

GUIDELINES IN RELATION TO THE AUDIT EXEMPTION RULES

Scope

These guidelines are issued in terms of Article 96(2) of the Income Tax Act (Chapter 123 of the Laws of Malta) and are to be read in conjunction with Legal Notice 139 of 2025 - Audit Exemption Rules, hereinafter referred to as “the Rules”.

It needs to be recalled that Legal Notice 139 of 2025 seeks in part to recognise, for the purposes of the Income Tax Management Act, the exemptions in respect of statutory audit requirements provided for by the Companies Act and/or the Merchant Shipping Act without in any way limiting audit obligations stemming from those Acts or any other Acts.

Definitions

“**review report**” for the purposes of these Rules refers to a report prepared pursuant to a review engagement carried out in accordance with the provisions of International Standard on Review Engagements 2400 (ISRE 2400) (Revised) and any subsequent amendments to that standard and related interpretations, issued or adopted by the International Auditing and Assurance Standards Board (IAASB).

Examples on the application of rule 6 of the Rules - Company registered in Malta benefiting from an exemption provided for in Article 185(2) to the Companies Act

Example 1:

Company A is a company registered in Malta. The following data applies to Company A in respect of Year N and Year N-1, where Year N is the relevant accounting period and Year N-1 is the year before the relevant accounting period:

	Year N-1	Year N
Balance sheet total	€35,000	€40,000
Turnover	€76,000	€90,000
Average number of employees	9	10

Company A satisfies two out of the three criteria established under Article 185(2) of the Companies Act for two consecutive years, namely:

- The balance sheet total is below the specified threshold; and
- The turnover is below the specified threshold.

As such, Company A qualifies for the audit exemption provided through the Rules. According to Rule 6(1) (a) of the Rules, since the company satisfies two out of three of the required criteria, the statutory audit requirement under Article 19(4)(a) of the Income Tax Management Act is deemed to be fulfilled if a review report is prepared instead of a full statutory audit.

Example 2:

Company B is a company registered in Malta. The following data applies to Company B in respect of Year N and Year N-1, where Year N is the relevant accounting period and Year N-1 is the year before the relevant accounting period:

	Year N-1	Year N
Balance sheet total	€38,000	€40,000
Turnover	€75,000	€80,000
Average number of employees	2	2

Since Company B meets all three thresholds for two consecutive years, it qualifies for the exemption provided through the rules. In line with Rule 6(1)(b) of the Rules, the statutory audit requirement is fully waived – no audit or review engagement is required in this case.

Example 3:

Company C is a company registered in Malta and has two wholly owned subsidiaries. The consolidated group figures (i.e. the figures of the parent and its subsidiaries combined) in respect of Year N and Year N-1, where Year N is the relevant accounting period and Year N-1 is the year before the relevant accounting period, are as follows¹:

	Year N-1	Year N
Balance sheet total	€2.8 million net	€3 million net
Turnover	€4.5 million net	€5 million net
Average number of employees	35	35

Under Article 185(5) of the Companies Act, a parent company shall not be treated as qualifying as a small company in relation to an accounting period unless the group of which it is parent qualifies as a small group. A group qualifies as a small group in relation to an accounting period if its parent and subsidiary undertakings, when consolidated, do not exceed the limits of two of the three criteria set out in the said article on the balance sheet date of the parent undertaking.

In this example, the group meets all three criteria for two consecutive years, and therefore the parent company can be treated as qualifying as a small company in relation to an accounting period given that the group of which it is parent qualifies as a small group.

Therefore:

1. If Company C, at an individual level, meets 2 out of 3 criteria laid down in article 185(2) to the Companies Act at an individual level for two consecutive years, it may submit a review report instead of a statutory audit report (Rule 6(1)(a) of the Rules).
2. If Company C, at an individual level, meets all 3 criteria laid down in article 185(2) to the Companies Act at an individual level for two consecutive years, it is fully exempt from the statutory audit requirement (Rule 6(1)(b) of the Rules).

Example 4:

Company D is a company registered in Malta and has two wholly owned subsidiaries. The consolidated group figures (i.e. the figures of the parent and its subsidiaries combined) in respect of Year N, Year N-1 and Year N-2, where Year N is the relevant accounting period, Year N-1 is the year before the relevant accounting period and Year N-2 is two years before the relevant accounting period, are as follows:

	Year N-2	Year N-1	Year N
Balance sheet total	€4.2 million net	€4.1 million net	€5 million net
Turnover	€8.1 million net	€7.9 million net	€8.5 million net
Average number of employees	30	30	35

Even though Company D (the parent company) may happen to satisfy the thresholds under Article 185(2) of the Companies Act based on its individual results, the treatment described in Rule 6(1)(a) or 6(1)(b) of the Rules cannot be applied since Company D does not qualify as a small company given that the group of which it is parent does not qualify as a small group under Article 185(5) of the Companies Act.

It is to be noted that although Company D qualified as a small company in Year N-1, the Rules could not be applied because Company D did not qualify as a small company in Year N-2. A Company should qualify as a small company for two consecutive years.



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