

DAC 6 Reporting

Overview of the DAC 6 reporting obligations

S.L. 123.127

DAC 6, formally known as Directive 2018/822/EU, is a European Union regulation designed to increase transparency and tackle aggressive tax avoidance within the EU. It requires certain cross-border tax arrangements, which meet any one of the prescribed hallmarks, to be reported to tax authorities.

Who is required to report?

In Malta, the responsibility to report falls on primary intermediaries, such as tax advisers, lawyers, and accountants, who assist in creating, promoting, or implementing these cross-border arrangements. However, if such intermediaries exercise their right to waive the obligation to report, as provided for in the Rules, or if there are no such intermediaries involved, then the obligation to report a reportable DAC 6 transaction or arrangement would fall on to the taxpayer.

Which arrangements are reportable?

Satisfying a hallmark indicates that an arrangement could be used or implemented to avoid tax, hence triggering a reporting obligation.

Some categories of Hallmarks are linked to the 'main benefit test', ie. such hallmarks would only be satisfied if the main benefit test is also satisfied.

The main benefit test is deemed to be satisfied if it can be established that the main benefit or one of the main benefits which, having regard to all relevant facts and circumstances, a person may reasonably expect to derive from an arrangement, is the obtaining of a tax advantage.

Below is the list of hallmarks as provided by DAC 6:

A. Generic Hallmarks linked to the Main Benefit Test

1. An arrangement where the relevant taxpayer or a participant in the arrangement undertakes to comply with a condition of confidentiality which may require them not to disclose how the arrangement could secure a tax advantage vis-à-vis other intermediaries or the tax authorities.
2. An arrangement where the intermediary is entitled to receive a fee (or interest, remuneration for finance costs and other charges) for the arrangement and that fee is fixed by reference to a tax advantage (amount or materialisation of such tax advantage).
3. An arrangement that has substantially standardised documentation and, or structure and is available to more than one relevant taxpayer without a need to be substantially customised for implementation.

B. Specific Hallmarks linked to the Main Benefit Test

1. An arrangement whereby a participant in the arrangement takes contrived steps which consist in acquiring a loss-making company, discontinuing the main activity of such company and using its losses in order to reduce its tax liability, including through a transfer of those losses to another jurisdiction or by the acceleration of the use of those losses.
2. An arrangement that has the effect of converting income into capital, gifts or other categories of revenue which are taxed at a lower level or exempt from tax.
3. An arrangement which includes circular transactions resulting in the round-tripping of funds, namely through involving interposed entities without other primary commercial function or transactions that offset or cancel each other or that have other similar features.

C. Specific hallmarks related to cross-border transactions

1. An arrangement that involves deductible cross-border payments made between two or more associated enterprises where at least one of the following conditions occurs:
 - a) the recipient is not resident for tax purposes in any tax jurisdiction;
 - b) although the recipient is resident for tax purposes in a jurisdiction, that jurisdiction either:
 - i. does not impose any corporate tax or imposes corporate tax at the rate of zero or almost zero; or
 - ii. is included in a list of third-country jurisdictions which have been assessed by Member States collectively or within the framework of the OECD as being non-cooperative;
 - c) the payment benefits from a full exemption from tax in the jurisdiction where the recipient is resident for tax purposes;
 - d) the payment benefits from a preferential tax regime in the jurisdiction where the recipient is resident for tax purposes.
2. Deductions for the same depreciation on the asset are claimed in more than one jurisdiction.
3. Relief from double taxation in respect of the same item of income or capital is claimed in more than one jurisdiction.
4. There is an arrangement that includes transfers of assets and where there is a material difference in the amount being treated as payable in consideration for the assets in those jurisdictions involved.

D. Specific hallmarks concerning automatic exchange of information and beneficial ownership

1. An arrangement which may have the effect of undermining the reporting obligation under the laws implementing Union legislation or any equivalent agreements on the automatic exchange of Financial Account information, including agreements with third countries, or which takes advantage of the absence of such legislation or agreements. Such arrangements include at least the following:
 - a) the use of an account, product or investment that is not, or purports not to be, a Financial Account, but has features that are substantially similar to those of a Financial Account;
 - b) the transfer of Financial Accounts or assets to, or the use of jurisdictions that are not bound by the automatic exchange of Financial Account information with the State of residence of the relevant taxpayer;
 - c) the re-classification of income and capital into products or payments that are not subject to the automatic exchange of Financial Account information;
 - d) the transfer or conversion of a Financial Institution or a Financial Account or the assets therein into a Financial Institution or a Financial Account or assets not subject to reporting under the automatic exchange of Financial Account information;
 - e) the use of legal entities, arrangements or structures that eliminate or purport to eliminate reporting of one or more Account Holders or Controlling Persons under the automatic exchange of Financial Account information;
 - f) arrangements that undermine, or exploit weaknesses in, the due diligence procedures used by Financial Institutions to comply with their obligations to report Financial Account information, including the use of jurisdictions with inadequate or weak regimes of enforcement of anti-money-laundering legislation or with weak transparency requirements for legal persons or legal arrangements.

2. An arrangement involving a non-transparent legal or beneficial ownership chain with the use of persons, legal arrangements or structures:
 - a) that do not carry on a substantive economic activity supported by adequate staff, equipment, assets and premises; and
 - b) that are incorporated, managed, resident, controlled or established in any jurisdiction other than the jurisdiction of residence of one or more of the beneficial owners of the assets held by such persons, legal arrangements or structures; and
 - c) where the beneficial owners of such persons, legal arrangements or structures, as defined in Directive (EU) 2015/849, are made unidentifiable.

E. Specific hallmarks concerning transfer pricing

1. An arrangement which involves the use of unilateral safe harbour rules.
2. An arrangement involving the transfer of hard-to-value intangibles. The term "hard-to-value intangibles" covers intangibles or rights in intangibles for which, at the time of their transfer between associated enterprises:
 - a) no reliable comparables exist; and
 - b) at the time the transaction was entered into, the projections of future cash flows or income expected to be derived from the transferred intangible, or the assumptions used in valuing the intangible are highly uncertain, making it difficult to predict the level of ultimate success of the intangible at the time of the transfer.
3. An arrangement involving an intra-group cross-border transfer of functions and, or risks and, or assets, if the projected annual earnings before interest and taxes (EBIT), during the three-year period after the transfer, of the transferor or transferors, are less than 50% of the projected annual EBIT of such transferor or transferors if the transfer had not been made.

In the event that a transaction or arrangement satisfies any of the above hallmarks, report must be filed within 30 days from when the arrangement is made available or put into action. Failure to report a required arrangement can lead to penalties and fines.