

## **MALTA – TAX CONSIDERATIONS ON SHORT-TERM LETTINGS**

The following information is a guide to help you get started in learning about some of the tax requirements that might apply to you when providing short-term accommodation in Malta.

Tax can be tricky and it is important to ensure that you keep up to date with your tax obligations and remain tax compliant. The timely preparation, filing and payment of taxes are your responsibility.

If you are supplying short-term accommodation in Malta, you should make sure that you understand each of the following types of taxes, and pay the ones that apply to you;

- Income taxes
- Value added tax (VAT)
- Eco-Contribution

Please understand that this information is not comprehensive, and is not intended to be legal advice. If you are unsure about your local tax obligations, we encourage you to check this with official local sources, or to seek advice from qualified professionals.

Please note that we do not update this information in real time, so you should confirm that the laws or procedures have not changed recently.

### **INCOME TAX**

If you earn income from property located in Malta, it is likely that you will be required to pay tax on the rental income to the Maltese tax authority. Below is a brief outline of the tax that may arise on income earned from short-term lettings in Malta and some information on how this tax can be paid to the Maltese tax authorities.

**Malta's tax year** runs from 1 January to 31 December.

You will be subject to tax in Malta on any income which is considered Maltese source income. This includes income from short-term letting of immovable property located in Malta.

### **Tax rate**

You may elect to have your rental income from properties in Malta to be subject to a final tax of

15% on the gross rental income (without any deductions). If you opt to have your rental income subject to this final tax in a calendar year, such election will apply to all rental income you derive from all your properties during that respective year.

If you do not make such an election you will be taxable on the rental income at the tax rates applicable to you. If you are an individual you are subject to tax on the income at the progressive rates of tax going up to 35% (subject to certain deductions – see below). Such rates depend on your civil status and/or your residency status for Maltese income tax purposes.

### **Malta specific rules applicable to income earned in relation to short-term lettings**

Generally, income derived from short-term lettings of immovable property is considered to be trading income for Maltese income tax purposes.

The main difference between having your rental income being treated as trading income or passive income is in the deductions that are allowed to be taken against your income. The types of deductions that can be taken where your income is considered either trading income or income of a passive nature is outlined below.

The distinction as to whether you derive the rental income from a trading nature or passively is irrelevant if you decide to elect to have your gross rental income taxed at the flat final rate of 15%.

### **Typical expenses that can be deducted from your income in relation to short-term lettings**

If the rental income you derive from renting your property is treated as trading income then you may deduct any expenses incurred wholly and exclusively in the production of that income against your rental income.

Should your income be treated as "passive" in nature, then only the following expenses may be deducted from your rental income (subject to certain conditions):

- i) Sums payable by way of interest upon any money borrowed in connection with the property;
- ii) Any rent, ground rent or similar burden payable,
- iii) Certain licence fees paid by the individual,
- iv) A deduction of 20% of the rental income following the deduction of the items (ii) and (iii).

### **Special reliefs from income tax in Malta applicable on short-term lettings**

There is no relief for income earned on the leasing of property within Maltese income tax laws except for relief from any taxation suffered in another jurisdiction on the same income (where applicable).

You may however, subject to specific conditions, opt to be taxed at a final flat rate of income tax of 15% on the gross rental income received as described above. Further information about the application of such a special rate of income tax may be found through the following [link](#).

Please note that if you are in doubt about how to calculate and submit your taxes in Malta you should seek advice from a professional tax advisor.

### **Deductions available for tax depreciation (e.g. capital allowances / wear and tear)**

Should your rental income be considered as trading income, then wear and tear allowances may be deducted from your rental income in accordance with the rates stipulated in the 'Deduction for Wear and Tear of Plant and Machinery Rules' which can be downloaded from the following [link](#)

Should your income be considered as passive in nature, a deduction for wear and tear is not permissible and instead a 20% deduction of the gross rental income less some applicable deductions is allowable as a deduction (refer to above).

### **Maltese income tax obligation for non-resident individuals**

If you are a non-Maltese resident individual earning rental income from immovable property situated in Malta, you will be obliged to pay Maltese income tax on such rental income, and prepare and submit an annual Maltese income tax return, unless you elect to have your rental income subject to the final tax of 15%. If you make such an election, you will be required to file the Form TA 24.

### **Maltese income tax obligations for a Maltese individual in receipt of foreign rental income**

If you are resident and domiciled in Malta for Maltese income tax purposes, then you are subject to Maltese income tax on your worldwide income. Therefore, if you are in receipt of rental income which is derived from immovable property situated outside of Malta, then such income would be subject to Maltese income tax. It may be possible to claim double taxation relief through your Maltese income tax return for any foreign tax paid.

If you are considered to be resident but not domiciled in Malta for Maltese income tax purposes, then any rental income derived by you from immovable property situated outside of Malta should only be subject to Maltese income tax if such income is remitted (brought in) to Malta.

### **Capital taxes in Malta**

The transfer of immovable property situated in Malta is subject to property transfer tax. The default tax rate is 8% on the transfer value of the property. However other rates apply ranging

from 2% to 12% on the transfer value of the property, depending on the specific circumstances of the property being transferred.

The obligation to settle the respective tax liability on the transfer of the property in question arises on the date of the signing of the deed of transfer of the property.

### **General property taxes payable**

Stamp duty at the rate of 5% is also payable on the transfer of the immovable property. Such duty is normally paid by the acquirer of the property. A reduced rate is also applicable in certain circumstances. To date there are no other property taxes payable under Maltese law.

### Sample tax computation

Crista is resident and domiciled in Malta. Crista owns a 2 bedroom house in Valletta. Her house is available for rent during the weekends.

Crista received total gross rent in 2021 of €7,000.

Crista incurred the following expenses in relation to this house in 2021: purchase of a new bed for €1,200, interest incurred on a loan used for the purchase of the property €200, ground rent €100, rental licence €150, house insurance €500, and electricity €600.

Tax Treatment applicable under each scenario		Trading Nature		Passive Nature		15% Final Withholding Tax
Gross annual income		€ 7,000		€ 7,000		€ 7,000
<i>Less allowable expenses:</i>						
Wear and tear - furniture		120				
Loan interest		200		200		
Ground Rent		100		100		
Rental licence		150		150		
House insurance		500		-		
Electricity		600		-		
20% maintenance allowance		-		1,310		
Chargeable income		5,330		5,240		7,000
Tax due at applicable rates	35%	1,866	35%	1,834	15%	1,050

--	--	--	--	--	--	--	--

## **Reporting tax in Malta**

You can submit your annual income tax return to the Maltese tax authorities online through Commissioner for Revenue's portal using your E-ID. The online portal can be found at <https://mytax.cfr.gov.mt> using your e-id account.

Manual income tax returns can also be submitted by mailing the tax return to the Inland Revenue Department at Maltapost plc, P.O. Box 2296, Qormi Road Marsa.

If you opt for the 15% flat tax rate on your rental income, you will need to complete the TA24 form and you do not report the rental income in an annual income tax return. The TA24 form can be completed online through [this website](#) or be submitted manually to the Inland Revenue Department at Maltapost plc, P.O. Box 2296, Qormi Road Marsa.

## **Reporting tax - filing deadline**

The statutory income tax return deadline for the submission of your income tax return is 30 June of the year following the respective tax year (i.e. 30 June 2022 for the tax year ending 31 December 2021).

The deadline for the filing of the TA24 form is 30 April of the year following the respective tax year (i.e. 30 April 2022 for the tax year ending 31 December 2021).

## **Reporting tax - payment deadline**

The payment of your tax liability is also due by 30 June of the year following the respective tax year, unless you opt for the 15% flat tax rate in which case the deadline for the payment of tax is 30 April of the year following the respective tax year.

## **Malta Tax Authority contact details**

The Maltese tax Authorities may be contacted through the following link:

Furthermore, the general number which an individual may dial for general assistance with tax queries is 153.

## **VALUE ADDED TAX**

Value added taxes can be complicated, and you should take time to understand the rules as they apply to you and your particular situation.

Broadly speaking, Value-Added Tax (VAT) in Malta is a tax on consumption. Most goods and services supplied in Malta are subject to VAT.

A person who supplies goods and/or services in Malta may have to charge VAT and pay this to the Maltese tax authority. As with all taxes, we encourage you to consult with a tax advisor regarding your potential VAT obligations in Malta.

If you are currently renting a room to guests, you may be required to apply VAT to your rental charge and to pay this VAT amount to the Maltese tax authorities. As Airbnb is not supplying the rental, it is the responsibility of the host to consider local VAT obligations of the rental charge.

### **Do I need to collect any VAT from guests if I am letting short-term accommodation in Malta?**

Individuals who lease property to tourists in Malta should have a license to do so in accordance with the Malta Travel and Tourism Services Act. All license holders must register for VAT in Malta. There is no registration threshold for VAT in Malta, therefore if you rent out accommodation on a short-term basis in Malta, you are required to hold a license to do so, and you should register for VAT in Malta.

While there is no registration threshold, your VAT compliance obligations may vary depending on what type of registration you have. Persons whose annual turnover is below €30,000 may opt to register as a small undertaking in terms of article 11 of the Maltese VAT Act. In such circumstances, you will not have to charge VAT to your guests but you will also not be able to recover any VAT incurred on your purchases/ acquisitions.

If you are an individual who is not resident in Malta, but your accommodation is located in Malta the Malta VAT rules would still apply to you and you should also have an obligation to register for Maltese VAT.

We encourage you to consult a tax advisor if you need assistance in determining whether you need to register for and charge Maltese VAT.

For further guidance on registering for VAT in Malta, please refer to the Maltese tax authorities' [website](#).

### **VAT applies to me. How do I determine how much tax I need to collect from my Guests?**

VAT rates differ per country and change periodically. We recommend that you to check on a

regular basis with the local tax authority to get the most up to date VAT rates for the country where you are required to pay VAT.

For example, at the date of issuance of this document, the Maltese VAT rate applicable to the letting/provision of accommodation of any premises required to be licensed in accordance with the Malta Travel and Tourism Services Act is 7% on the value of the consideration for the lease.

However, there are other VAT rates currently in force in Malta, so we recommend that you confirm with a local tax adviser the VAT rate applicable to your supplies.

### **VAT applies to me. How do I collect VAT from guests?**

If you determine that you need to charge VAT on the supplies that you make to guests, please keep in mind that you have to collect this VAT from your guests and report and remit this VAT in a periodical VAT return. In Malta, VAT returns normally cover a quarterly period and are required to be submitted, either manually or electronically, to the Maltese VAT department no later than the fifteenth day of the second month following the month during which the relevant tax period ends. Any VAT payments must also be made within the relevant VAT return deadline.

Some formalities, such as issuing a receipt or an invoice to your guests, may be required.

Please find more information on this [here](#).

For further guidance on filing returns, please refer to the Maltese tax authorities' guidance through this [website](#).

There may also be requirements around whether you use VAT-inclusive or VAT-exclusive pricing. We recommend that you check your obligations in terms of pricing and the applicable invoice/receipt requirements with a local tax advisor.

### **ECO-CONTRIBUTION**

If you are letting out immovable property in Malta you should also consider any eco-contribution that may be due to be charged to short-term tenants. Eco-contribution is chargeable at the rate of Euro 0.50 per night per tourist aged 18 years and over which amount is however capped at Euro 5 per person. You are required to collect such contribution from your tenants and remit the payment to the tax authorities.

More information about this may be found under [this link](#).