

Brussels, 12 December 2025
(OR. en)

16801/25
ADD 19

FISC 371
ECOFIN 1739

COVER NOTE

From:	Secretary-General of the European Commission, signed by Ms Martine DEPREZ, Director
date of receipt:	11 December 2025
To:	Ms Thérèse BLANCHET, Secretary-General of the Council of the European Union
No. Cion doc.:	SWD(2025) 421 annex
Subject:	COMMISSION STAFF WORKING DOCUMENT Mind the Gap Report Challenges and opportunities for tax compliance and tax expenditure in the EU - <u>Malta</u>

Delegations will find attached document SWD(2025) 421 annex.

Encl.: SWD(2025) 421 annex



EUROPEAN
COMMISSION

Brussels, 11.12.2025
SWD(2025) 421 final

PART 20/29

COMMISSION STAFF WORKING DOCUMENT

Mind the Gap Report
Challenges and opportunities for tax compliance and tax expenditure in the EU
Malta

Country fiche: Malta

Summary box: Areas of Strength and Areas for Improvement

Areas of Strength

- **Malta's tax administration is undergoing a modernisation process, building on a relatively good performance in terms of digitalisation.** The Malta Tax and Customs Administration (MTCA) is enhancing its technological capacities for better data management and analysis, including by employing Artificial Intelligence (AI) tools. E-filing rates for corporate income taxation (CIT) and personal income taxation (PIT) are slightly above the EU average and, in the case of PIT e-filing, increasing. In addition, the MTCA pre-fills PIT tax returns. The MTCA also provides a variety of online tools and services, and the level of taxpayers' satisfaction on the support for filing tax returns is among the highest in the EU.

Areas for Improvement

- **Malta has a large VAT compliance gap.** While Malta has recently been taking measures to increase the efficiency of the tax administration and tackle tax non-compliance, the VAT compliance gap remains large and is the second highest in the EU. The implementation of the VAT in the Digital Age (ViDA) package should support VAT compliance by improving VAT collection in particular in important areas for the Maltese economy, such as short-term tourism rentals and ride-sharing platforms.
- **Malta does not currently perform CIT and PIT gap estimation, although it is contributing to EU initiatives in this area.** Malta is not among the EU Member States that officially estimate or publish national tax gaps, besides the participation in the EU VAT gap exercise, but it is participating in the EU TADEUS/FISCALIS project to improve tax gap estimations. Measuring tax gaps could provide valuable insights into compliance levels and enforcement effectiveness, also taking into account that the size of the shadow economy in Malta is estimated to be higher than the EU average.
- **Malta could enhance fiscal transparency and accountability by systematically reporting on - and evaluating - tax expenditures.** There is no indication of tax expenditure reporting by the Maltese authorities. The International Monetary Fund (IMF) has repeatedly recommended Malta to publish estimates of the revenue losses associated with both existing and newly introduced tax expenditures, which would also support an assessment of their effectiveness. In addition, some features of the Maltese corporate tax system may result in a large gap between statutory and effective CIT rates.

1. Snapshot of Tax System: Tax Revenues and their Sources

Malta's total tax revenue represented 26.6% of GDP in 2023, compared to an average of 39.0% across EU Member States. The 2023 figure also reflects a downward trend for this indicator, with a 4.1 percentage points decline from 30.7% in 2013 ⁽¹⁾. The Maltese tax system features a high reliance on corporate taxation, which in 2023 represented 4.2% of GDP and 15.8% of total tax revenue (almost twice the EU average, i.e. 8.2% in the same year). Corporate income taxation is a subset of capital taxation, which in 2023 amounted to 25.3% of total tax revenue, 3.4 percentage points above the EU average. Meanwhile, the share of consumption taxation stood at 33.4% (EU average of 26.9%) and labour taxation constituted 41.3% of total tax revenue, against an EU average of 51.2%. Looking into certain tax types, environmental taxes are below the EU average (1.5% of GDP in 2023, compared to 2.0% in the EU-27) and, notably, Malta is the only Member State with no revenue from recurrent taxes on immovable property (0.9% of GDP in the EU-27).

The progressivity of labour income taxation in Malta is low. Malta has a relatively low labour tax wedge ⁽²⁾ at all income levels, and the difference in the tax wedge between high-income (167% of average wage) and low-income earners (67% of average wage) is close to zero (compared to 7.8 percentage points in the EU). Malta has a Gini coefficient of equivalised disposable income slightly above the EU average (30.8%, compared to 29.3%) ⁽³⁾, but a share of people at risk of poverty or social exclusion slightly lower (19.7% compared to 21.0%) ⁽⁴⁾. As a result of the relatively low level of taxation and the limited progressivity of the tax structure, the tax and benefit system contributes to income inequality reduction (measured as the difference in Gini coefficients before and after taxes and benefits) by 5.5 percentage points, 2.2 percentage points below the EU average ⁽⁵⁾. The Maltese tax system does not have wealth, inheritance, estate, or gift taxes (although stamp duty may be due on the transfer, whether *inter-vivos* or by inheritance of certain chargeable assets).

On 26 July 2024, following the Commission's proposal, the Council launched an Excessive Deficit Procedure against Malta. Malta's 4.9% budget deficit in 2023 provided the basis for the decision ⁽⁶⁾. On 21 January 2025, the Council recommended that Malta should put an end to the excessive deficit situation by 2027 ⁽⁷⁾. According to the Council Recommendation, Malta should ensure that the

¹ Data on tax revenues are based on European Commission: [Data on Taxation Trends](#), edition 2025 (reference year 2023). The 2026 edition (reference year 2024) will be published in the first quarter of 2026. Preliminary data point to a downward revision of tax revenue data for 2023 (to 26.2% of GDP), followed by an increase of total tax revenues to 28.9% of GDP in 2024: https://doi.org/10.2908/GOV_10A_TAXAG.

² The tax wedge is defined as the sum of personal income taxes and employee and employer social-security contributions net of family allowances, expressed as a percentage of total labour costs (the sum of the gross wage and social-security contributions paid by the employer). Data are based on European Commission, DG ECFIN: [Tax and Benefits Database](#).

³ European Commission, Eurostat [\[ilc_di12\]](#)

⁴ European Commission, Eurostat [\[ilc_peps01n\]](#)

⁵ European Commission, DG EMPL calculations based on EU-SILC survey data.

⁶ This figure was later updated to 4.4% of GDP in 2023. Government deficit decreased to 3.5% of GDP in 2024. For further information: <https://ec.europa.eu/eurostat/en/web/products-euro-indicators/w/2-21102025-AP>

⁷ <https://data.consilium.europa.eu/doc/document/ST-5036-2025-INIT/en/pdf>

nominal growth rate of net expenditure does not exceed 6.0% in 2025, 5.8% in 2026 and 5.8% in 2027 ⁽⁸⁾.

2. Monitoring of Compliance Gaps

2.1. Overview

Malta is not among the EU Member States that officially estimate or publish national tax gaps.

Malta does not produce and report tax gap estimation figures, besides its involvement in the EU VAT gap estimation exercise. In addition, Malta is one of the EU national administrations which participate in the EU TADEUS/FISCALIS project on tax gap estimation ⁽⁹⁾. In particular, the Maltese delegates have been taking part in the discussions on PIT gap estimation and MTIC fraud tax gap estimations. There is no indication of the presence of a dedicated team to estimate tax gaps in Malta.

2.2. Monitoring VAT Compliance Gap

Malta continues to have a large VAT compliance gap ⁽¹⁰⁾. For 2023, the VAT compliance gap was estimated at EUR 405 million ⁽¹¹⁾, or 24.2% of the VAT Total Tax Liability (VTTL) ⁽¹²⁾, well above the EU average of 9.5%. Only one other Member State had a larger VAT compliance gap. Furthermore, Malta's VAT compliance gap, unlike what has been the case for the EU as a whole, has not shown a clear downward trend in recent years. Instead, it has increased by 0.5 percentage points compared to 2022, although a decrease of nearly 2 percentage points can be observed when looking at a longer time horizon from 2019. The government has however announced a crackdown on tax evasion (see section 4.2).

Several factors may have contributed to the small observed increase in VAT non-compliance.

Malta saw a slight increase in the share of services in its economy (+1 percentage point), as well as growth in nominal household final consumption of recreational services, restaurants, and accommodation (+24%). This is likely to have contributed to a somewhat higher VAT compliance gap, as a higher share of services can lead to a higher risk of non-compliance as services are typically harder

⁸ While the assessment of aggressive tax planning risks falls outside the scope of this document, in 2025 Malta received a Country-Specific Recommendation on its tax system stating: "[...] To address remaining aggressive tax planning risks, introduce a withholding tax on outbound payments or equivalent defensive measures, and amend rules on non-domiciled companies". Source: Council of the European Union, COUNCIL RECOMMENDATION on the economic, social, employment, structural and budgetary policies of Malta, <https://data.consilium.europa.eu/doc/document/ST-10978-2025-INIT/en/pdf>.

⁹ European Commission: Directorate-General for Taxation and Customs Union (2025), *Towards a common approach to tax gap estimation in the EU – Fiscalis Project Group 008 – Final report*, Publications Office of the European Union, <https://data.europa.eu/doi/10.2778/3068071>

¹⁰ The VAT compliance gap is an estimate of revenues lost due to VAT fraud, evasion and avoidance, bankruptcies and financial insolvencies, or miscalculations.

¹¹ See European Commission, Syntesia, Poniatowski, G., Bonch-Osmolovsky, M., Śmietanka, A. et al., *VAT gap in Europe – Report 2025*, Publications Office of the European Union, Luxembourg, 2025, <https://data.europa.eu/doi/10.2778/7868422>.

¹² The VAT Total Tax Liability (VTTL) is the theoretical tax revenue that would be collected in a situation of perfect taxpayer compliance, assuming an unchanged net VAT base.

to tax effectively compared to traditional goods. In addition, the demand for tourism, measured by nights spent in tourist accommodations, also increased (+21%).

The growth in the number of bankruptcy declarations (+73.4% in 2023) is likely to have complicated VAT collection procedures, further pushing the VAT compliance gap upward. In terms of collection efficiency, several indicators point to problems. As of 2023, the stock of gross outstanding revenue arrears at year-end reached just over EUR 7 billion, or more than 5% of GDP, with a notable increase of over EUR 400 million over the previous year. It has continued to increase significantly since 2019, with the vast majority of revenue arrears (EUR 6 billion) considered not collectable. A large portion of the gross arrears balance, around EUR 5 billion (of which over 90% are deemed not collectable), is attributed to VAT ⁽¹³⁾.

At the same time, some administrative measures may have mitigated the rise in the VAT compliance gap. An AI-driven system, announced in 2023 and currently operational, has significantly increased surveillance on tax evaders through monthly scans and audit trails ⁽¹⁴⁾. The government is also targeting deterrence through a significant increase in fines ⁽¹⁵⁾.

In 2023, VAT losses due to Missing Trader Intra-Community (MTIC) fraud ⁽¹⁶⁾ were estimated at around EUR 80 million in Malta ⁽¹⁷⁾. They have displayed an overall rising trend over time, increasing by around EUR 40 million between 2010 and 2023.

2.3. Corporate and Personal Income Tax Compliance Gaps, and Measures of the Shadow Economy

The European Commission is not aware of any corporate income tax (CIT) and personal income tax (PIT) compliance gap estimation activities in Malta at the time of writing this document. Estimating CIT and PIT compliance gaps could help policymakers understand the nature and magnitude of the problems related to CIT and PIT tax collection. In addition, measuring and monitoring tax compliance gaps can support tax administration in assessing the effectiveness of their tax policy actions.

The size of the shadow economy in Malta is above the EU average and relatively stable over recent years. In 2022, the shadow economy in Malta represented 23.4% of its GDP (Schneider and

¹³ See 2023 annual audit report by the Auditor General, Public Accounts, National Audit Office, available at <https://nao.gov.mt/wp-content/uploads/2024/12/PublicAccountsDec2024.pdf>

¹⁴

https://www.maltatoday.com.mt/news/national/136334/no_hiding_now_government_cracking_down_hard_on_tax_evasion_caruana_tells_parliament

¹⁵ See section 4.1

¹⁶ Missing Trader Intra-Community (MTIC) fraud is a form of VAT fraud that exploits VAT-free cross-border trade within the EU. Fraudsters purchase goods VAT-free from another Member State, sell them domestically, charge VAT to their customers, and disappear before paying this VAT to the tax authorities.

¹⁷ European Commission, CASE, Poniatowski, G., Śmietanka, A., and Skowronek, A., *VAT compliance gap due to Missing Trader IntraCommunity (MTIC) Fraud – Final Report Phase II*, Publications Office of the European Union, Luxembourg, 2024, <https://data.europa.eu/doi/10.2778/6433841>.

Asllani 2023, for the European Parliament) ⁽¹⁸⁾. This ratio is 5.8 percentage points above the EU-27 unweighted average. Figures from the 2013-2022 decade range from 22% in 2019 to 24.3% in 2013, with an average of 23.5%. The report attributes the most significant impact to indirect taxes (around 40% of the total). A separate analysis published by the Central Bank of Malta points out to the Maltese shadow economy standing at just below 21% of official GDP in 2019 ⁽¹⁹⁾ and remaining relatively stable over the previous decade.

2.4. Other Compliance Gaps

The European Commission is not aware of any other compliance gap estimation activities in Malta at the time of writing this document. There are no official programmes or published figures for compliance gaps related to other tax measures (e.g. excise duties, environmental or energy taxes).

3. Monitoring of Policy Gaps

3.1. Tax Expenditures

There is no indication of dedicated tax expenditure reporting and evaluation by the Maltese authorities. There is an obligation for tax expenditure reporting laid down in the EU's budgetary framework (Council Directive (EU) 2024/1265) of 29 April 2024 amending Directive 2011/85/EU. In the context of the 2024 IMF Article IV consultation ⁽²⁰⁾, the IMF staff recommended the Maltese authorities to undertake a tax expenditure analysis, following two technical assistance missions conducted in late 2022 and early 2023 with the primary objective of assessing Malta's CIT system. Also, in 2018 the IMF Technical Assistance Report-Fiscal Transparency Evaluation concluded that *"Malta does not yet publish an estimate of revenue loss from tax expenditures, which may be sizeable"* ⁽²¹⁾. It recommended the Maltese authorities to: *"Better report and control tax expenditures by: (i) publishing a regular report that includes estimated revenue loss of all existing and new tax expenditures; and (ii) setting budgetary targets to control the level of tax expenditures"*.

The Maltese corporate tax system may result in a large gap between statutory and effective CIT rates. The statutory tax rate for domestic enterprises is 35% (a flat rate). However, Malta operates a full imputation system with a tax refund mechanism, which significantly reduces the effective tax burden. In particular, shareholders receiving dividends from a Maltese entity may be entitled to a tax refund of part of the tax paid in Malta. The tax refund may be either a six-sevenths refund, a five-sevenths refund, or a two-thirds refund of the tax paid by the Maltese distributing company on the distributed

¹⁸ European Parliament (2022), *Taxation of the informal economy in the EU*.

[https://www.europarl.europa.eu/RegData/etudes/STUD/2022/734007/IPOL_STU\(2022\)734007_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/STUD/2022/734007/IPOL_STU(2022)734007_EN.pdf)

¹⁹ Abela, G., Gauci, T. M., & Rapa, N. (2022). An Analysis of The Shadow Economy in Malta: A Currency Demand and MIMIC Model Approach. *International Journal of Economics and Financial Issues*, 12(1), 41–50.
<https://doi.org/10.32479/ijefi.11548>

²⁰ International Monetary Fund. European Dept. "Malta: 2024 Article IV Consultation-Press Release; and Staff Report", *IMF Staff Country Reports* 2025, 017 (2025), accessed October 7, 2025,
<https://doi.org/10.5089/9798400299704.002>

²¹ <https://www.imf.org/en/Publications/CR/Issues/2018/09/27/Malta-Technical-Assistance-Report-Fiscal-Transparency-Evaluation-46266>

profits (based on the nature of the income to be distributed). In practice, the design of Malta's refund system allows most shareholders to claim a refund of 6/7th of the corporate tax paid in Malta, reducing the effective tax rate from 35% to 5%. The features of the Maltese corporate tax system result in a large corporate tax base compared to other EU Member States (see section 1).

A recently adopted tax measure will raise the effective CIT rate on an elective basis. Malta has recently introduced a regulation on a Final Income Tax Without Imputation (FITWI) ⁽²²⁾. Such provision offers a voluntary election for qualifying entities to pay a 15% CIT rate on chargeable income, without the application of the imputation system ⁽²³⁾. The election for FITWI requires a minimum commitment of five years. In addition, the FITWI liability must in no case be lower than the net effective tax liability that would have resulted under the standard system.

Simulation analysis suggests limited impacts of tax expenditures related to PIT. Based on a European Commission study, a tax expenditure simulation exercise resulted in simulated PIT tax expenditures (particularly in health and other areas) representing 3% of total PIT revenue in Malta. According to the same methodology, the simulated tax expenditures had a very small impact (less than 1%) on disposable household income and a negligible impact on income inequality reduction ⁽²⁴⁾.

3.2. VAT Policy Gap

Malta had a relatively low VAT policy gap ⁽²⁵⁾ compared with the EU average in 2023 ⁽²⁶⁾. The VAT policy gap in Malta was estimated at 37% of the notional ideal revenue ⁽²⁷⁾, or nearly EUR 1 billion, compared to an EU average of 51%. This represents a sharp increase of nearly 6 percentage points compared to 2022, and a considerable increase of over 2.5 percentage points since 2019.

The VAT exemption gap ⁽²⁸⁾ was considerably lower in Malta compared to the EU average in 2023. It was estimated at 22% of the notional ideal revenue (close to EUR 600 million), while the EU average was 38%. This constitutes a large increase compared to 2022 (ca. +6 percentage points). The VAT exemption gap has fluctuated slightly over time, having increased by 3 percentage points since 2019. This particularly low VAT exemption gap is driven by high exports of gaming services, and to a lesser extent by postal services.

²² Legal Notice 188 of 2025, <https://legislation.mt/eli/ln/2025/188/eng>

²³ To be noted that the Global Minimum Tax Directive (Council Directive (EU) 2022/2523 of 14 December 2022, <http://data.europa.eu/eli/dir/2022/2523/oj>), expected to be applied in Malta by 31 December 2029, establishes an effective tax rate of minimum 15% for multi-national entities with consolidated financial revenues of more than EUR 750 million a year.

²⁴ Turrini et al, 2024, *Tax expenditures in the EU: Recent trends and new policy challenges*, https://economy-finance.ec.europa.eu/document/download/7e256d11-bf05-474e-beab-2935cb828030_en?filename=dp212_en.pdf

²⁵ The VAT policy gap refers to the revenue lost due to the application of VAT exemptions and reduced, super-reduced, and zero VAT rates on selected products.

²⁶ See European Commission, Syntesia, Poniatowski, G., Bonch-Osmolovsky, M., Śmietanka, A. et al., *VAT gap in Europe – Report 2025*, Publications Office of the European Union, Luxembourg, 2025, <https://data.europa.eu/doi/10.2778/7868422>.

²⁷ The notional ideal revenue is the benchmark VAT revenue that assumes perfect taxpayer compliance in a situation where the current standard VAT rate is applied to all final consumption and household, government, and NPISH investment.

²⁸ The VAT exemption gap refers to the portion of the VAT policy gap resulting from revenues lost due to the application of VAT exemptions on selected products.

The VAT rate gap ⁽²⁹⁾ was estimated at 15% of the notional ideal revenue (EUR 400 million) in 2023, higher than the EU average of 12%. It has remained stable compared to 2022, as well as when looking at a longer horizon from 2019 to 2023. The VAT rate gap is driven mainly by reduced rates on food, which contribute 8 percentage points, significantly above the EU average of 5 percentage points, and the second highest contribution in the Union. Accommodation and restaurant services also contribute more than average, 3 percentage points as opposed to 2 percentage points in the EU average, also due to the large size of the tourism sector.

The national policy-driven VAT exemption gap ⁽³⁰⁾ was estimated in 2023 at 15% of the notional ideal revenue (EUR 390 million), while the EU average was 11%. This represents a large increase compared to 2022 (ca. +5 percentage points) as well as a notable increase compared to 2019 (+2 percentage points).

4. Effectiveness of Tax Collection and Recovery Systems

4.1. VAT Collection

Malta has put in place a series of measures aimed at increasing the efficiency of tax collection.

The Malta Tax and Customs Administration (MTCA) adopted a 2023-2025 strategy to streamline and modernise tax administration ⁽³¹⁾. An important objective of the plan was to complete the integration of previously separate departments (e.g. customs). The plan also focused on creating a large taxpayers' office and developing a compliance risk management framework. The vision behind the strategy was to improve relations with taxpayers also by providing more services upfront (for example, out of 440 000 taxpayers, more than 360 000 no longer need to file a return). The strategy is showing signs of success: nudging and enforcement measures boosted the percentage of tax returns submitted within the stipulated deadlines from 73% in 2023 to 93% in 2024. In addition, in the first six months of 2024, EUR 300 million in tax arrears were collected and 1 200 repayment agreements were concluded with taxpayers in default ⁽³²⁾.

For the VAT registration, procedures are implemented to avoid frauds, but no risk assessment procedure is in place ⁽³³⁾. For VAT, the tax administration cross-checks the information in the register with public information sources, it informs taxpayers online about their VAT-related tax obligations and keeps records about rejected VAT applicants; it does not integrate a risk assessment procedure in the registration process. The administration now ensures that inactive taxpayers are removed from the

²⁹ The VAT rate gap refers to the portion of the VAT policy gap resulting from revenues lost due to the application of reduced, super-reduced, and zero VAT rates on selected products.

³⁰ The national policy-driven VAT exemption gap represents the part of the VAT policy gap that can in principle be influenced by national policies on VAT exemptions. In practice, it consists of revenue forgone from services falling under Article 137 (such as real estate and certain financial services), from the SME scheme, and from national exemptions applied under standstill clauses or derogations.

³¹ <https://mtca.gov.mt/sections/2023/05/10/delivering-transformation-strategic-plan-2023-2025>

³² <https://finanzi.gov.mt/wp-content/uploads/2024/12/Budget-Speech-2025.pdf>

³³ Commission's Ninth Report on VAT registration, collection and control procedures following Article 12 of Council Regulation (EEC, EURATOM) No 1553/89, [EUR-Lex - 52022DC0137 - EN - EUR-Lex](#). / Answers to the survey sent to the Member States in June 2025 in view of the Tenth Report on the same subject matter.

VAT registry and reports that it now quickly invalidates VAT numbers in case risk signals are received from Eurofisc or other sources, taking less than 15 days. The invalidation is not subject to taxpayer prior information or recourse. Various initiatives are being undertaken to increase on-time filing. Reminders are being sent via email and SMS prior to deadline date to remind taxpayers of their filing obligation. Default notifications and specific telephone calls are done for defaulters as soon as filing deadline elapsed.

The implementation in Malta of the VAT in the Digital Age (ViDA) package, approved in November 2024, should improve VAT collection. ViDA, which will, in certain circumstances, shift the burden of paying VAT to intermediation platforms when offered through the internet, could have a positive impact on VAT revenues in Malta starting from 1 January 2028, because of the popularity of short-term tourist rentals; the impact of this measure could however be affected by a decision (as yet not finalised in Malta) to adopt an opt-out for SMEs ⁽³⁴⁾. EU-funded support for the implementation of ViDA has been provided through the Technical Support Instrument (TSI) project 'Strengthening tax compliance through implementation of real-time reporting in Malta' ⁽³⁵⁾.

Malta's tax administration has a compliance strategy and adopted specific IT tools. The compliance strategy identifies the most significant compliance risks (including for VAT) and contains dedicated actions addressed to the key taxpayer segments and maintains a risk register. In addition, analytics, data management, and statistical analysis capabilities have been introduced through the implementation of Statistical Analysis System (SAS) software. This enables the Administration to generate risk scoring results more effectively and support data-driven decision-making.

The administration has developed a risk-based approach for audits and specific sector-related tools to improve compliance. Under the risk-based approach, sectors are selected based on insights derived from the EU risk assessment model. A formal annual audit plan has been integrated into the operations of the Verification and Audit Directorate to strengthen strategic alignment and enhance audit effectiveness. Additionally, during 2025, an automated workflow system was implemented to streamline audit processes, reduce their duration, and facilitate the measurement of outcomes. Audits have been diversified to encompass a broad range of audit types. The tax administration, cooperates with other agencies, updates and reviews audit plans and monitors the quality of the audit function in accordance with a documented process. Finally, in addition to aspect-specific and fully fledged audits, the administration also issues compliance notices to inform taxpayers of inaccuracies or misreporting in their VAT returns. This proactive measure promotes voluntary compliance and encourages timely rectification.

While tax refunds have improved, enforcement remains a challenge, particularly for VAT. As from 2025, VAT refunds that pass the verification checks are paid within a month. In terms of VAT collection, to make the collection system more flexible and targeted, the administration introduced a model that analyses the debtors. Through this report the ageing and type of debt is easily identified and tackled accordingly. The stock of arrears, the vast majority of which are deemed uncollectable, remains however elevated; around 70% of arrears pertain to VAT-specific arrears.

³⁴ <https://whoswho.mt/en/eu-s-new-major-vat-overhaul-what-it-means-for-malta>

³⁵ For additional information, see Technical Support Instrument – Malta Country Factsheet: https://reform-support.ec.europa.eu/our-projects/country-factsheets/malta_en

4.2. Tax Recovery

Tax evasion is still high in Malta, but the government has put in place new IT tools. Tax evasion and non-payment of due amounts is a significant issue in Malta, with high levels of unpaid tax arrears. A new AI-driven system, announced in 2023 and now operational, has increased surveillance on tax evaders. The newly implemented system provides the MTCA with a risk score for each taxpayer on all taxes, helping authorities to pinpoint who is a risk. The scoring list is refreshed on a monthly basis. The system is also capable of providing authorities with data to help identify irregularities. Besides identification of non-compliant taxpayers, the government is also targeting deterrence, with a significant increase in fines, and is aiming to accelerate procedures followed to recover amounts due and to incentivise people to comply spontaneously ⁽³⁶⁾.

Tax arrears in Malta have been significantly above the EU average in recent years. The closing stock of tax arrears as a percentage of total revenue collected at year-end in Malta has increased between 2018 and 2023, from 98.7% to 119.8%, compared to the EU average of 30.7% in 2023. Furthermore, only 13.1% of this figure was considered collectable in 2023 ⁽³⁷⁾.

Average times to decide on contestations of tax claims in Malta may be excessively long. In Malta, 4-6 months is the time needed on average to decide at administrative level on contestations of tax claims, but a final decision to solve contestations of tax claims may take on average 6 years, or longer if the case includes court proceedings. This length may be detrimental to the success of the recovery.

The MTCA is currently undergoing structural changes in its operations and division of duties to effectively address assistance requests received from other Member States. The new structure is considering assigning the tasks within the Central Liaison Office to the respective sections, to ensure efficient execution of related requests. As a requested Member State, Malta partially respects the deadlines set by the Regulation.

Rules and practices vary across all main taxes (VAT, income taxes, excise duties and other national taxes). In particular, recovery periods vary, but grouping tax recovery when multiple proceedings are brought against the same debtor is possible, however legal amendments are required to harmonise the collection process. Recovery of all these taxes falls under the competence of the same authority, the MTCA.

Malta has specific legislation in place to deal with cooperation between insolvency administrators and the tax recovery authorities. Tax authorities are allowed to exchange information with insolvency administrators concerning assets that could be used to recover unpaid claims in insolvency proceedings. However, this exchange does not cover information obtained from other Member States under DAC or other EU legislation.

³⁶ <https://www.independent.com.mt/articles/2025-08-04/local-news/What-needs-to-be-collected-will-be-collected-Finance-Minister-toughens-stance-on-tax-evasion-6736272171>

³⁷ Source: ADB, CIAT, IOTA, IMF, OECD, International Survey on Revenue Administration, Indicators: "Closing stock of arrears at year end as percentage of total revenue collected." and "Closing stock of collectable arrears as percentage of closing stock of arrears", <http://isoraodata.org>

In 2024, the Commission started an infringement procedure under Article 258 TFEU as Malta did not provide effective assistance for the recovery of tax claims from other Member States, contrary to the Recovery Directive. In particular, the Maltese legislation did not consider the uniform instrument permitting the enforcement (UIPE) from another Member State to be an executive claim in its territory and it required the confirmation by the Maltese Law Courts. Since March 2025, Malta has amended its relevant legislation recognising the UIPE as an executive claim and changed other procedural rules relevant for recovery assistance.

Although Malta has a strategy to modernise its tax administration, it currently does not have a dedicated tax recovery strategy/plan. Also, the MTCA does not publish a regular tax recovery activity report.

4.1. Use of Directive on Administrative Cooperation (DAC) ⁽³⁸⁾ Instruments and Data ⁽³⁹⁾

Malta uses DAC1 ⁽⁴⁰⁾ and DAC2 ⁽⁴¹⁾ data for assessing taxation on individuals in the field of personal income tax. DAC1 (categories of income) ⁽⁴²⁾ and DAC2 (financial accounts) data is currently used for domestic risk assessment analysis ⁽⁴³⁾ followed, where relevant, by targeted tax audits.

DAC data matching rates concerning individuals ⁽⁴⁴⁾, are not available for DAC1 and under the EU average for DAC2. The average matching rate, measuring success in identifying taxpayers with DAC data, for the year 2024 is 72% for DAC2, the EU-average being at 87%. Malta experienced recurrent technical issues in the past but took measures to tackle them. The Maltese tax administration is currently undergoing the TSI Project 'Enhancing the quality and use of tax information exchanged between Member States in the context of the Directive on Administrative Cooperation (DAC)' in collaboration with the Commission to improve the use of received DAC data ⁽⁴⁵⁾.

³⁸ Council Directive 2011/16/EU of 15 February 2011 on administrative cooperation in the field of taxation and repealing Directive 77/799/EEC, as subsequently amended

³⁹ Sources: Yearly Assessment 2025; EU-AIAC statistics 2024 – Subject to confidentiality clause on DAC art. 23a

⁴⁰ Council Directive 2011/16/EU of 15 February 2011 on administrative cooperation in the field of taxation and repealing Directive 77/799/EEC

⁴¹ Council Directive 2014/107/EU of 9 December 2014 amending Directive 2011/16/EU as regards mandatory automatic exchange of information in the field of taxation

⁴² Income from employment, Director's fees, Pensions, Immovable properties

⁴³ Risk assessment: tax risk assessment is a key element of modern tax administration. It allows tax authorities to identify indicators that suggest specific taxpayers or arrangements may pose an increased risk to their jurisdiction and require further actions in terms of compliance. In general, EU tax authorities use automated methods based on domestic data and information received from other jurisdictions. Yet, a manual element may remain, as (i) tax authorities vary in terms of whether tax risk assessment is conducted centrally by a specialist risk assessment team incorporating input from the compliance function, or locally by the compliance team (or tax inspector); (ii) some data types remain challenging to be automatically processed, e.g. literal summaries.

⁴⁴ The matching rate indicates to what extent a Member State has been able to identify their taxpayers in their national tax databases with information received from other Member States under the DAC. Such matching is necessary to ensure that the data can be used for tax compliance purposes. The matching rates mentioned in this report are based on the metrics approved by the tax authorities in the TADEUS meeting of December 2024

⁴⁵ For additional information, see https://reform-support.ec.europa.eu/enhancing-quality-and-use-tax-information-exchanged-between-member-states_en

Due to limited resources dedicated to the automatic exchange of information and current restructuring, Malta does not use DAC3 ⁽⁴⁶⁾ data (rulings) and makes a very limited use of DAC4 ⁽⁴⁷⁾ (country-by-country reports) and DAC6 ⁽⁴⁸⁾ (cross-border arrangements) data. The Maltese tax administration is currently exploring methods to use the available data more efficiently. However, the lack of human resources may slow down this process.

Malta does not use the advanced instruments provided for in DAC to facilitate cooperation on specific cross-border issues, such as simultaneous audits. Looking at the past three years, Malta did not initiate any simultaneous audit and did not participate in other cases initiated by other Member States in 2024.

In conclusion, Malta has faced difficulties with the processing of data resulting from automatic exchange on information. While it has started to put in place measures to address the issues encountered, there is room to further improve the situation by making more systematic use of the data available and better estimating the outcome, with a view to improving the tax revenues that should be derived from these exchanges.

5. Digitalisation and Compliance

5.1. Digital Transformation, Skills, and Culture

The MTCA aims to advance its digital transformation. The MTCA has developed a strategy for digital transformation and a strategy to build a digital culture within the administration. The MTCA Strategic Plan 2023 – 2025 ⁽⁴⁹⁾ foresees to strongly increase the central role of the administration in terms of digital and intelligence aspects. The plan also highlights the need to embrace digital technology and transformation, ensure that the organisation can measure its performance, and effectively leverage third-party expertise to overcome the possible lack of internal resources and specialisations required. The MTCA is working on identifying the future skills required by the administration for a successful digital transformation. In particular, a business analysis has outlined key training initiatives for the IT Department to ensure the organisation develops the competencies required to sustain its digital transformation. Furthermore, IT training needs for the MTCA staff have been outlined to identify compulsory and role-specific courses for a customised training plan.

The MTCA requires individuals to use an approved digital identity to access secure digital service. In particular, users need an e-ID account linked to a valid Maltese eID card (for Maltese citizens) or to a Residence Permit Card or Document (for residents).

⁴⁶ Council Directive (EU) 2015/2376 of 8 December 2015 amending Directive 2011/16/EU as regards mandatory automatic exchange of information in the field of taxation

⁴⁷ Council Directive (EU) 2016/881 of 25 May 2016 amending Directive 2011/16/EU as regards mandatory automatic exchange of information in the field of taxation

⁴⁸ Council Directive (EU) 2018/822 of 25 May 2018 amending Directive 2011/16/EU as regards mandatory automatic exchange of information in the field of taxation in relation to reportable cross-border arrangements

⁴⁹ https://mtca.gov.mt/docs/default-source/documents/mtca-strategic-plan-2023-2025.pdf?sfvrsn=13dc6139_1

5.2. Front-end Digitalisation

5.2.1 Pre-filing

Malta's performance in terms of pre-filing is in line with the majority of EU Member States. Pre-filled tax returns simplify the process and can significantly reduce the compliance burden on taxpayers in terms of time and effort spent preparing and filing tax returns. As for personal income taxation, the MTCA pre-fills PIT returns⁽⁵⁰⁾, like the large majority of tax administrations in EU Member States. In turn, Malta is not among the very few EU Member States that offer (partial) pre-filing for CIT returns⁽⁵¹⁾. In terms of VAT, pre-filled VAT returns have not yet been implemented by the MTCA. Progress with the VAT in the Digital Age (ViDA) package⁽⁵²⁾ will lead to the introduction of digital reporting and e-invoicing in more Member States, thereby providing the conditions to introduce pre-filled VAT returns.

In terms of ease of completing tax returns, survey evidence places Malta slightly below EU average. According to a recent Eurobarometer survey, 45% of citizens in Malta find it very easy or fairly easy to complete their tax return, against an EU average of 49%, placing Malta 18th among EU Member States⁽⁵³⁾.

5.2.2 E-filing

Electronic filing (e-filing) of tax declarations is increasing in Malta, with rates for CIT and PIT above the EU average in 2023. E-filing reduces the administrative burden of tax administrations and also enables lower compliance costs for taxpayers. The e-filing for CIT returns stood at 99.9% in 2023, a slight increase from 2018 (99.1%) but still above the EU average (97.1% in 2023)⁽⁵⁴⁾. In turn, the e-filing rate for PIT returns reflected a significantly growing trend, achieving 91.9% in 2023 vs 69.1% in 2018⁽⁵⁵⁾. Malta's result was also slightly above the EU average (87.1% in the same year).

As for VAT, in 2023 Malta recorded a notable increase in e-filing compared to previous years (92.9%, against the EU average of 99.2% in the same year)⁽⁵⁶⁾. Despite remaining below the EU average, Malta has recorded significant progress between 2018 and 2023, increasing the share of VAT returns filed electronically by almost 70 percentage points.

⁵⁰ OECD Inventory of Tax Technology Initiatives 2024. <https://data-explorer.oecd.org/> Note that data is self-reported by tax administrations and therefore not 100 % objective or comparable.

⁵¹ Ibid.

⁵² [VAT in the Digital Age - European Commission \(europa.eu\)](https://ec.europa.eu/economy_finance/vat-in-the-digital-age)

⁵³ European Commission: Directorate-General for Taxation and Customs Union and Directorate-General for Communication, *Citizens' attitudes towards taxation – Eurobarometer report*, European Commission, 2025, <https://data.europa.eu/doi/10.2778/6066713>.

⁵⁴ International Survey on Revenue Administration data. https://data.imf.org/en/datasets/ISORA:ISORA_LATEST_DATA_PUB

⁵⁵ Ibid.

⁵⁶ Ibid.

5.2.3 Provision of other online Services

The MTCA provides a number of additional online tools and services to taxpayers to help reduce compliance costs ⁽⁵⁷⁾. Available online services include tax calculators, tax payment arrangements and secure messaging services with taxpayers. Taxpayers can also file tax-related objections, upload data files onto the administrations system, access a personalised taxpayer portal that provides an overview across the major taxes, access taxpayers' information captured by third parties and use mobile applications. The goal of the MTCA is to foster a culture of compliance through clear guidelines, user-friendly digital platforms, and effective communication. According to a recent Eurobarometer survey, 65% of citizens in Malta believe that support for filing tax returns provided by the tax administration is either fully adequate or mostly adequate, the second highest level of satisfaction in the EU ⁽⁵⁸⁾.

5.3. Back-end Digitalisation

5.3.1 Use of Artificial Intelligence by the Tax Administration

The MTCA was one of the more recent tax administrations to integrate Artificial Intelligence (AI) and machine learning solutions into its operations. The MTCA is enhancing its technological capacities for better data management and analysis ⁽⁵⁹⁾. In particular, the MTCA Annual Report 2024 ⁽⁶⁰⁾ indicates that an investment of EUR 3.5 million in artificial intelligence software has started delivering the first results by analysing various streams of data about the MTCA's customers, and it was expected to reach its full potential in the beginning of 2025 (see also Section 4.2).

The MTCA has started to use various AI tools to improve tax compliance. During 2023 the MTCA started developing and using AI-driven risk detection software comparing data from VAT and income tax returns, and customs entries, to spot inconsistencies and identifying undeclared income. This incorporates ratio analysis within the same economic sectors to detect anomalies in reported figures, enhancing the precision of risk identification. Additionally, a risk-scoring system categorizes taxpayers by risk using comprehensive data to guide audit planning and enforcement strategies ⁽⁶¹⁾.

5.4 Compliance Risk Management

5.4.1 Compliance Risk Management Strategy

The MTCA Strategic Plan 2023-2025 ⁽⁶²⁾ highlights the importance of developing a permanent risk management function responsible for risks across the different tax types, including income tax, VAT, and excise (except for large taxpayers). The Plan also mentions the need to adopt a standardised approach to identifying, quantifying, and prioritising risks based on the compliance risk

⁵⁷ [Taxpayer service - ISORA – tabs "Online services 1" and "Online services 2"](#).

⁵⁸ European Commission: Directorate-General for Taxation and Customs Union and Directorate-General for Communication, *Citizens' attitudes towards taxation – Eurobarometer report*, European Commission, 2025, <https://data.europa.eu/doi/10.2778/6066713>.

⁵⁹ Taxadmin.ai – Malta country report

⁶⁰ https://mtca.gov.mt/docs/default-source/documents/news/2025/mtca-annual-report---2024.pdf?sfvrsn=cff13864_1

⁶¹ Taxadmin.ai – Malta country report

⁶² https://mtca.gov.mt/docs/default-source/documents/mtca-strategic-plan-2023_2025.pdf?sfvrsn=13dc6139_1

management (CRM) framework developed by the IMF and described in a 2022 IMF Technical Note ⁽⁶³⁾, with special attention to compliance improvement for the large taxpayer segment and the shadow economy.

According to the MTCA Annual Report 2024 ⁽⁶⁴⁾, the Verifications and Audit department recently adopted a systems approach model to increase efficiency. It is based on the interconnection between the outputs of the Risk Management Unit and those of the Tax Audits Directorate and Aspect Audits Directorate. Based on the above, the Risk Management Unit was able to create a Consolidated Risk Register for all the departments. In addition, by the end of 2024 the Risk Management Unit implemented at least 15 VAT Risk Rules and 60 Corporate Income Tax Risk Rules. Work is currently underway on various other rules. A risk assessment framework for transfer pricing is being developed under the TSI project 'Building capacity in Malta to fight aggressive tax planning' ⁽⁶⁵⁾.

5.4.2 Audit Types

The range of post-filing audit activities performed by the MTCA include desk audits, single issue audits, limited scope audits, comprehensive audits as well as avoidance and evasion investigations ⁽⁶⁶⁾. Such large variety of audit activities would support the tax administration's capacity to detect non-compliance and deter non-compliant behaviours. The MTCA also performs interventions after filing before audits, including identification of anomalies and outliers through data analytics to prompt taxpayers' disclosure, risk reviews and requests for further information. Those actions can prompt a more compliant behaviour by taxpayers.

5.4.3 Staff Dedicated to Audit, Investigation and Other Verification Functions

In 2023, less than one fifth of MTCA's full-time equivalents (FTEs) were dedicated to audit, investigation and other verification functions. This share decreased from 39% in 2018 to 17.2% in 2023 ⁽⁶⁷⁾, below the EU average of 32.2% in 2023. The decrease in Malta between 2018 and 2023 is notable and may be an indication of the expected benefits of the introduction of AI in 2023. For example, the use of AI for risk detection can mean audit profiling and selection is less labour intensive, allowing for staff to be allocated to different functions.

5.4.4 Additional Revenue from Audits as a Share of Total Revenue

Survey data suggests that audit activities performed by the MTCA generated additional tax revenue as a percentage of total net revenue of around 0.66% in 2023 ⁽⁶⁸⁾. This figure decreased between 2018 (0.97%) and 2023, against the EU average of respectively 2.8% and 1.6% in the same

⁶³ International Monetary Fund. (2022). Revenue Administration: Compliance Risk Management Overarching Framework to Drive Revenue. Technical Note, 2022/005.

⁶⁴ https://mtca.gov.mt/docs/default-source/documents/news/2025/mtca-annual-report---2024.pdf?sfvrsn=cff13864_1

⁶⁵ For additional information, see Technical Support Instrument – Malta Country Factsheet: https://reform-support.ec.europa.eu/our-projects/country-factsheets/malta_en

⁶⁶ <https://data.rafit.org/regular.aspx?key=74180916> – tab "Post filing enforcement actions" and "interventions after filing, intervention effectiveness"

⁶⁷ Own elaboration based on ISORA Database

⁶⁸ Ibid.

years. Taxpayers in Malta are generally satisfied with the level of online services provided by the MTCA, so the low figure could reflect generally high levels of compliance. However, the relatively low figure compared to the EU average may have also been impacted by the absence of the use of AI technologies for risk identification during the same period.

5.5 Tax Complexity

Malta ranks 3rd out of the 27 Member States in the Tax Complexity Index (TCI) ⁽⁶⁹⁾, where a higher rank corresponds to lower tax complexity. The TCI is based on the Global MNC Tax Complexity Project, a joint research project of Deborah Schanz (LMU Munich) and Caren Sureth-Sloane (Paderborn University). The TCI 2024 places Malta 9th among the Member States with regards to Tax Framework Complexity, and 3rd with regards to Tax Code Complexity. This suggests a strong performance of the country both in terms of the tax processes carried out by the tax authorities (notably in the area of payment and filing, according to the authors), and in terms of the structure of the tax regulations (particularly in the area of depreciation, according to the authors).

⁶⁹ See: <https://www.taxcomplexity.org/> The aim of the Global MNC Tax Complexity Project is to identify the determinants of tax complexity, to develop and maintain an index measuring the level of tax complexity across countries [Tax Complexity Index, TCI] and to examine the effects of tax complexity. The Tax Complexity Index measures the complexity of a country's corporate income tax system as faced by multinational corporations. The closer a country is to the first position of the ranking, the lower level of complexity it exhibits, and vice versa.