MALIA
INSTITUTE
OF TAXATION

Award in Taxation 2026/2027
Module A – Lecture 9

Notional Interest Deduction (NID) Rules

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1

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Date: 29 October 2026

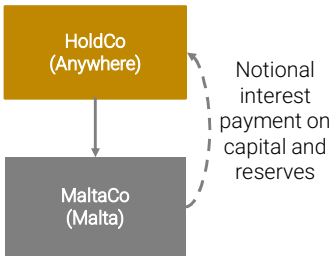
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2

Maltese Notional Interest deduction

- A concept which aimed to simplify the Maltese tax system and approximate the tax treatment of equity with that of debt
- Enabling provision had been introduced in the ITA with Act XVI of 2017 (Art 14(1)(o))
- The legal notice outlining the current rules was published on 2 February 2018 through **legal notice 37 of 2018**
- The NID Rules apply as from basis tax year 2017 i.e. **from year of assessment 2018**



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3

Main purpose

Main purpose of the NID is ….

"14. (1) For the purpose of ascertaining the total income of any person there shall be deducted all outgoings and expenses…including: …

(o) such sums in respect of risk capital as are aimed at approximating neutrality between debt and equity financing, as the Minister may prescribe"

– Income Tax Act

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4

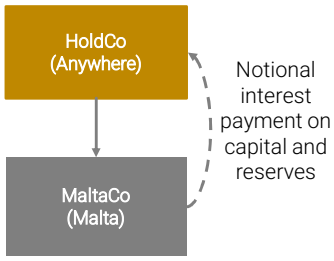
Main purpose

Why try to equate the two?

Given that interest on debt is generally deductible, whereas dividends on equity are not, the cost of capital of debt is generally cheaper compared to equity

As a result, an undertaking generally has a bias towards financing its operations through debt rather than through equity

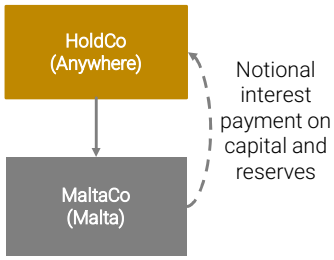
Addressing this imbalance is one of the action points that the EU Commission has identified in the Action Plan on Building a Capital Markets Union (refer to COM(2015) 468 final).



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How is neutralisation achieved in the Maltese NID rules?

- The Maltese NID rules achieve the neutralisation by allowing an undertaking that has been funded by equity, a deduction for interest that it has deemed to have incurred on such equity in the same manner that the undertaking would have been allowed a deduction had it funded its operations with debt
- The flip-side to this is that the shareholder/partner of the undertaking is deemed to have received a corresponding amount of interest for the interest that the undertaking claims as a deduction



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Who can claim the NID?

The NID may be claimed by an "undertaking"

"…means a company or a partnership resident in Malta or

any other company or partnership that is not resident in Malta that derives income that is effectively connected with a permanent establishment of the company or partnership situated in Malta"

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Definitions of key terms

NID = Risk Capital (with certain adjustments) * Reference rate

Risk capital means any share capital, share premium, positive retained earnings, loans or other debt borrowed by the undertaking which do not bear interest, and any other reserves resulting from a contribution to the undertaking, and any other positive balance which is shown as equity in the financial statements of the undertaking

The reference rate is set at the risk free rate plus a premium of 5% of risk capital.

In the case of a non-Maltese resident undertaking, with a Maltese permanent establishment, the risk capital is taken to be the capital attributable to the permanent establishment

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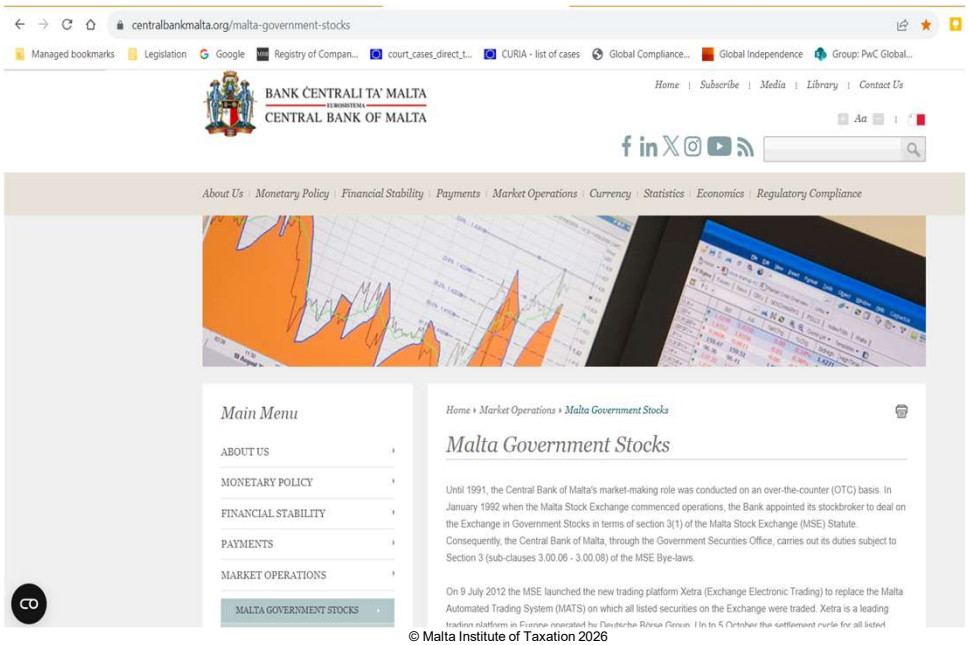
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The reference rate

How do you determine it in practice?

- Guideline issued by the CfR can be accessed on https://cfr.gov.mt/en/inlandrevenue/legal-technical/Documents/NID%20Guideline.pdf

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The daily bid, offer prices and yields are published on the Bank's website, LSEG and Bloomberg.

Indicative opening Secondary Market Prices And Yields

Indicative Opening Secondary Market Prices And Yields
(446kb - Last updated Monday, October 26, 2026 10:16)

Closing Secondary Market Prices And Yields

Closing Secondary Market Prices And Yields
(271kb - Last updated Monday, October 26, 2026 15:58)

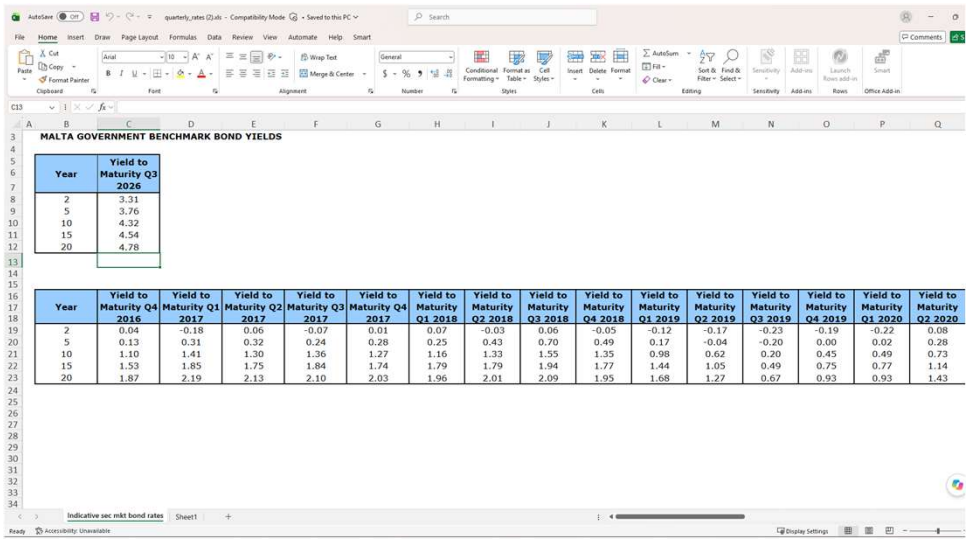
Indicative Rates based on Malta Government Benchmark Stocks

Quarterly Rates
(164kb - Last updated Wednesday, September 30, 2026 13:51)

Daily Changes
(201kb - Last updated Monday, October 26, 2026 10:50)

Time Series
(103kb - Last updated Wednesday, September 30, 2026 13:52)

11



MALTA GOVERNMENT BENCHMARK BOND YIELDS

Year	Yield to Maturity Q3 2026
2	3.31
5	3.76
10	4.32
15	4.54
20	4.78

Year	Yield to Maturity Q4 2016	Yield to Maturity Q1 2017	Yield to Maturity Q2 2017	Yield to Maturity Q3 2017	Yield to Maturity Q4 2017	Yield to Maturity Q1 2018	Yield to Maturity Q2 2018	Yield to Maturity Q3 2018	Yield to Maturity Q4 2018	Yield to Maturity Q1 2019	Yield to Maturity Q2 2019	Yield to Maturity Q3 2019	Yield to Maturity Q4 2019	Yield to Maturity Q1 2020	Yield to Maturity Q2 2020
2	0.04	-0.18	0.06	-0.07	0.01	0.07	-0.03	0.06	-0.05	-0.12	-0.17	-0.23	-0.19	-0.22	0.08
5	0.13	0.31	0.32	0.24	0.28	0.25	0.43	0.70	0.49	0.17	-0.04	-0.20	0.00	0.02	0.28
10	1.10	1.41	1.30	1.36	1.27	1.16	1.33	1.55	1.35	0.98	0.62	0.20	0.45	0.49	0.73
15	1.53	1.85	1.75	1.84	1.74	1.79	1.79	1.94	1.77	1.44	1.05	0.49	0.75	0.77	1.14
20	1.87	2.19	2.13	2.10	2.03	1.96	2.01	2.09	1.95	1.68	1.27	0.67	0.93	0.93	1.43

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12

The reference rate

- An undertaking is required to determine the reference rate for the purposes of calculating the NID by reference to the risk-free rate published by the CBM for the end of the quarter falling on the same day as the end of the accounting period of the particular undertaking.
- For example, the risk-free rate at the end of Q3 2026 is 4.78%. To determine the reference rate, this must be added to the 5% premium. Therefore, the reference rate as at Q3 2026 Is 9.78% (i.e. 4.78% + 5%)
- Should the end of the accounting period of the said undertaking not fall at the end of a quarter, the undertaking shall calculate the NID on the basis of the reference rate applicable as at the end of the quarter immediately preceding the end of the accounting period ending in the year preceding the year of assessment for which the NID is claimed.
- As a result, if an undertaking has a financial year ending on any day between 1 Jan 2026 and 30 Mar 2026, the reference rate that the undertaking would use should continue to be that applicable as at 31 Dec 2025.

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Deduction

"For the purpose of ascertaining the total income of an undertaking for a year of assessment, the undertaking shall be entitled to a deduction for sums that are deemed to be payable by way of interest on risk capital or such part thereof as may be determined by the undertaking for the particular year"

Limitations apply…

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How much NID does an undertaking have available to it?

First limitation – ref. guidelines

In terms of general principles of Maltese income tax, an expense is only deductible insofar it is incurred in the production of income (or in the case of interest, in acquiring income).

Extract from guidelines:

> Where risk capital of an undertaking is not employed in a trade or business, and such risk capital does not result in any income (which, for the avoidance of doubt, is to be construed as referring to income before taking account of any expenses or other items that are deductible for income tax purposes) being produced in the year preceding the relevant year of assessment, the NID available on such risk capital shall not be allowable as a deduction for income tax purposes, and therefore no excess thereof shall be carried forward to subsequent years of assessment.

Practical example

Company A is incorporated during 2025 but did not derive any income during the year. In this case, no NID is deductible (and therefore no NID can be carried forward)

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How much NID does an undertaking have available to it?

Second limitation

NID = (A) Reference rate X (B) Risk Capital (rule 4(1))

"B = the risk capital of the undertaking… less any risk capital directly employed in the form of securities, interest in a p'ship, contributions and any other loans/debts that do not bear interest that the undertaking holds in or provides to any other person whether resident in Malta or otherwise ("the invested risk capital"), to the extent that such invested risk capital is:

a) not employed by the undertaking in producing any income in the year preceding the YoA in a situation where had any such income been produced it could have been exempt from tax in terms of the Act, or

(b) employed in producing income in the year preceding the YoA which is exempt from tax in terms of the Act"

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How much NID does an undertaking have available to it?

Company A is a Maltese company. It invests its risk capital in its wholly owned Subsidiary set up outside Malta.

Dividends distributed by subsidiary qualify for the participation exemption in the hands of Company A.

Impact….

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Deduction

- The NID can only be deducted on profits allocated to the MTA and/or the FIA
- In the case of a partnership that claims the NID, it is necessary to assess to which tax account would the profits of the partnership been allocated had it been a company
- The NID is capped at **90%** of chargeable income (before the NID)

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Deduction
Attribution of NID

- Guidelines set out methodology for attributing NID to one or more sources of income, depending on the whether the risk capital is employed in producing a specific source of income (**directly attributable)** or multiple sources of income (**indirectly attributable)**
- The principles applied build on the treatment that should apply under general principles in respect of interest incurred on borrowings, with some additional guidance owing to the fact that unabsorbed NID may be carried forward.

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Deduction
Attribution of NID

(a) Direct Attribution

Where the risk capital of the undertaking represents capital employed in acquiring any specific source of income (including, for the avoidance of doubt such income as is exempt/ not chargeable to tax in terms of any provision of the Income Tax Act or other legislation or income which is subject to a final rate of tax), the NID in respect of that risk capital shall be attributable exclusively against such income. A distinction shall be made between each and every source of income, regardless of the tax account to which such source is to be allocated.

The undertaking may then claim a deduction for NID only against such income that forms part of the chargeable income of the undertaking the profits from which stand to be allocated to the Maltese Taxed Account (hereinafter also referred to as MTA income) and the Foreign Income Account (hereinafter also referred to as FIA income) after all allocations in terms of the Income Tax Acts and their subsidiary legislation have been taken into account. NID that is attributable to a specific source of income may only be deducted against such income.

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Deduction
Attribution of NID

(b) Indirect Attribution

Where, after carrying out the direct attribution of NID in (vi)(a) above, it transpires that the remaining risk capital of the undertaking represents capital that is employed in acquiring two or more sources of income of the undertaking in a general manner without being specifically attributable to any particular source of income, the NID in respect of such risk capital ("the remaining NID") shall be attributable to such sources of income of the undertaking (including, for the avoidance of doubt, such income as is exempt/ not chargeable to tax in terms of any provision of the Income Tax Act or other legislation or income which is subject to a final rate of tax) on a pro-rata basis in proportion to the chargeable income from each source of income net of any NID that has been directly attributed (irrespective of whether such directly attributed NID is deductible or not).

The undertaking may then claim a deduction for part or all of the remaining NID only against such income that forms part of the chargeable income of the undertaking the profits from which stand to be allocated to the Maltese Taxed Account and the Foreign Income Account after all allocations in terms of the Income Tax Acts and their subsidiary legislation have been taken into account. NID that has been attributed to a specific source of income on such pro-rata basis may only be deducted against such income.

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Notional Interest Deduction
Worked example

ABC Limited, a Malta company, has the following balance sheet and profit and loss account for the financial year ended 31 December 2025. Included within 'Borrowings' is an interest-free loan of €400,000 which ABC Limited received from its parent company specifically to fund its trading activity. Assume a NID reference rate of 9%.

Balance sheet as at 31 Dec 2025			**Profit and Loss Account**	
	€			€
Property, Plant & Equipment	5,750,000		Revenue (trading income)	1,000,000
Trade & Other receivables	3,200,000		Cost of Sales	(300,000)
Cash & Cash equialents	3,150,000		Gross Profit	700,000
Total Assets	**12,100,000**		Interest income (foreign)	70,000
			Profit before tax	770,000
Equity			Tax	(219,100)
Share capital	400,000		Profit after tax	550,900
Share premium	800,000			
Retained profits	-			
	1,200,000			
Liabilities				
Borrowings	700,000			
Trade & Other payables	10,200,000			
	10,900,000			
Total Equity & Liabilities	**12,100,000**			

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Notional Interest Deduction

Worked example

Step 1 - Risk capital calculation	
	€
Share capital	400,000
Share premium	800,000
Retained earnings	-
Interest-free loan	400,000
	1,600,000
Step 2 - Remove invested risk capital	
In this example, it is assumed that there is no risk capital which is not employed in producing any income or employed in producing exempt income.	
Step 3 - Attribution of risk capital	
Part A - Direct Attribution	
Is there capital employed in acquiring any specific source of income?	
Yes, the interest-free loan of €400k was employed in acquiring the trading income derived by the company.	
Part B - Indirect Attribution	
The remaining risk capital should be attributed pro-rata to the different sources of income.	

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Notional Interest Deduction

Worked example

Tax computation	MTA (Trading)	FIA - Interest (passive)	Total
	€	€	€
Revenue	1,000,000	-	1,000,000
Cost of sales	(300,000)	-	(300,000)
Interest income	-	70,000	70,000
Profit before tax	700,000	70,000	770,000
NID - Direct Allocation of Risk Capital	400,000	-	400,000
Directly attributable NID	(36,000)	-	(36,000)
Capped at amount of income	(36,000)	-	(36,000)
Income after allocation of directly attrib	664,000	70,000	734,000
Indirectly attributable NID			
Indirectly attributable risk capital			1,200,000
Allocation of Indirectly attributable NID	(97,700)	(10,300)	(108,000)
Chargeable income after NID	566,300	59,700	626,000
Tax at 35%	(198,205)	(20,895)	(219,100)
Profits after tax	**368,095**	**38,805**	**406,900**

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Allocation to tax accounts

Profits relieved from tax using the NID must be allocated to FTA

- Allocation to FTA must be carried out in the following manner:
  - An amount equal to 100% of deduction claimed, AND
  - An additional allocation equal to a maximum of 10% of the NID claimed to be taken from profits that were relieved from tax as a result of claiming the NID as a deduction
- If additional allocation exceeds total profits allocable to the MTA/FIA for that year, any excess shall be ignored
  - Result in that case: all profits for the year allocated to FTA

This provision aims to avoid situations where an undertaking claims NID, and subsequently also claims a refund on tax paid relative to the particular profits

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Allocation to tax accounts

Further considerations:

(i) the additional reallocation shall be effected subsequent to any second tier allocation to the IPA (indeed, no NID can be claimed against such profits)

(ii) the direct allocation and the additional reallocation are not required where a shareholder is deemed to have received interest income and is claiming NID against such deemed interest income

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Allocation to tax accounts

Profit before tax	700,000	70,000	770,000
NID - Direct Allocation of Risk Capital	400,000	-	400,000
Directly attributable NID	(36,000)	-	(36,000)
Capped at amount of income	(36,000)	-	(36,000)
Income after allocation of directly attrib	664,000	70,000	734,000
Indirectly attributable NID			
Indirectly attributable risk capital			1,200,000
Allocation of Indirectly attributable NID	(97,700)	(10,300)	(108,000)
Chargeable income after NID	566,300	59,700	626,000
Tax at 35%	(198,205)	(20,895)	(219,100)
Profits after tax	**368,095**	**38,805**	**406,900**
Allocation of profits to tax accounts	MTA	FIA	UA
Prior to additional allocation of NID	368,095	38,805	144,000
Additional allocation to FTA			
Higher of:			
10% of NID and	(13,370)	(1,030)	
the amount allocable to the tax account	(368,095)	(38,805)	
Allocation to tax accounts for the year	354,725	37,775	158,400

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Carry forward provisions

- If interest on risk capital calculated exceeds 90%, the excess cannot be taken as deduction against chargeable income for that year
- However, it can be carried forward to and added to the NID of the following year
- NID that is attributed **directly** to MTA or FIA income and which exceeds the 90% limitation shall be carried forward on a source-by-source basis. NID that is directly attributable to any tax account other than the MTA or the FIA shall be forfeited.
- NID that is attributed **indirectly** to MTA or FIA income and which exceeds the 90% limitation shall be carried forward in a general pool of indirectly attributable NID.

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Notional Interest Deduction

Worked example

ABC Limited, a Malta company, has the following balance sheet and profit and loss account for the financial year ended 31 December 2025. Included as part of Borrowing is an amount of Eur 400,000 which represents an internet free loan used by ABC Limited for general funding purposes. Assume a NID reference rate of 9%.

Balance sheet as at 31 Dec 2025		**Profit and Loss Account**	
	€		€
Property, Plant & Equipment	5,750,000	Revenue (trading income)	1,000,000
Trade & Other receivables	3,200,000	Cost of Sales	(300,000)
Cash & Cash equialents	3,150,000	Gross Profit	700,000
Total Assets	**12,100,000**	Interest income (foreign)	70,000
		Profit before tax	770,000
Equity		Tax	(26,950)
Share capital	400,000	Profit after tax	743,050
Share premium	800,000		
Retained profits	10,000,000		
	11,200,000		
Liabilities			
Borrowings	700,000		
Trade & Other payables	200,000		
	900,000		
Total Equity & Liabilities	**12,100,000**		

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Notional Interest Deduction

Worked example

Step 1 - Risk capital calculation	
	€
Share capital	400,000
Share premium	800,000
Retained earnings	10,000,000
Interest-free loan	400,000
	11,600,000

Step 2 - Remove invested risk capital

In this example, it is assumed that there is no risk capital which is not employed in producing any income or employed in producing exempt income.

Step 3 - Attribution of risk capital

Part A - Direct Attribution

Is there capital employed in acquiring any specific source of income?
No, there is no risk capital employed in acquiring a specific source of income.

Part B - Indirect Attribution
The remaining risk capital should be attributed pro-rata to the different sources of income.

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Notional Interest Deduction

Worked example

Tax computation	MTA (Trading)	FIA - Interest (passive)	Total
	€	€	€
Revenue	1,000,000	-	1,000,000
Cost of sales	(300,000)	-	(300,000)
Dividend income	-	-	-
Interest income	-	70,000	70,000
Profit before tax	700,000	70,000	770,000
NID - Direct Allocation of Risk Capital	-	-	-
Directly attributable NID	-	-	-
Capped at amount of income	-	-	-
Income after allocation of directly attrib	700,000	70,000	770,000
Indirectly attributable NID			
Indirectly attributable risk capital			11,600,000
Allocation of Indirectly attributable NID	(949,091)	(94,909)	(1,044,000)
Capped at 90%	(630,000)	(63,000)	(693,000)
Chargeable income after NID	70,000	7,000	77,000
Tax at 35%	(24,500)	(2,450)	(26,950)
Profits after tax	**45,500**	**4,550**	**50,050**
NID carried forward	319,091	31,909	351,000

31

Allocation to tax accounts

Profit before tax	700,000	70,000	770,000		
NID - Direct Allocation of Risk Capital	-	-	-		
Directly attributable NID	-	-	-		
Capped at amount of income	-	-	-		
Income after allocation of directly attrib	700,000	70,000	770,000		
Indirectly attributable NID					
Indirectly attributable risk capital			11,600,000		
Allocation of Indirectly attributable NID	(949,091)	(94,909)	(1,044,000)		
Capped at 90%	(630,000)	(63,000)	(693,000)		
Chargeable income after NID	70,000	7,000	77,000		
Tax at 35%	(24,500)	(2,450)	(26,950)		
Profits after tax	**45,500**	**4,550**	**50,050**		
NID carried forward	319,091	31,909	351,000		
Allocation of profits to tax accounts	**MTA**	**FIA**	**FTA**	**Distributable profits**	
Prior to additional allocation of NID	45,500	4,550	743,050	743,050	
Additional allocation to FTA					
Lower of					
10% of NID and	(63,000)	(6,300)			
the amount allocable to the tax account	(45,500)	(4,550)			
Allocation to tax accounts for the year	-	-	**743,050**	**743,050**	

32

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Procedural aspects

- An undertaking takes a deduction for the NID by making the claim in its annual income tax return
- Election for the NID is at the discretion of the company or partnership. Shareholders/owners must approve the claiming of such interest deduction for a particular YA
- Further guideline:

(ii) Approval for Claiming the NID

The shareholders or partners in an undertaking, as the case may be, as at the end of the year preceding the year of assessment are required to give their approval for the undertaking to claim a NID by the earlier of the date on which the said undertaking files its income tax return for that particular year of assessment or the date on which any one of the said shareholders or partners ceases to be a shareholder or partner of the undertaking, as the case may be.

It is hereby being clarified that the approval mentioned in the previous paragraph must be given in respect of the year of assessment in which, and to the extent that, a claim for NID causes an actual reduction in the total income.

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Deemed Income

- The NID is deemed to constitute interest income in the hands of the shareholder
- The deemed interest income is treated as any other interest income for Maltese income tax purposes (except that such interest income cannot be considered to be investment income in terms of the investment income provisions)
- Therefore, in principle such interest income is taxable in the hands of the shareholder
- If the shareholder is itself an undertaking with its own risk capital, then the said shareholder should be entitled to claim a deduction for NID on its own risk capital

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Deemed income

- Where the undertaking has more than one shareholder or partner at the end of the year preceding the year of assessment, each shareholder or partner, as the case may be, is deemed to have received an amount of deemed income as corresponds to the proportion of the nominal value of the risk capital pertaining to each shareholder or partner, as the case may be, holds in the undertaking at the end of the year preceding the year of assessment
- This point is expanded in the guidelines…

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35

Deemed income

(iii) Attribution of the Deemed Interest Income

The interest income that is deemed to accrue to shareholders or partners of an undertaking in terms of Rule 5 of the Rules, should for the purposes of sub-rule (3) of Rule 5 be allocated in its entirety to the undertaking's shareholders or partners, as the case may be.

Unless directed otherwise by the Commissioner in terms of the proviso to the said sub-rule (3), in the case of a company that has claimed the NID, the interest income is to be attributed to each shareholder according to the proportion which the nominal value of the shares that each shareholder holds in the company bears to the total nominal value of the issued share capital of that company as at the end of the undertaking's accounting period.

Unless directed otherwise by the Commissioner in terms of the proviso to the said sub-rule (3), in the case of an undertaking other than a company that has claimed the NID, the interest income is to be attributed to each partner according to the proportion which the value of the capital that each partner holds in the undertaking bears to the total value of that undertaking's capital as at the end of the undertaking's accounting period.

Unless directed otherwise by the Commissioner in terms of the proviso to sub-rule (3) of Rule 5 of the Rules, the interest income that is deemed to accrue to the shareholder or partner of a company or partnership in terms of Rule 5 of the Rules, shall, in case of any person holding the usufruct over any shares or partnership interest, be deemed to accrue to the person holding such usufruct rather than the bare owner of those shares or partnership interest.

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36

Deemed income

- The Commissioner may authorize a different basis for allocating deemed interest on the basis of a request made by a shareholder/partner.
- Guideline on this point for shareholding of less than 0.2%.

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Deemed income

- Where a shareholder of an undertaking is deemed to have received interest income, the shareholder should be entitled to take a deduction on any interest on risk capital which it is deemed to have incurred, without 90% limitation
- In case where the shareholder would be non-Maltese resident, then no Maltese tax should apply on such deemed interest on the basis of a Maltese domestic law exemption in this respect (Art. 12(1)(c)(i), ITA)

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Deemed income

Guideline when shareholder receives dividends from entity that claims NID:

(vii) NID first deducted against Deemed Interest Income

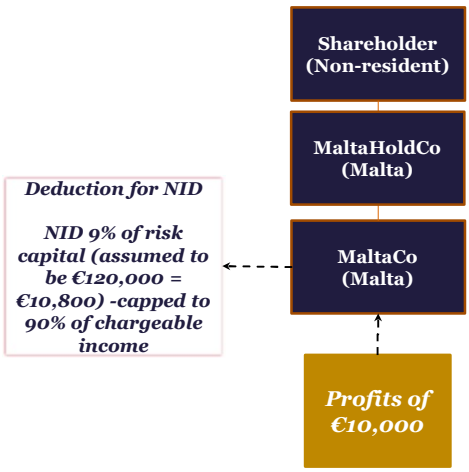
Where an undertaking ("A") holds an interest in another undertaking ("B") and B claims a deduction for sums that are deemed to be payable by way of interest on its risk capital in terms of Rule 3(1) of the Rules, A is deemed to have received an amount equal to the interest on risk capital claimed by B (the deemed interest income) in terms of Rule 5.

Where, besides such deemed interest income, A has other sources of income in respect of the risk capital that it has employed in B (such as, for example, dividend income from B) A may deduct its own NID attributable to the risk capital employed in B first against such deemed interest income.

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Maltese Notional Interest deduction

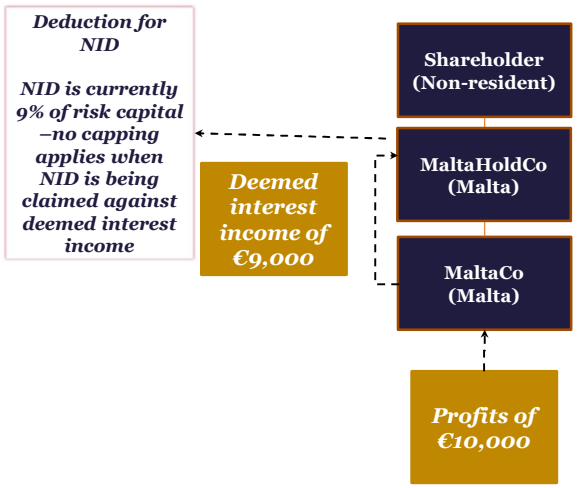
Base case - Worked example



Calculation at MaltaCo level	
Taxable profit for the year	10,000
NID (9% of RC)	(9,000)
Taxable income	1,000
Tax at 35%	(350)
Taxed profit after tax	650
Accounting profit for the year	10,000
Tax expense	(350)
Profit after tax	9,650
Profit allocated to FTA	
Direct allocation	9,000
Additional allocation	650

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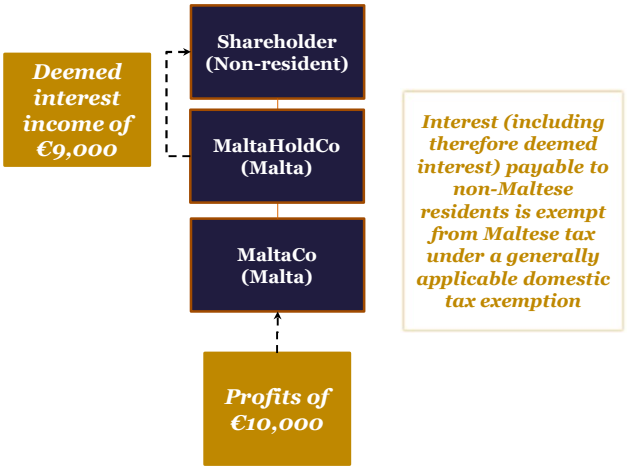
Maltese Notional Interest deduction
Base case - Worked example



Calculation at Malta HoldCo level

Taxable profit for the year	9,000
NID (9% of RC)	(9,000)
Taxable income	0
Tax at 35%	0
Profit for the year	0
Tax expense	0
Profit after tax	0

Maltese Notional Interest deduction
Base case - Worked example



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Example - Base Case

Tax computation	
Revenue	100,000
Less: Expenses	(20,000)
Net income	80,000
NID	(30,000)
Chargeable income	50,000
Tax @35%	17,500
Chargeable income after tax	32,500
Effective rate at OpCo	**21.88%**

Tax account allocation	
Accounting profit after tax	62,500
FTA - direct allocation	30,000
FTA - additional allocation	3,000
MTA	29,500
Untaxed	0

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Example - Base Case with refunds

Revenue	100,000
Less: Expenses	(20,000)
Net income	80,000
NID	(30,000)
Chargeable income	50,000
Tax @35%	17,500
Chargeable income after tax	32,500
Effective rate at OpCo	**21.88%**

Tax account allocation	
Accounting profit after tax	62,500
FTA - direct allocation	30,000
FTA - additional allocation	3,000
MTA	29,500
Untaxed	0

Tax refund implications	
Potential Refund	6/7
Chargeable income after tax on which refund can be claimed	29,500
Tax charged on income	15,885
Refund	13,615
Maltese tax burden	**3,885**
Effective combined rate	**4.86%**

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Example - Base Case with capping

Tax computation	
Revenue	100,000
Less: Expenses	(20,000)
Net income	80,000
NID	(72,000)
Chargeable income	8,000
Tax @35%	2,800
Chargeable income after tax	5,200
Effective rate at OpCo	**3.5%**

Tax account allocation	
Accounting profit after tax	77,200
FTA - direct allocation	72,000
FTA - additional allocation	5,200
MTA	0
Untaxed	0

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Other considerations

- Guideline (xi) - To further approximate the neutrality between debt and equity financing, an adjustment shall be applied to the NID to remove distortive and disproportionate deductions in respect of accounting periods that are longer or shorter than 12 months. The NID in respect of the years of assessment to which such accounting periods refer shall be inflated or reduced by multiplying the deduction contemplated by Rule 4(1) of the Rules by the number of days in the accounting period and dividing the result by 365.
- Guideline (x) - Where an undertaking has multiple funding sources such that it is not possible to determine whether any capital employed in another undertaking constitutes risk capital or other funding sources, the amount of risk capital that shall be taken into account in determining the NID shall be equal to a fraction of the capital employed in that other undertaking that is equal to the fraction arrived at by taking the risk capital of the undertaking and dividing it by the total of the risk capital of the undertaking and its other funding sources.

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General anti-avoidance

Without prejudice to the provisions of article 51 of the Act, where in relation to a transaction, or to a series of transactions, sums are determined such that the undertaking, the shareholder or shareholders thereof, or any person which is controlled and beneficially owned directly or indirectly to the extent of more than 50% by the same shareholders, is in a position to obtain an undue advantage which has the effect of reducing their liability to tax in a manner which is not reconcilable with the object and purpose of these rules, the Commissioner shall determine the relevant liability to tax in such manner and in such amount as may be necessary so as to nullify any such benefit or advantage

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