capital gains or any other income.

Rates for Class Two Social Security Contributions are based on the annual net profit or income for the year preceding the contribution payment year.

2021						
Annual Net Income €			Applies To			
Category	From	To	Weekly Rate	Full Time Farmers ⁽¹⁾	Self Employed	Self Occupied
SP ^a	1,006	9,296	26.82	n/a	✓	✗
<small>The SP rate applies only to single persons who are not self occupied.</small>						
SA	910	10,757	31.03 ⁽¹⁾	20.69	✓	✓
<small>€31.03 or 15% of the annual net earnings if the person is a part-time self-occupied woman or a full-time student who has not reached the age of 24 who is a part-time self-occupied person or a pensioner who is a part-time self-occupied person whose annual net earnings do not exceed €10,757 (see NOTE 1 at the bottom of the page).</small>						
Persons born up to 31st December 1961						
SB	10,758	19,362	15%	10%	✓	✓
SC	19,363	n/a	55.85	37.23	✓	✓
Persons born from 1st January 1962 onwards						
SB	10,758	25,258	15%	10%	✓	✓
SC	25,259	n/a	72.86	48.57	✓	✓
<small>⁽¹⁾ If the insured person elects to pay a contribution that is less than €31.03, such contribution may, if the person qualifies for a contributory benefit or a contributory pension, result in the payment of a reduced contributory benefit or contributory pension.</small>						
<small>⁽²⁾ This reduced rate is applicable for full-time farmers as identified by the Department of Agriculture.</small>						



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Self Employed Persons

- A self-employed person means a person who has not yet passed his sixty-fifth birthday, is ordinarily resident in Malta, and is not an employed person or a self-occupied person.

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Self Employed Persons

- Social Security Contributions by Self Employed persons are also called Class 2 Social Security Contributions with applicable contribution rates according to Part II of the Tenth Schedule of the Social Security Act. The difference in weight between Class 2 Self Occupied contributions and Self Employed contributions, is that Self Employed contributions are valid only for Pension purposes, while Self Occupied contributions are valid for both Pension and Short Term Benefit eligibility purposes.

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Self Employed Persons

- The Social Security Contribution rate due is based on income derived from the net annual income from rents, bank interest or financial investments; earned during the previous calendar year of that of payment. Rates are similar to those of Self Occupied persons with the exception of the Class 2 SP rate which is applicable only to Single persons.

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Self Employed Persons

- Self employed persons' social security contributions are paid to the Commissioner of Inland Revenue every four months; namely in April, August and December respectively.

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Persons Employed Abroad

- Article 13(i) of the Social Security Act provides for persons employed under a contract of service outside Malta, but who retain their ordinary residence in Malta, may request the Director – DSS to pay Class 1 (Employed person) contributions instead of Class 2 contributions. For this purpose, Article 13(i) provides that no social security contribution shall be payable by or on behalf of the Employer.

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Persons Employed Abroad

- Although equivalent to Class 1 contributions, Social security contributions under Article 13(i) are paid in the same manner as Self Occupied Class 2 contributions. That is, to the Commissioner of Inland Revenue every four months; namely in April, August and December respectively, or until the same employment conditions continue to apply.

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What is Income Tax?

- Malta taxes individuals who are both domiciled and ordinarily resident in Malta on their worldwide income.
- Any person who is ordinarily resident in Malta but not domiciled in Malta is taxable only on income arising in Malta and on any foreign income remitted to Malta, i.e. on income and chargeable gains arising in Malta and on income outside Malta that is received in Malta. Such persons are not taxable in Malta on income arising outside Malta, which is not received in Malta, and on capital gains arising outside Malta, regardless of whether they are received in Malta, or otherwise.

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What is Income Tax?

- However, persons who are married to an individual ordinarily resident and domiciled in Malta, are subject to a worldwide basis of taxation (and not on a source and remittance basis).
- A non-resident individual is taxed only on income and chargeable gains arising in Malta.
- Individuals are subject to tax on income arising in a calendar year (i.e. the basis year), which is assessed to tax in the year following the year in which it arises (i.e. the year of assessment).

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Personal Income Tax Rates

The rates of tax for an individual are progressive rates with a range of 0% to 35% (see tables opposite). The higher the income, the higher the tax rate. Corporate tax is fixed at 35%. A person who is resident in Malta for more than 183 days a year will be taxed in Malta on his/her income earned in Malta, as well as on any income earned overseas that is received in Malta. The law stipulates that, each month, the employer is obliged to deduct the amount of tax payable on a salary, at source. Certain payments are deductible from the taxable income of an individual that are allowable for tax purposes.

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What is Domicile?

- Domicile means the country where you officially have a permanent home or have a substantial connection with.
- If it is not where you live currently, it is then the place which you intend to return and make your home indefinitely
- In Simple terms your domicile is your home.
- You can have more than one residence but you only have one domicile

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What is Domicile?

- When you are born, you are automatically assigned to the same domicile as your parents. This is your domicile of origin.
- Even if you move abroad it is highly unlikely that your domicile will change

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Why is Domicile important?

It is crucial to determine your domicile for tax purposes.

Your tax liabilities can be divided into three main areas:

- 1. Your Income Tax (from investment or employment);**
- 2. Capital Gains Tax; and**
- 3. Inheritance Tax.**

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Can you change your domicile?

- After the age of 18, you can change your domicile.
- For this, you will be required to satisfy several criteria with evidence of each one.
- The criteria for changing your domicile are varied, and each case will be judged on its merit combining with the evidence provided.

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Can you change your domicile?

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- For this, you will be required to satisfy several criteria with evidence of each one.
- The criteria for changing your domicile are varied, and each case will be judged on its merit combining with the evidence provided.

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Can you change your domicile?

The basic principles for changing your domicile will typically include as an absolute minimum:

- Leaving the country in which you are domiciled and settle in another country.
- Provide strong evidence that you intend to live in your new location permanently or indefinitely.

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Is it easy to get a domicile status in Malta?

The answer is No.

- You are required to break all ties with other countries to be domiciled in Malta.
- Once you get the status, you will be taxable on a worldwide basis.
- Under the Maltese jurisdiction, you can have multiple residences but only **ONE** domicile.
- Also, Malta does not have any deemed domicile rules.

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Is it easy to get a domicile status in Malta?

It is crucial to mention that if you are a third-country national and have taken up Maltese citizenship by investment (IIP), you will remain domiciled in your native country.

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What is Non-Domiciled Status

- Typically be a foreign national living in Malta, which means you or your parents are not of Maltese origin.
- While you may be considered a **tax resident**, your domicile will typically remain as your country of birth. If you are recognised as a "non-dom", you cannot live in Malta indefinitely.



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Who is a Resident?

- You will be considered a resident (for tax purposes at least) if you're present in a country for 183 days or more per tax year or if not, by visiting the country very frequently and have the intention to reside there.
- It also means that you have the legal right to live, work, set up business, travel or even study in a particular country.



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Who is a Resident?

- The Malta Residency programs like Malta Residency Visa Program (**MRVP**) and Global Resident Program (**GRP**) give the opportunity to non-European nationals and their families to settle in Malta.
- If you are a resident in Malta, it doesn't mean you are a tax resident as well.

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Who is a Tax Resident?

In general, individuals who spend more than six months in Malta in a calendar year are likely to be Maltese tax residents [the reference is made to Article 13 of the Income tax ACT.

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Who is a Tax Resident?

- Tax residency in Malta is a facts-based test, and the following factors are usually taken into account to determine the residency of individuals:
- Place of abode;
- Physical presence, i.e. > 183 days;
- Regularity and Frequency of visits;
- Intention to reside in Malta;
- Ties of birth;
- Ties of the family; and
- Business Ties.

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Income Tax in Malta

In Malta the taxation of an individual's income is **progressive**; i.e. the higher an individual's income, the higher the tax paid.

To attract highly qualified personnel from abroad, Malta has introduced an incentive scheme targeting foreign executives.

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Income Tax in Malta

- Professionals in the financial services, gaming and aviation sectors can benefit from a flat personal income **tax rate of 15%** on income up to €5 million. Any income over that figure is tax-free.
- To qualify for this tax incentive, the employee must earn a minimum of €85,016 per year among other criteria.

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Income Tax in Malta

EU nationals can benefit from the reduced tax rate for an unlimited period, EEA and Swiss nationals for a period of ten years and third-country nationals for four consecutive years.

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What happens if a person is not a Tax Resident Anywhere?

- Most of the countries Tax income on a resident basis, so it is possible that the person is not taxed anywhere.
- But if you want to open a bank account, then the bank might ask for a tax number to receive the income. So being a tax nomad would not get you anywhere.
- For this purpose, Malta has programs like Global Residence Program (GRP) and Residence Program to give you a tax status.

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What is double taxation System?

Often, **double taxation** occurs as an unintended consequence of **tax** legislation, whereby international businesses are burdened with income **tax** arising from the country where the income was earned, and **taxed** once more when the income is repatriated in the home country of the business

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What is double taxation System?

- Malta has over **70 double tax treaties** in force.
- Double taxation system helps to reduce withholding taxes when a foreign company is paying a dividend to Malta.
- As per the Domestic Legislation, if a Maltese company is paying dividends outside of Malta, there will be no withholding tax even if there is no agreement.
- Treaties help to reduce the withholding tax on inbound dividends, interests and royalties.
- It also solves dual residence status conflicts where income is taxed twice.
- Malta has different types of double taxation reliefs.
- If foreign income is received in Malta and the treaty allocates right to Malta, Malta will give relief on the tax suffered in another country, subject to a sealing which is usually the Malta Tax.

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Malta Double Tax Treaties and Tax Information Agreements

- In force: Albania, Andorra, Australia, Austria, Azerbaijan, Bahrain, Barbados, Belgium, Botswana, Bulgaria, Canada, China, Croatia, Cyprus, Czech Republic, Denmark, Egypt, Estonia, Finland, France, Georgia, Germany, Greece, Guernsey, Hong Kong, Hungary, Iceland, India, Ireland, Isle of Man, Israel, Italy, Jersey, Jordan, Korea, Kuwait, Latvia, Lebanon, Libya, Liechtenstein, Lithuania, Luxembourg, Malaysia, Mauritius, Mexico, Moldova, Montenegro, Morocco, Netherlands, Norway, Pakistan, Poland, Portugal, Qatar, Romania, Russia, San Marino, Saudi Arabia, Serbia, Singapore, Slovakia, Slovenia, South Africa, Spain, Sweden, Switzerland, Syria, Tunisia, Turkey, Ukraine, United Arab Emirates, United Kingdom, USA and Uruguay and Vietnam.
- Treaties signed but not yet in force: Belgium, Curaçao
- Tax Information Exchange Agreements in Force: Bahamas, Bermuda, Cayman Islands, Gibraltar, USA.
- Tax Information Exchange Agreements – signed but not in force: Macao

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Questions?

Tax & National Insurance Part 1

