National Audit Office
MALTA

Performance Audit

Verifying Income Tax Returns

Performance Report

Our performance audits evaluate the efficiency, effectiveness, and economy of public sector activities to determine whether resources are being used optimally. We provide evidence-based recommendations to help public bodies enhance service delivery and achieve better outcomes for citizens.

Report by the Auditor General

This report has been prepared under sub-paragraph 8(a)(ii) of the First Schedule of the Auditor General and National Audit Office Act, 1997 for presentation to the House of Representatives in accordance with sub-paragraph 8(b) of the First Schedule of the said Act.



Charles Deguara
Auditor General

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National Audit Office
November 2026

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Abbreviations

AI	Artificial Intelligence
CIT	Corporate Income Tax
ECA	European Court of Auditors
FIAU	Financial Intelligence Analysis Unit
IMF	International Monetary Fund
ISSAI	International Standard of Supreme Audit Institutions
ITCAS	Integrated Tax and Customs Administration System
LTO	Large Taxpayers Office
MBR	Malta Business Registry
MTCA	Malta Tax and Customs Administration
MoU	Memorandum of Understanding
NAO	National Audit Office
PIT	Personal Income Tax
PLM	Programme Logic Model
SAS	Statistical Analysis System
S.L.	Subsidiary Legislation
VAT	Value Added Tax
VAD	Verification and Audit Department

Key facts

Why this audit?

Income tax is material, and self-assessment makes effective compliance management essential

Audit context

€ 3.4bn
Income tax revenue in 2025

51%
Share of Government taxation revenue in 2025

82,127
PIT filer population, YA 2025

44,243
CIT filer population, YA 2025



Self-assessment
Taxpayers carry primary responsibility for declaring income correctly and on time.

Transformation
MTCA is modernising its organisational structure, systems, analytical capabilities, and compliance framework.

Audit question
Are appropriate mechanisms in place to support accurate reporting and voluntary compliance?

Malta Tax and Customs Administration (MTCA)
The Commissioner for Tax and Customs is responsible for the administration and collection of income tax (including Capital Gains & Tax on Property Transfers), Duty on Documents & Transfers, Value Added Tax and Customs & Excise duties. The MTCA is also responsible for the collection of Social Security Contributions.

MTCA Tax Administration Framework

Taxpayers' remit	MTCA's remit
Voluntary compliance with statutory obligations: registration, record-keeping, accurate and timely tax returns, and payments of taxes due.	Foster and facilitate voluntary compliance through education, service delivery, simplified procedures, risk-based enforcement, verification and audit activities.

Overall outcome: Fair and efficient tax collection, stronger compliance behaviour, and protection of public revenue

Income Tax Flow Diagram



MTCA reform initiatives

MTCA reform initiatives to further encourage income tax voluntary compliance and strengthen its fiscal enforcement

43 projects across technology, governance, people, policy and operational standards

Voluntary Compliance	Enablers	Fiscal Enforcement
Simpler services, improved taxpayer register and timely filing support	Technology, data, governance, skills and standardised processes	Risk-based audit selection, stronger follow-up and enforcement focus

Expected direction: Improved compliance behaviour, better targeting of high-risk taxpayers and stronger revenue protection

Executive Summary

Why this Audit?

Income tax is one of Malta's most significant sources of Government revenue, generating approximately €3.4 billion in 2025, which constituted 51 per cent of the total government tax revenue. Given Malta's self-assessment framework, taxpayers are primarily responsible for accurately declaring their income, making effective compliance management essential to safeguarding public revenue. At the same time, the Malta Tax and Customs Administration (MTCA) is undergoing a significant transformation programme aimed at modernising tax administration, strengthening compliance management, and enhancing operational efficiency.

Against this backdrop, the National Audit Office (NAO) examined whether MTCA has appropriate mechanisms in place to support accurate reporting in personal and corporate income tax declarations and promote voluntary compliance. The audit focused on MTCA's strategic transformation programme, filing compliance management, and the application of risk-based approaches to verification, audit selection and enforcement activities.

NAO's Key Observations

The audit found that MTCA has established a clear strategic direction through its Strategic Plan 2023 – 2025 *Delivering Transformation* and has initiated a broad transformation programme centred on organisational reform, digitalisation, data analytics and enhanced compliance management. Initiatives such as the implementation of Statistical Analysis System (SAS) and the development of new risk management structures demonstrate a commitment towards a more modern and intelligence-led tax administration. The SAS is primarily utilised by MTCA for data management and analytics, enabling the integration of multiple data sources, data visualisation as well as reporting through interactive dashboards and reports.

In view that a reengineering process is still being, understandably undertaken, MTCA is still encountering a range of challenges. The audit identified various factors affecting the reliability of the taxpayer register, including historical maintenance backlogs, fragmented data environments and on-going data-quality issues. While corrective action is being taken, further improvements and continuous maintenance are required to strengthen taxpayer data governance as well as support effective compliance management.

To date, on-time filing compliance remains below expected international benchmarks, particularly among corporate taxpayers. The audit identified significant volumes of outstanding tax returns, including returns that have remained unresolved for extended periods, in some instances, spanning over 25 years. Following the merger of MTCA, an extensive cleansing programme is being carried out.

MTCA's risk-based compliance framework is still maturing. While new risk assessment tools and governance structures have been introduced, audit selection processes is still in the process of benefitting from stronger documentation and audit trails. In addition, available resources limit MTCA's capacity to address all material risks identified through its risk assessment systems.

The audit also raises concerns about the effectiveness of the current penalty framework in conjunction with the non-filing of income tax returns. Penalties are being imposed once taxpayers comply with their income tax obligations, a process that in some cases may take several years. Consequently, the current regime may not always provide a sufficiently timely deterrent against non-compliant behaviour.

Overall, the audit concludes that MTCA has laid important foundations for a more integrated, data-driven and risk-based tax administration while focusing on increasingly influencing taxpayers' behaviour towards self-compliance. At the same time, this Review noted areas where further improvement is required to realise the benefits of its ongoing transformation programme, amongst others in conjunction with taxpayer data governance, filing compliance management, audit processes, operational capacity and performance monitoring.

Recommendations

The NAO considers that MTCA should continue building on its transformation programme by strengthening the governance, planning and accountability arrangements underpinning income tax administration. Priority should be given to improving implementation planning for future strategies, institutionalising taxpayer register maintenance, strengthening filing compliance management, reviewing the effectiveness of the penalty framework, enhancing audit documentation and audit trails, and ensuring that identified compliance risks are adequately linked to available resources and intervention strategies.

The NAO also recommends strengthening quality assurance arrangements across the audit and objections lifecycle, while enhancing strategic and operational performance reporting to support accountability, learning and continuous improvement.

Ultimately, the success of MTCA's transformation programme will depend not only on the implementation of new systems and technologies, but also on the effectiveness of the governance, monitoring and management arrangements supporting them. Strengthening these foundations will be essential to improving voluntary compliance and safeguarding the integrity of Malta's income tax system.

Chapter 1

Terms of Reference

1.1 Introduction

1.1.1 Income tax represents one of the most significant and material sources of Government revenue in Malta with a total income tax revenue for 2025 amounting to around €3.4 billion.[1] Both personal income tax (PIT) and corporate income tax (CIT) play a central role in sustaining public finances and supporting the delivery of essential public services. PIT is a direct tax imposed on the chargeable income of individuals, based on their residence and domicile status. On the other hand, CIT is the tax levied under the Income Tax Act on the chargeable income and capital gains of companies and other entities which are treated as companies for tax purposes. At this juncture, it is to be noted that Malta's income tax system is largely based on self assessment, placing a high level of responsibility on taxpayers to correctly declare their income.

1.1.2 Against this background, this Chapter discusses the following:

- Overview of Malta's income tax administration system;
- Institutional developments relating to Malta's income tax and administration;
- Audit scope and objectives;
- Audit methodology and limitations; and
- Report structure.

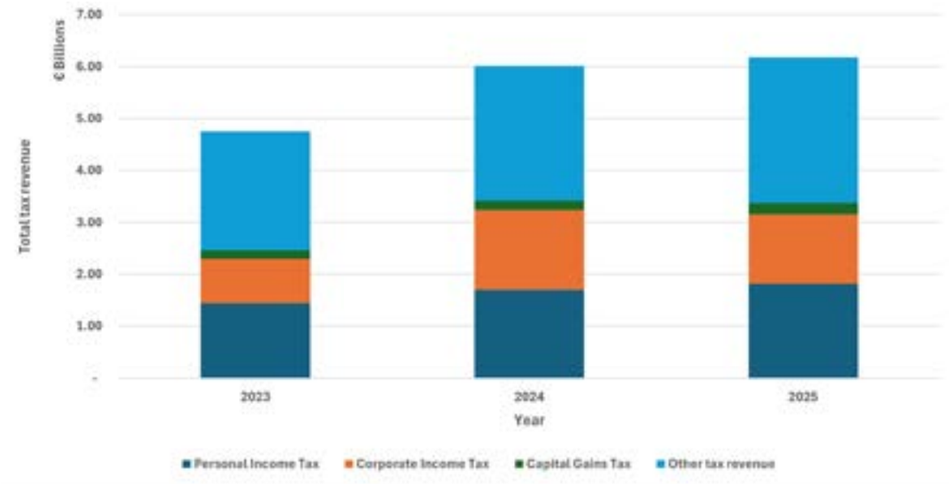
1.2 Overview of Malta's income tax administration system

1.2.1 In 2025, income tax generated from PIT and CIT amounted to 51 per cent of the total Government taxation revenue.[2] Over the period 2023 to 2025, income tax revenue (PIT & CIT) also increased by 37 per cent. Figure 1 refers.

[1] MTCA, 2025. *MTCA Annual Report 2025*, p. 82.

[2] Taxation includes all types of direct and indirect tax as well as social security contributions.

Figure 1: Income tax as a share of total Government revenue generated from taxation [2023 to 2025]

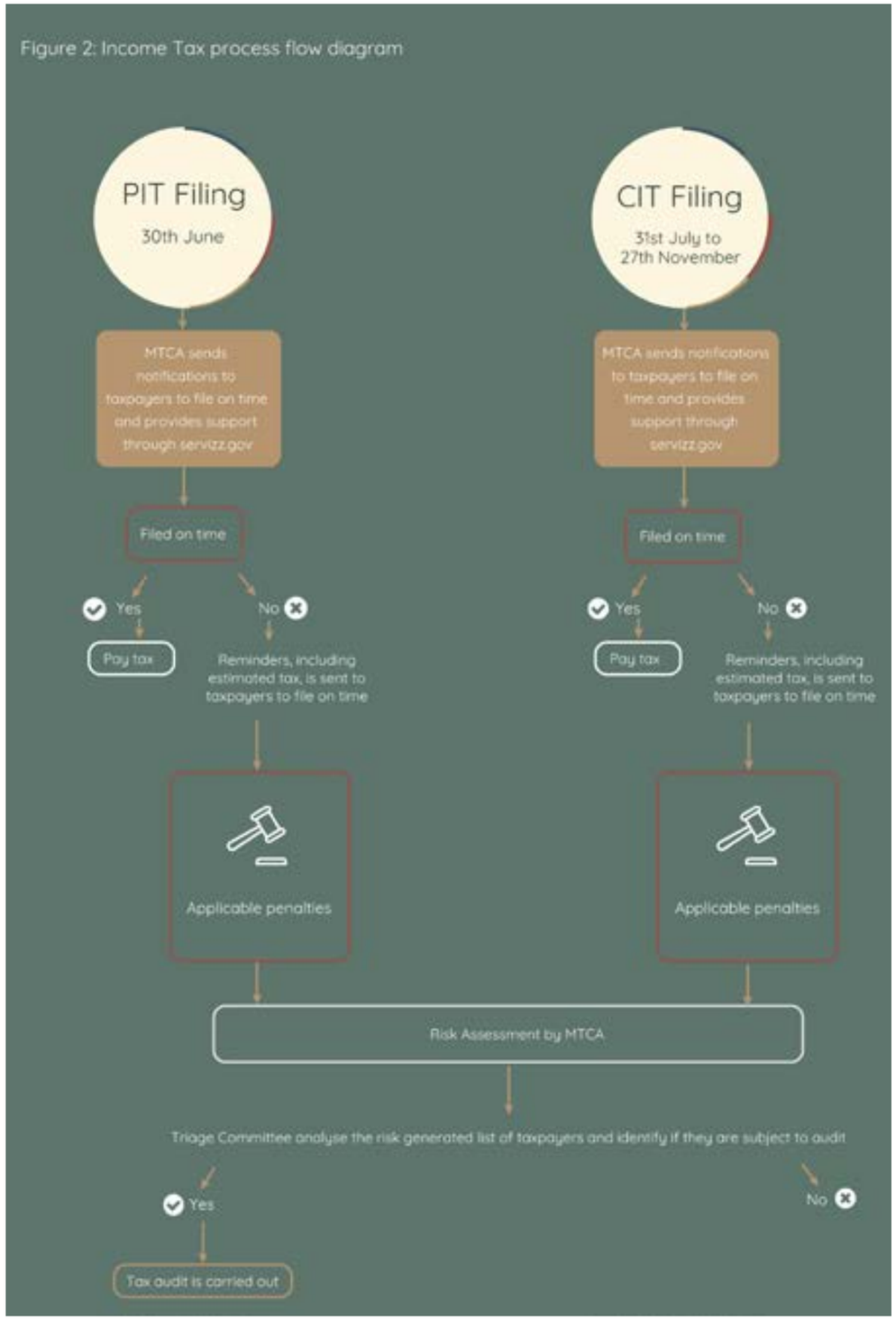


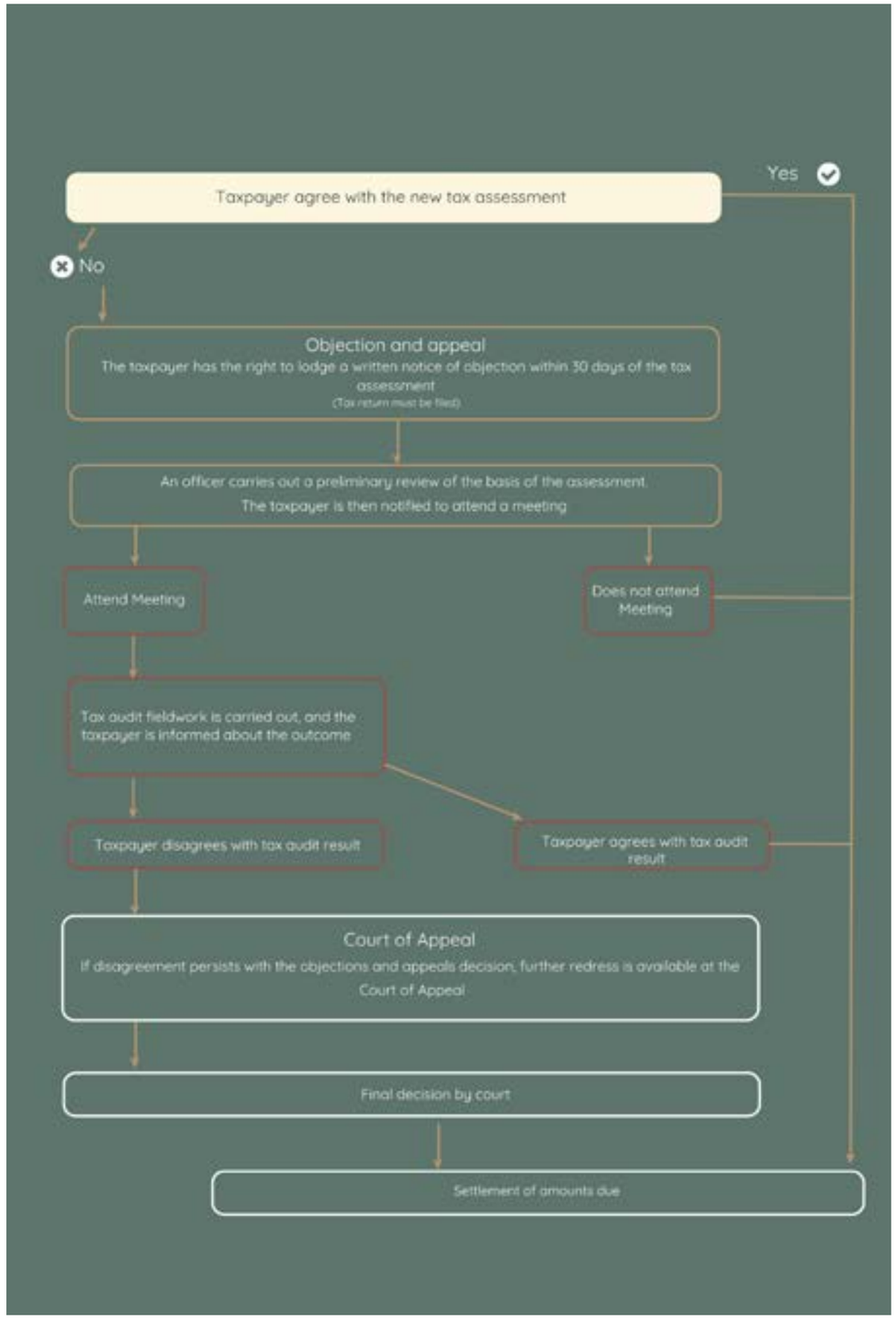
Source: Adapted from MTCA

1.2.2 Figure 1 shows that PIT and CIT contribute significantly to the total annual tax revenue generated. This Review also noted that during the same period, around four per cent of the total income tax revenue related to arrears pertaining to previous years. Moreover, this Office aimed to analyse the characteristics of the tax revenue generated during a particular year. The Malta Tax and Customs Administration (MTCA) contends that it cannot provide further details about the characteristics of PIT and CIT taxpayers, namely information about the economic sectors that are generating tax revenue and the period for which the tax revenue collected pertained. Such a situation is materialising as management information is not sufficiently robust to lend itself to further analysis, connecting the tax returns submitted with the tax revenue generated.

1.2.3 PIT and CIT follow different administrative paths. Figure 2 presents a simplified process flow diagram depicting the lifecycle of an income tax declaration from filing to possible audits and appeals as well as the issuance of penalties.

Figure 2: Income Tax process flow diagram





1.2.4 Figure 2 shows the complexity of both the personal and corporate income tax frameworks, together with the interaction of multiple payment and refund mechanisms. Thus, ensuring that income tax declarations are accurate, complete, and submitted in line with statutory requirements is critical. Given that Malta's income tax system is largely based on self-assessment, robust verification, risk assessment, and compliance mechanisms within the MTCA are essential to safeguard the integrity of the tax system.

1.3 Institutional context

1.3.1 MTCA was formally established in 2023 following the merger of the former Income Tax, Value Added Tax, and Customs Departments into a single organisation under one Commissioner. This extremely challenging institutional reform, mentored and implemented by the present Commissioner, aimed to streamline operations, strengthen governance, and improve coordination across tax types.

1.3.2 Since its establishment, MTCA has embarked on a wide-ranging transformation programme in line with the strategic plan *Delivering Transformation* which covers the period between 2023 to 2025. This Strategic Plan sets out a roadmap to modernise Malta's tax and customs administration by becoming more customer-centric, data-driven, and technology-enabled, with a strong focus on voluntary compliance, enforcement, and operational efficiency. The strategy seeks to achieve this transformation through enhanced digital services, advanced analytics and Artificial Intelligence (AI), strengthened governance, and investment in people and organisational capabilities to improve revenue collection and MTCA's interaction with the taxpayer. MTCA contended that it is in the process of developing another strategy for the period 2027 to 2030, with 2026 being considered and managed as a bridge year. The aim of the latter strategy is to continue to build on the projects identified and commenced under the previous strategy.

1.3.3 Key to the success of the two strategies is the development of IT systems and enhanced use of data analytics. During 2025 MTCA started using the Statistical Analysis System (SAS) and finalised the procurement related to the Integrated Tax and Customs Administration System (ITCAS). SAS operates within the Government of Malta cloud infrastructure and is a cloud-native advanced analytics and artificial intelligence platform which aims to support compliance risk management, taxpayer risk profiling, audit selection, and data-driven decision-making. On the other hand, through ITCAS, MTCA aims at modernising tax and customs administration through an integrated platform that enhances compliance management, data analytics, operational efficiency, and taxpayer services. The successful implementation of these systems depends on the implementation of the data warehousing project that is scheduled to be completed by the end of the year.

1.3.4 While these reforms signal a positive shift towards a more modern tax administration, they also introduce transitional risks, such as a degree of resistance to change by MTCA's employees and taxpayers alike, various data sources as well as digitisation issues relating to the cut-off period for data extraction. The effectiveness of new systems, the integration of data across tax streams, and the consistency with which new risk assessment tools are applied remain areas warranting continuous internal monitoring and independent scrutiny.

1.4 Audit scope

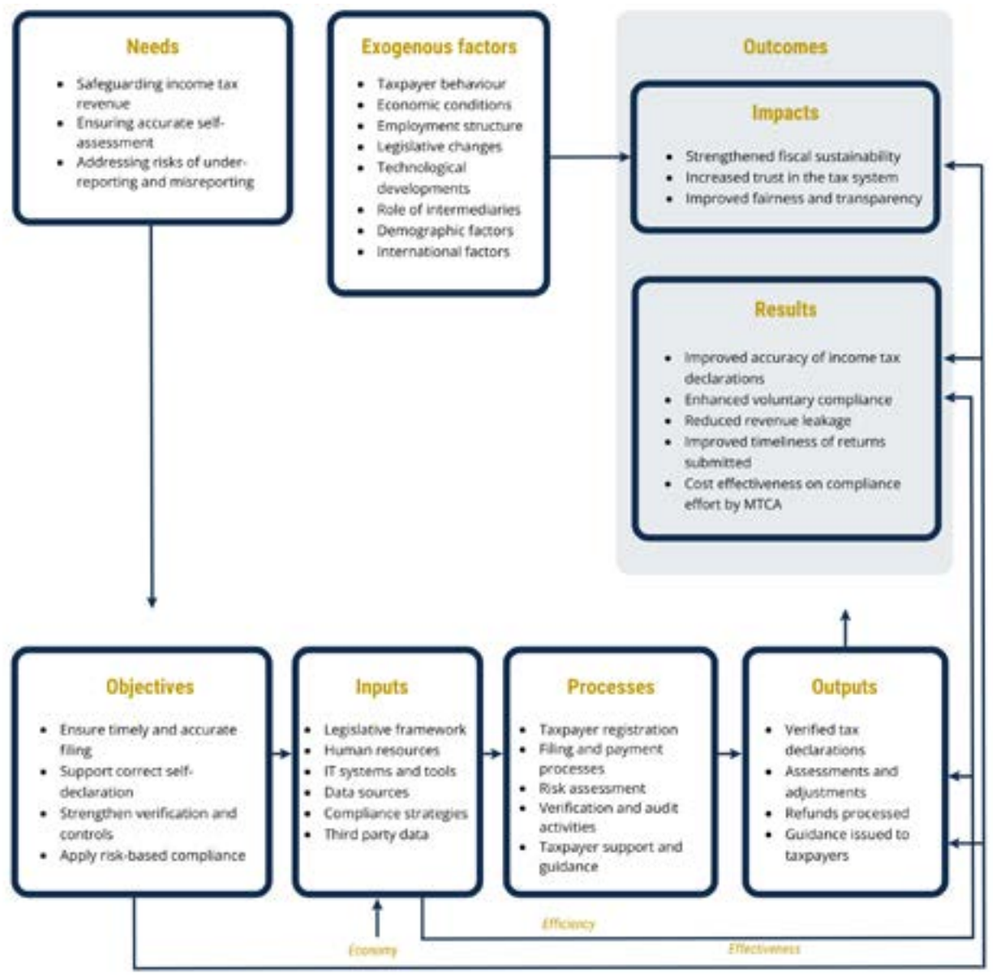
1.4.1 This performance audit focuses on personal and corporate income tax and covers returns pertaining to years of assessment from 2023 to 2025. The scope of this audit is deliberately limited to taxpayers who submit income tax declarations (filers).

1.4.2 Taxpayers who do not submit income tax declarations (non-filers) are excluded from the scope of this exercise. This approach was adopted as within the Maltese income tax system, non-filers are generally considered to present a comparatively lower compliance risk. Such a situation materialises as MTCA collects the latter information from the statutory payroll tax withholding system through which employers deduct income tax from employees' gross emoluments (salary, wages, bonuses, certain benefits, pensions and similar payments) and other third parties who forward additional information to MTCA such as Social Security Department, Foundation for Educational Services, banks and financial institutions. Thus, for the purpose of this audit, which considers the 2025 year of assessment, the PIT filer population amounted to 82,127 while that for CIT amounted to 44,243.

1.4.3 Moreover, work carried out by the Large Taxpayers Office (LTO) which serves as a dedicated one-stop shop for large taxpayers and high-net-worth individuals was generally outside the scope of this audit. The LTO was only recently established and hence systems are not mature enough to enable a mature review to be undertaken.

1.4.4 To support a structured assessment of economy, efficiency, and effectiveness, this performance audit is underpinned by the Programme Logic Model (PLM). Figure 3 refers.

Figure 3: Programme Logic Model



1.5 Audit aim and objectives

1.5.1 Based on the PLM, the overall aim of this performance audit is to assess whether MTCA has the appropriate mechanisms in place to support accurate reporting in income tax declarations for both individuals[3] and corporate entities and is facilitating voluntary compliance.

[3] Unless otherwise stated, the terms "individuals" and "personal" are used interchangeably throughout this Report.

1.5.2 Against this backdrop, this audit seeks to examine the extent to which:

i. MTCA's strategic framework responds to changing circumstances through the introduction of new processes and initiatives that support voluntary compliance.
ii. the tax administration ensures the timely filing of income tax declarations, effectively manages non-submissions, and adequately addresses the underlying causes of such circumstance.
iii. risk-based approaches are applied for audit selection, effectiveness and enforcement.

1.5.3 These objectives are intended to reflect the sequential logic of income tax administration, progressing from filing and support mechanisms to verification and risk-based compliance management.

1.5.4 The findings and conclusions of this performance audit should be interpreted within an evolving environment, whereby MTCA is currently reengineering most of its business processes. While this audit assesses the effectiveness of mechanisms in place during the period under review, it also acknowledges that several reforms are still being implemented. Thus, this Review can also be considered as a status report of MTCA's ongoing reforms as at end July 2026.

1.5.5 In this context, the National Audit Office (NAO) considers that a follow-up performance audit would be appropriate in due course, with a view to assessing the extent to which these ongoing reforms have translated into measurable improvements in compliance outcomes, risk management, and the overall integrity of income tax reporting.

1.6 Audit methodology

1.6.1 The attainment of the audit objectives will entail various methodological approaches. These include the following:

i. Adherence to ISSAIs and guidelines: This audit was carried out in accordance with the Standard for Performance Auditing, International Standard of Supreme Audit Institutions (ISSAI) 3000 and ISSAI 5800 Guide on Cooperative audit. This Office will also refer to guidelines establishing performance audit methodology such as the European Court of Auditors (ECA) performance audit manual.

ii. Documentation review: This included an analysis of the governance framework, together with published papers, policies, reports and other available documentation.

iii. Semi-structured interviews: These interviews, which were mainly carried out with MTCA senior officials, enabled the collation of qualitative data, which in turn helps to corroborate information arising from other sources.

iv. Data analysis: In an effort to quantify MTCA's work, this Office embarked on a range of data analysis exercises.

v. Collaboration with the State Audit Office of North Macedonia: The National Audit Office of Malta and the State Audit Office of North Macedonia have entered into a collaborative initiative through a Memorandum of Understanding (MoU) aimed at enhancing transparency and accountability in public financial management. As part of this partnership both offices shared methodologies and data insights related to tax return declarations. Following the publications of this Report, both SAIs will produce and publish a Joint Report which highlights best practices, common challenges and proposes recommendations for improved tax governance.

1.7 Audit Limitations and Mitigation

1.7.1 This study is subject to a number of limitations. These primarily relate to the availability, completeness, and reliability of administrative data. The following refers:

i. Some datasets and risk indicators were **still being refined or in the process of being migrated to new systems** during the audit period. This situation limited the extent to which trend analysis and longitudinal comparisons could be undertaken.

ii. The current **taxpayer register does not consistently reflect updates in terms of new and terminated registration of taxpayers** over the last 25 years. While MTCA has recently undertaken a data cleansing exercise to update and improve the register, this exercise is still in progress and would need to be continuously maintained.

iii. **Data extraction from MTCA's taxpayer register database** proved to be problematic. This Office encountered challanges in obtaining accurate and comprehensive figures relating to the tax population at each year-end, particularly before the data set of 2023. Specifically, challenges were identified in securing reliable data on the actual number of registered taxpayers, comprising both PIT and CIT taxpayers, as well as the number of tax returns submitted and those remaining outstanding for each respective tax year. Technological and resource limitations resulted in MTCA extracting multiple reports for the same datasets. Data validation exercises undertaken by this Office, including triangulation of data with third parties, such as the Malta Business Registry (MBR), exhibited various limitations. However, due to limited audit trails on the generated data, MTCA encountered difficulties to reconcile the multiple submissions forwarded to this Office.

1.7.2 To partially mitigate these limitations, for the purpose of this Report, where possible, this Office applied the prudence concept and triangulated evidence from multiple sources. This included documentation reviews, interviews with key officials, system walkthroughs, and targeted exercises. Where data constraints were identified, these were explicitly considered and outlined when interpreting results as well as drawing conclusions. Nevertheless, despite such limitations indicated in this Section, this Review presents strategic findings where such figures were considered to portray an indicative snapshot of the current situation. Further in-depth analysis could be possible following the introduction of new systems by MTCA. Moreover, Chapter 5 of this Report recommends areas which may warrant further audit attention in the future, such as a review of the taxpayer register maintenance.

1.8 Report Structure

1.8.1 Following this Chapter, the Report is structured in line with the audit objectives as follows:

- **Chapter 2** reviews the governance framework and the ongoing developments undertaken by the MTCA. This, amongst others, entails the review and progress registered in the implementation of the strategy for the period 2023 – 2025.
- **Chapter 3** discusses the degree to which the tax administration ensures the timely filing of income tax declarations, the management of non-submissions, and how the underlying causes of non-submission are identified and addressed.
- **Chapter 4** evaluates the application of risk-based tax audit selection, audit effectiveness and MTCA's enforcement capacity in terms of tax audits, reminders, appeals and objections as well as penalties.
- **Chapter 5** presents the conclusions and strategic recommendations for enhancing the reform currently being carried out at MTCA.

Chapter 2

MTCA strategies

2.1 Introduction

2.1.1 Ensuring the effective collection of tax revenue requires a clear strategic direction that enables the tax administration to respond to changing economic, technological and regulatory demands. The Malta Tax and Customs Administration (MTCA)'s Strategic Plan 2023 - 2025, *Delivering Transformation*, sets out the MTCA's vision to become a modern, agile and data-driven tax and customs administration. Through a focus on digital transformation, operational efficiency, voluntary compliance and enhanced taxpayer services, the strategy seeks to strengthen the organisation's ability to deliver its mandate and support the sustainable collection of government revenue.

2.1.2 MTCA identified and analysed the challenges the entity was encountering in order to portray a snapshot of its *modus operandi*. These exercises, carried out between 2024 and 2026 facilitated the identification of projects and strategic measures for implementation.

2.1.3 Building on this transformation programme, MTCA contended that it is currently developing a new strategy for the period 2027 - 2030, with 2026 being considered and managed as a bridge year. The forthcoming strategy is intended to consolidate and further advance the initiatives and reform projects launched under the 2023 - 2025 strategic plan.

2.1.4 Against this backdrop, this Chapter examines:

(i) how the MTCA Strategic Plan 2023 - 2025 laid the foundations for organisational transformation and strategic renewal; and
(ii) MTCA's engagement of a third-party private advisor to support the planning, management and implementation progress of the strategy.

2.2 MTCA Strategic Plan 2023 - 2025 lays the foundations for organisational transformation and strategic renewal

2.2.1 The MTCA Strategic Plan 2023 - 2025, *Delivering Transformation*, established a roadmap for the modernisation of Malta's tax and customs administration. Developed in response to increasing digitalisation, highly dynamic economic environment, the evolving taxpayer expectations and a more complex regulatory environment, the strategy sought to transform MTCA into a modern, integrated and data-driven organisation capable of supporting voluntary compliance, improving service delivery and strengthening revenue collection.

2.2.2 Central to the strategy was the continued integration of the Income Tax, Value Added Tax (VAT) and Customs functions within a single organisational framework. The transformation agenda was intended to improve operational efficiency, enhance governance and accountability, increase the use of technology and data analytics, and develop a more customer-focused approach to revenue administration.

2.2.3 The strategy was built around four guiding principles which defined MTCA's desired future state. These principles were translated into three strategic priorities. Figure 4 refers.

Figure 4: Guiding principles underpinning the MTCA Strategic Plan 2023 - 2025



2.2.4 The implementation of the strategic priorities represented in Figure 4, was supported through a series of organisational initiatives covering governance, technology, data and intelligence, people and culture, operational processes, and policy development. Collectively, these reforms were intended to position MTCA as a modern and future-ready revenue administration.

2.3 External expertise supported the delivery of MTCA's transformation programme

2.3.1 To support the implementation of its Strategic Plan 2023- 2025, MTCA engaged an external advisor to assist in planning, coordinating and monitoring the organisation's transformation programme. In addition to supporting the translation of strategic objectives into a programme of reforms, the advisor helped establish governance structures intended to oversee implementation and monitor progress. These included a Project Steering Committee, a Programme and Change Management Office, and designated project owners responsible for delivering individual

initiatives. Moreover, through this initiative, the MTCA drafted plans including work packages and timeframes.

2.3.2 The ensuing reform programme results' analysis carried out in December 2025 noted that the transformation programme comprised 43 projects organised under the five reform Organisation transformation Initiatives outline in Figure 4. These 43 projects translated into 188 milestones. Table 1 shows the progress attained with respect to these projects and their milestones.

Table 1: Reform programme progress reported by the external advisor

Reported Results	Total	Completed		In progress	
		No.	%	No.	%
Projects	43	28	65	15	35
Milestones	188	148	78	40	21

Source: MTCA Reform Programme 23 – 25: Projects Summary Report (June 2026)

2.3.3 As shown in Table 1, the advisor reported that 28 of the 43 identified projects had been completed by the end of the strategy period, with a further 15 projects remaining in progress. Overall programme progress was reported at 65 per cent, while 148 out of 188 identified milestones were reported as achieved.

2.3.4 For obvious reasons, this Office could not undertake a detailed verification of the completion status of individual projects or independently validate the overall completion rates reported by the advisor. Nevertheless, a number of initiatives associated with the reform programme are evidenced through actions implemented by MTCA during the period under review and are discussed further in Chapters 3 and 4.

2.3.5 Notable initiatives undertaken as part of the transformation programme included the implementation of SAS, completion of the ITCAS tendering process and contract signing, the establishment of the Large Taxpayers Office, the development of a Compliance Risk Management Framework, organisational restructuring across tax and customs functions, and the creation of new governance, strategy and human resource functions. These initiatives formed part of MTCA's broader efforts to enhance its operational capabilities and progress towards more integrated, data-driven and digitally enabled administration.

2.3.6 Notwithstanding the progress reported, a number of projects essential for the successful implementation of the reform, remained outstanding at the close of the 2023 – 2025 programme. These included major initiatives relating to implementation of ITCAS, which is now planned to become fully operational and go-live in April 2029, as well as data governance, enterprise risk management, debt management, real-time reporting, reconciliation modernisation and customs systems modernisation. These initiatives are central to MTCA's intended shift towards a more integrated and digitally enabled administration. MTCA contended that most of the initiatives listed as outstanding are being addressed through the implementation of the Digital Transformation Programme. Moreover, MTCA's external expertise attributed the outstanding status of these projects to a combination of organisational challenges, technical constraints linked to legacy systems and integration, ongoing minor tasks, and dependencies on approvals by higher-level authorities outside MTCA's direct control. Such a situation implies that MTCA needs to step-up its efforts to strengthening implementation planning.

2.4 Conclusion

2.4.1 The MTCA Strategic Plan 2023 - 2025 established a clear framework for organisational transformation, centred on greater integration, digitalisation and enhanced operational effectiveness. To support implementation, MTCA engaged external expertise and developed a structured reform programme comprising a portfolio of projects, milestones and governance arrangements intended to drive delivery of its strategic objectives. The audit identified evidence that implementation of the reform programme was underway through various organisational, technological and governance initiatives.

2.4.2 Overall, the Strategic Plan 2023 - 2025 laid important foundations for organisational transformation and strategic renewal. As MTCA develops its next strategic framework for the period 2027 - 2030, there is an opportunity to build on the progress achieved to date while further strengthening implementation planning, performance monitoring and reporting arrangements to support the successful delivery of future reforms.

Chapter 3

Taxpayer register integrity and filing compliance

3.1 Introduction

3.1.1 A reliable taxpayer register and timely filing are critical to an effective tax administration. These elements underpin the entire compliance framework, influencing risk assessment, audit selection, enforcement, and ultimately the safeguarding of Government revenue.

3.1.2 Within Malta's self-assessment system, the responsibility placed on taxpayers to declare their income accurately and on time heightens the importance of strong underlying controls. The Malta Tax and Customs Administration (MTCA)'s Strategic Plan 2023 - 2025, *Delivering Transformation* outlined the need to strengthen the taxpayer register and increase the filing compliance rate. In this regard, MTCA has embarked on strengthening and establishing several structural components of MTCA's compliance architecture.

3.1.3 Within this context, and taking into account the objectives of this performance audit, this Chapter presents an analysis of:

i. the reliability of the taxpayer register and its impact on the integrity of the tax base;
ii. filing compliance behaviour, particularly the prevalence of late filing; and
iii. the effectiveness of the penalty regime in promoting compliant behaviour.

3.2 Further improvements are needed to strengthen the reliability of the tax register

3.2.1 This Review noted that a range of issues are impinging on the integrity of the taxpayer register maintained by the MTCA, which to varying degrees influence the effectiveness of compliance management. These concerns relate to data integrity, historical delays in data maintenance and updating of records, as well as structural fragmentation across multiple internal and external information systems.[4] At this juncture, it is to be noted that until 2023, MTCA operated through different departments (namely Income Tax, VAT and Customs) with each entity processing data for its own purposes. Collectively the factors mentioned in this paragraph, constrain MTCA's capacity to maintain an accurate, complete and reliable representation of the taxpayer population.

[4] Internal information systems relate to those previously maintained by VAT, Income Tax and Customs. External information systems relate to those systems maintained by third parties such as Jobsplus, MBR, Identità, private banks and other financial institutions.

The absence of historical and continuous tax register data maintenance has in some instances resulted in significant backlogs and outdated records

3.2.2 This Review noted significant backlogs in the data cleansing of both the Personal Income Tax (PIT) and Corporate Income Tax (CIT) registers. Historically, data cleansing and updating was not undertaken on a continuous basis leading to the accumulation of outdated records. Comprehensive data-cleansing exercises are currently being undertaken to address such backlogs and outdated records.

3.2.3 This Review noted the following with respect to the ongoing data cleansing exercises:

- With regards to PIT, MTCA attributed the principal updates to the tax register to records relating to taxpayers who had either ceased their economic activity or were no longer resident in Malta. This was often linked to third-country nationals leaving the country without notifying the relevant authorities of their permanent departure. A formal process of cleansing the PIT records commenced in August 2024. However, MTCA contends that, while it cannot quantify the outstanding work, a significant backlog prevails. Through this process, between August 2024 and March 2026, 2,092 taxpayer accounts were classified as dormant and in turn removed from the PIT register.

- In the case of CIT, between 2023 and April 2026. MTCA carried out a structured reconciliation exercise with the Malta Business Registry (MBR), which led to the removal of 15,148 companies from the Register. This exercise was complemented by the introduction of a monthly update process to ensure that struck off companies by MBR are systematically reflected in the tax register of the MTCA.

3.2.4 MTCA contends that it aims to continue these cleansing exercises on a continuous basis through the development of an integrated data warehouse. This will ensure that MTCA's income tax register is and remains up-to-date. While these initiatives represent a positive step towards improving data integrity, the scale of adjustments highlights the extent of accumulated inaccuracies over the years. The effectiveness of these efforts will depend on their consistent application within a structured and ongoing framework. Such a mechanism, coupled with the coordination among stakeholders, is critical to ensure that MTCA maximises the benefits associated with its investment in IT and AI infrastructure.

Data fragmentation across systems is being addressed through ongoing Government-wide integration efforts

3.2.5 The Government-wide data landscape has historically been fragmented, with businesses required to submit the same data and documentation across multiple entities, including MTCA, MBR, Jobsplus and Identità - often through separate I.T. systems. This has led to duplication and inconsistencies in data records.

3.2.6 In this regard, the Business Portal initiative represents a positive development aimed at addressing these structural limitations. This initiative, led by MBR, aims to provide a centralised platform

acting as a single point of interaction between businesses and Government. Its architecture includes a unified interface and a central business register serving as a common point of reference for business data. The initiative is expected to reduce duplication, improve data consistency, and support more timely updates across systems, while strengthening data governance through clearer ownership and authorisation structures.

3.2.7 The audit notes that the Business Portal is being implemented in phases, with progress dependent on the extent and timeliness of integration across multiple stakeholders. While this introduces operational and coordination challenges, it also reflects the complexity of transitioning towards a more integrated data environment. Overall, however, the initiative represents a positive step towards a more integrated and consistent data environment. Nonetheless, from a management's point of view, establishing implementation target dates is considered imperative.

3.3 Filing behaviour remains below expected benchmarks in ICT

3.3.1 This Review identified that filing compliance challenges extend beyond the non-submission and late filing of tax returns. Historically these circumstances arose as a result of broader structural weaknesses in the management of filing obligations. While annual filing rates provide an indication of recent taxpayer behaviour, additional analysis conducted for this audit revealed a wider pattern of persistent outstanding returns, repeated non-compliance, and taxpayers who have remained outside the filing framework for extended periods.

3.3.2 Timely submission of tax declarations is a key indicator of voluntary compliance. Persistent late filing and rising non-filing rates weaken the effectiveness of the tax system in several ways. These include weakening risk-based compliance activities, delaying revenue collection, increasing administrative costs, as well as negatively affecting voluntary compliance and taxpayer confidence.

3.3.3 International good practices and benchmarks typically expect on-time filing rates in excess of 90 per cent for both PIT and CIT, and compliance rates approaching 100 per cent for large taxpayers, given their materiality and risk profile.[5]

3.3.4 This Office carried out an exercise to determine the extent to which taxpayers are filing their return on time. This exercise considered taxpayer data for Years of Assessment ranging from 2023 to 2025.[6] This population excludes records of deceased taxpayers, as well as others who have permanently left Malta and are no longer subject to Maltese tax obligations. Additionally, this population does not consider taxpayers who no longer meet the criteria to complete a return.

[5] TADAT Secretariat, 2019. *TADAT FIELD GUIDE*, p. 69.

[6] As generated by MTCA through PowerBi platform on 15 July 2026. Of note, this is considered to be the most reliable data available as MTCA is still in process of reviewing the tax register for its accuracy.

3.3.5 Table 2 presents the status of taxpayer filing behaviour over the period 2023 - 2025 across PIT and CIT.

Table 2: Status of Taxpayers filing rates (2023 – 2025)[7]

Type of Taxpayer	Year of Assessment	Tax returns issued	On-Time Filing		Late Filing		Total tax returns filed up to 15 July 2026		Unfiled	
		No.	No.	%	No.	%	No.	%	No.	%
PIT (filers)	2023	71,725	52,596	73.33%	12,978	18.09%	65,574	91.42%	6,151	8.58%
	2024	77,712	58,703	75.54%	11,140	14.33%	69,843	89.87%	7,869	10.13%
	2025	82,127	64,405	78.42%	8,347	10.16%	72,752	88.58%	9,375	11.42%
CIT	2023	38,616	18,298	47.38%	9,805	25.39%	28,103	72.78%	10,513	27.22%
	2024	41,368	19,351	46.78%	8,908	21.53%	28,259	68.31%	13,109	31.69%
	2025	44,243	21,228	47.98%	5,286	11.95%	26,514	59.93%	17,729	40.07%

Source: MTCA data as extracted on 15 July 2026

3.3.6 Table 2 shows that non-compliance in terms of submitting a tax return remains a critical matter for MTCA. The on-time submission rates for both PIT and CIT remain below the international benchmarks. However, this Review positively noted that during the period 2023 to 2025, efforts undertaken by MTCA resulted into an increase of 5.1 per cent in PIT on-time filing rates (from 73.3 per cent to 78.4 per cent). During the same period, in the case of CIT, on-time filing rates generally remained unchanged in the region of 47- 48 per cent.

3.3.7 The figures in Table 2 further indicate that over time, the overall filing rate increase as taxpayers gradually regularise their filing position. This trend is attributable to a various compliance enhancing measures implemented by MTCA aimed at improving filing compliance introduced by MTCA, which included the issuance of reminders through SMS, emails and letters together with the deployment of representatives at servizz.gov offices to provide assistance to taxpayers.

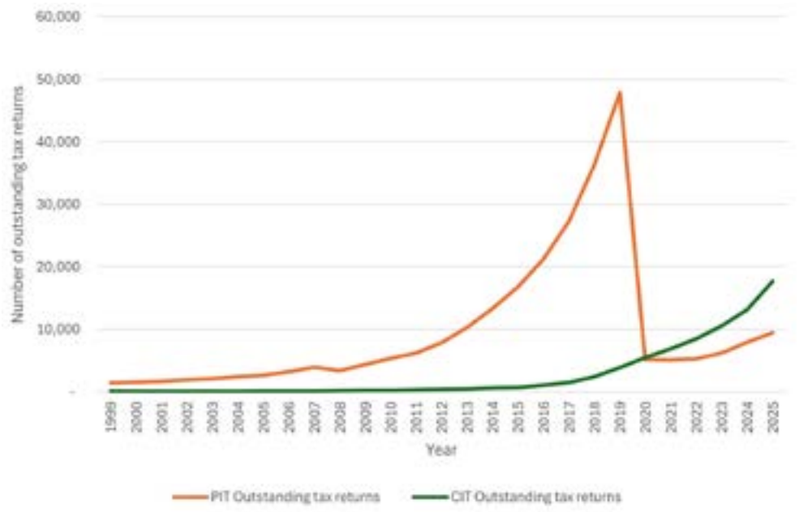
3.3.8 Moreover, MTCA contended that the non-filing levels, particularly in the case of companies, in part occurs as difficulties exists in securing audit firms to prepare and certify audited financial statements in a timely manner. Since audited financial statements are a prerequisite for filing corporate tax returns, this constraint may delay or prevent submission. It was further noted that this issue is being partially addressed through legislative changes (L.N. 139 of 2025 *Audit Exemption Rules, 2025*), whereby, from year of assessment 2026, companies that do not exceed specific thresholds and qualify under the conditions therein are exempt from submitting audited financial statements with the tax return. Amongst others these tax revenue provisions include private companies which on their balance sheet dates do not exceed the limits of at least two of the three following criteria:

[7] Figures quoted in Table 2 exclude Large Taxpayers and High Net Worth Individuals.

- Balance sheet total: €46,600;
- Net turnover: €93,000;
- An average number of two employees during the accounting period.

Figure 5 reaffirms the findings of Table 2. To this end, the figure below categorises by Year of Assessment the number of outstanding tax returns. Moreover, detailed data relating to this situation is depicted in Appendices I and II.

Figure 5: Outstanding PIT and CIT income tax returns by year (1999 – 2025)



Source: MTCA data as at 15/07/2026

3.3.9 The following refers:

a. The on-time submission rates for both PIT and CIT returns remain below the international benchmarks.

b. In the case of PIT, 260,124 tax returns remained outstanding between 1999 and 2025, representing 16 per cent of all tax returns due during that period.

c. In the case of CIT, 74,741 tax returns remained outstanding between 1999 and 2025, representing 19 per cent of all tax returns due during that period.

d. There was a significant decline in the total number of PIT outstanding returns between 2019 and 2020, with the number decreasing from 129,735 to 65,803. The MTCA explained that this trend was attributable to the classification of certain taxpayers as filers when their actual income tax circumstances did not justify such categorisation. In response, MTCA implemented two key strategic changes to the "start-of-year" process used to determine whether a taxpayer is classified as a return filer or non-filer as follows:

- Taxpayers whose sole source of income was employment and who had been classified as return filers solely because they did not submit a tax return in a previous year, typically to claim a tax credit, were reassessed.

- Foreign employees were previously automatically classified as return filers during their first year of residence in Malta. MTCA observed that many of these taxpayers did not submit a return in their first year, often under the assumption that, as employees, they were not required to do so (Tax return submitted by their employer). This classification subsequently affected their filing status in later years whereby they were no longer required to file an income tax return.

3.3.10 While efforts were made by this Office to obtain robust evidence supporting this significant drop in PIT outstanding tax returns, the information provided could not be fully triangulated.

3.3.11 An assessment of cumulative outstanding tax returns offers a more comprehensive understanding of whether taxpayers are ultimately regularising their obligations or whether non-compliance remains unresolved over extended periods. Consequently, this audit, through legacy system available, carried out an ageing exercise of outstanding tax returns.

3.3.12 In summary, this evaluation shows that 18,754 and 6,897 of PIT and CIT taxpayers, constituting 26 and 38 per cent respectively, had accumulated five or more outstanding tax returns. The continued accumulation of long-outstanding PIT and CIT tax returns indicates that non-compliance is not always being addressed in a timely and effective manner.

3.3.13 Overall, the persistence of unresolved filing obligations over extended periods suggests the need to further strengthen the end-to-end management of filing compliance, particularly in relation to follow-up procedures, enforcement, case resolution, and the ongoing maintenance and cleansing of the taxpayer register.

3.4 The extent to which the current penalty regime encourages compliant voluntary behaviour remains questionable

3.4.1 An effective penalty regime is a key element of a compliance framework, serving both as a deterrent and as an incentive for timely and accurate reporting. Under the applicable legislative framework, penalties are imposed for late filing based on a fixed scale that increases over time, depending on the duration of the delay. This structure distinguishes between individuals and corporate taxpayers, as outlined in Table 3.

Table 3: Penalties applicable for late filing of income tax returns

Delay period from filing deadline	Penalties	
	PIT taxpayers	CIT taxpayers
Within 6 months	€ 10	€ 50
>6 to 12 months	€ 50	€ 200
>12 to 18 months	€ 100	€ 400
>18 to 24 months	€ 150	€ 600
>24 to 36 months	€ 200	€ 800
>36 to 48 months	€ 300	€ 1,000
>48 to 60 months	€ 400	€ 1,200
>60 months	€ 500	€ 1,500

Source: Chapter 123, Income Tax Act

3.4.2 Table 3 shows that penalties are primarily fixed and time-based. While they increase progressively, the levels may still be relatively low when compared to potential tax liabilities.

3.4.3 Furthermore, non-compliance arising from the underreporting of tax liabilities in a return may result in taxpayers being charged additional tax. The following rates apply:

- 0.1 per cent per month of the endangered tax where the omission is voluntarily rectified more than twelve months after the statutory filing deadline for the tax return and before the MTCA issues a notification of an enquiry.
- 0.75 per cent per month of the endangered tax where the omission is rectified after the MTCA has issued a notification of an enquiry but before the Authority raises an assessment.
- 1.5 per cent per month of the endangered tax in all other cases, including where the omission is identified following further compliance or enforcement action by the MTCA.

3.4.4 Penalties become due when the taxpayer submits the missing tax returns or the issuance of a tax assessment by MTCA procedures which may take several years to conclude, creating a severe time period, between the non-compliant behaviour and the financial consequence. This may potentially weaken the deterrent effect particularly where taxpayers expect that enforcement action will not materialise for an extended period. MTCA contends that this situation materialises even though it informs the taxpayer of the default at the time, sends default letters stating that penalties are being incurred, and issues estimated tax where applicable. As a result, the penalty regime may be less effective in influencing taxpayer behaviour at the point when compliance decisions are made.

3.4.5 International good practices in tax administration typically combine penalties with timely and automated enforcement mechanisms. These include the use of predictive techniques to identify potential non-filers, automated notifications immediately after deadlines, system-generated penalties, and structured follow-up actions within defined timeframes, often commencing within days of a missed deadline. Such approaches ensure that the consequences of non-compliance are both immediate and certain, thereby strengthening their deterrent effect.

3.4.6 In contrast, the current framework appears more reliant on the assessment process to trigger penalties, with limited evidence of a fully integrated, time-bound enforcement approach linked to filing behaviour. This may detract from the overall effectiveness of the penalty regime as part of the broader compliance framework.

3.4.7 During discussions with MTCA officials, it was noted that in recent years the tax administration has not undertaken a formal review to assess the effectiveness of its penalty regime. Consequently, there is limited assurance as to whether the penalties are achieving their intended objectives.

3.4.8 The continued high levels of late filing, together with increasing cases of non-filing, particularly among corporate taxpayers, suggest that the current system may not be having the desired impact on taxpayer behaviour. In practice, penalties may be seen as a manageable cost rather than a real deterrent.

3.4.9 Without a structured review that considers factors such as the level of penalties, their timing, and how they interact with enforcement practices, MTCA is limited in its ability to determine whether the penalty regime is conducive to support the changes needed to improve compliance.

3.5 Conclusion

3.5.1 The current status of the taxpayer register continues to affect the accuracy and completeness of the tax base. Although recent cleansing initiatives and the Business Portal project are positive developments, their full benefits will depend on sustained implementation and continued integration across Governmental entities. Filing compliance also remains below expected standards, particularly within the corporate taxpayer segment. These patterns indicate that non-compliance is not merely short term in nature, but in many instances, it has been persistent and systemic.

3.5.2 These issues constrain MTCA's ability to operate a fully effective, risk-based, and data-driven filing compliance framework. Strengthening taxpayer data integrity, improving early intervention for non-filers, and adopting more targeted compliance strategies will be key to improving filing performance and supporting stronger voluntary compliance over the longer term.

Chapter 4

Risk-based tax audit selection, effectiveness, and enforcement capacity

4.1 Introduction

4.1.1 An effective risk-based tax audit selection process is essential to prioritise high-risk taxpayers and ensure efficient use of limited resources, thereby enhancing audit yield, fairness, and deterrence. The overall effectiveness of a self-assessment system, such as the one operating in Malta, depends equally on strong audit execution, supported by robust systems and timely, consistent enforcement. This requires adequate audit coverage, reliable outcomes, efficient appeals processes, and integrated IT systems to detect, correct, and deter non-compliance. The foregoing coupled with limited resource availability, demand the effective utilisation of risk-based selection to optimise the return of effort inputted into tax audits.

4.1.2 This Review notes that the Malta Tax and Customs Administration (MTCA) has initiated actions in line with its Strategic Plan 2023 - 2025, *Delivering Transformation*, particularly under the "technology, data and intelligence" and the "processes, operations and standards" enablers. These enablers represent horizontal elements which group the initiatives that the MTCA will implement to drive these transformation process forward.

4.1.3 Actions under these enablers include the introduction of initiatives to strengthen risk based compliance management, notably the implementation of the Statistical Analysis System (SAS) risk assessment system and the establishment of triage mechanisms. MTCA has also drafted a policy on data warehousing and intends to implement it by end of 2026. Looking ahead, MTCA is planning to issue a new strategy, in the coming months, covering the period from 2027 to 2030. The aim of this strategy is to build on the six core pillars from the OECD Tax administration 3.0.[9] These are:

i. Digital Identity
ii. Taxpayer touchpoints
iii. Data management and standards
iv. Tax rule management and application
v. New skill sets
vi. Governance frameworks

[9] OECD's Tax Administration 3.0 is a strategic vision introduced in the 2020 OECD report "Tax Administration 3.0: The Digital Transformation of Tax Administration," outlining a shift toward seamless, data-driven, and highly automated tax systems.

4.1.4 The 2027 – 2030 draft strategy is intended to place increased emphasis on MTCA's early engagement, targeted interventions, and digital service delivery, while maintaining firm enforcement measures where intentional non-compliance continues.

4.1.5 Within this context, and taking into account the objectives of this performance audit, this Chapter discusses the degree to which:

- MTCA's IT infrastructure and risk-based systems are sufficiently mature and integrated to support a robust, transparent, and data-driven audit selection process;
- the audit selections' governance, documentation, and audit trail processes are robust;
- the risk scoring and case prioritisation methodologies are effective;
- MTCA is adequately resourced to ensure sufficient audit coverage and robust audit outcomes; and
- the objection and appeals processes are effective.

4.2 MTCA's audit selection criteria are still in the development phase

4.2.1 As reflected in the International Monetary Fund (IMF)'s Compliance Risk Management framework and aligned with the direction set out in MTCA's Strategic Plan 2023 – 2025, *Delivering Transformation*, an effective risk-based audit selection process depends on robust IT infrastructure, integrated data systems, and mature risk assessment models capable of identifying taxpayers with the highest likelihood of non-compliance. Such systems are expected to support objective, transparent, and consistent decision-making, while reducing excessive reliance on manual intervention and subjective judgement.

4.2.2 MTCA is taking important steps towards modernising its audit selection framework through the phased introduction of the SAS. This is a cloud-based analytics platform that combines data management, advanced analysis, and artificial intelligence to support data driven decision-making.

4.2.3 MTCA introduced SAS for corporate income tax (CIT) cases in February 2024 and was later extended to personal income tax (PIT) cases in October 2025. Given the short time span, the overall infrastructure and related risk-based systems are still evolving. Although the SAS system already incorporates a significant number of risk indicators - including nine active criteria for personal taxpayers and 62 criteria for corporate taxpayers - several important functionalities are still under development, including certain wealth analysis and broader behavioural risk assessment features. MTCA acknowledged that it is working to add other important datasets that will strengthen its risk analysis. However, at this juncture, MTCA is constrained by access to third-party data. These limitations constrain the MTCA's ability to undertake large-scale data matching, more advanced analytics, and broader cross-checking of taxpayer compliance.

4.2.4 Given the inherent limitations, it was not possible to determine accurately the number and prioritisation of cases selected for audit through the SAS during the period under review. Phase 2 of the SAS implementation introduces key enhancements - including improved data quality, AI-driven monitoring, expanded risk detection, and integrated debt management - to strengthen

the framework which is still an ongoing project. Running through 2028, Phase 2 aims to deliver a comprehensive, strategy-aligned compliance risk system. While these developments represent a positive step towards a more modern and analytical compliance framework, they also indicate that the current system is still at a relatively early stage of maturity. Another contributary factor for the low undertaking of tax audits as generated by SAS relates to the acute lack of auditors employed by MTCA.

4.3 Opportunities exist to strengthen the documentation of audit case selection decisions through the risk triage system

4.3.1 An effective audit selection process requires clear governance arrangements and adequate documentation to ensure transparency, consistency, and accountability in decision-making. Proper audit trails are important not only to support internal oversight and quality assurance, but also to enable independent review and validation of the rationale underpinning taxpayer selection decisions.

4.3.2 This Review noted that MTCA's triage process is governed through the establishment of a Compliance Risk Management Triage Board in 2025. Its remit is to analyse, prioritise, and assign cases identified through automated risk analysis and other intelligence sources for further verification or audit. According to its Terms of Reference, the Triage Board is intended to operate as an integral part of MTCA's compliance strategy and is responsible for prioritising cases based on established risk management criteria, taking into account the severity of tax loss, reputational risk, and the potential impact on MTCA operations. The Terms of Reference also require that all decisions taken by the Triage Board are adequately documented and retained in line with the MTCA Data Retention Policy.

4.3.3 The audit positively notes that the Triage Board convenes monthly and is composed of senior officials from various directorates within MTCA. The Board is tasked with reviewing cases originating from multiple sources, including SAS risk analysis, the Financial Intelligence Analysis Unit (FIAU) notifications, Financial Crimes Investigation Department referrals, anonymous reports, court recommendations, intelligence reports, and high-value VAT refund cases.

4.3.4 Notwithstanding the existence of these formal governance arrangements, this performance audit elicited the following observations within the triage process:

- The Triage Board does not maintain formal minutes of its meetings. In some instances, this Review was only able to trace limited notes maintained in basic Excel spreadsheets, containing brief high-level points that does not adequately substantiate the basis of decisions taken.

- There was an absence of documented explanations for instance where taxpayers with high SAS risk scores were not selected for audit. When requested by the audit team, the MTCA was unable to provide limited supporting documentation outlining the reasons for the tax audit selection, despite that the Triage Committees' Terms of Reference specifically require all decisions to be adequately documented and retained.

- The semi-annual and annual reports prepared by the Triage Board remain limited in scope and depth. These reports mainly record the number of meetings held and the number of cases selected by audit type, without providing sufficient analysis, justification, or insight into the basis upon which decisions were taken.

4.4 MTCA's enforcement function is constrained by available resources and operational capacity

4.4.1 An effective tax audit function serves as a critical deterrent against abuse and non-compliance within the income tax system. The likelihood of being subject to scrutiny by the tax authorities encourages taxpayers to fulfil their obligations accurately and in a timely manner. This, in turn, strengthens overall tax compliance and safeguards the integrity of public revenue. Within a self-assessment environment, tax audits visibility remains important to reinforce voluntary compliance and ensure that taxpayers perceive a realistic likelihood of detection. In line with IMF guidelines, to varying degrees, MTCA is integrating its audit function with a combination of methods that include preventative, facilitative, and enforced compliance. Nonetheless, as will be discussed further, there is ample scope for MTCA to extend this approach further.

4.4.2 This Office carried out an exercise to determine the extent to which the Verification and Audit Department (VAD)'s work is targeting high-risk taxpayers. This exercise considers the following:

- The number of registered taxpayers remained relatively stable during the period from 2023 to 2025, indicating that the overall taxpayer base did not experience any significant fluctuations.

- The prevalence of high-risk taxpayers persisted throughout this period, particularly in the last quarter of 2025 as the implementation of the SAS continued to be enhanced, indicating that compliance risks continued to be a notable feature of the taxpayer population.

4.4.3 Considering the above, this exercise analysed VAD's tax audits against the range of high-risk taxpayers as listed in the SAS system during the last quarter of 2025. It should be noted that this Office was unable to obtain earlier historical data on the risk levels assigned to PIT and CIT taxpayers during 2024 and the first three quarters of 2025, as MTCA indicated that such information could not be retrospectively retrieved from the SAS system. Consequently, for the purposes of this exercise, this Office relied on previously generated reports extracted by MTCA officials and retained in their records. In addition, the number of taxpayers extracted from the SAS system does not represent the full population of PIT and CIT taxpayers as this process of populating such data into this new system is still in progress. Furthermore, discussions with MTCA officials indicated that taxpayers assigned with a system-generated risk score of 3,000 or higher are considered as material. Table 4 refers.

Table 4: Distribution of taxpayers by a SAS risk score of 1 or higher (October 2025 - January 2026)

Range of score	2025 October		2025 November		2025 December		2026 January	
	PIT	CIT	PIT	CIT	PIT	CIT	PIT	CIT
1 – 999	146	148	144	147	128	132	126	131
1000 – 1999	386	867	423	881	1,792	834	1,803	838
2000 – 2999	183	1,181	193	1,193	780	3,378	784	3,362
3000 – 3999	72	1,108	75	1,108	191	3,456	195	3,508
4000 – 4999	4	824	4	855	32	1,483	32	1,503
5000 – 5999	29	305	28	320	10	398	11	404
6000 – 6999	5	82	6	85	3	142	3	155
7000 – 7999	1	29	1	28	-	34	-	34
8000 – 8999	1	4	2	4	-	7	-	7
9000 – 9999	-	2	-	2	-	3	-	2
10,000 – 10,999	1	1	1	1	-	-	-	-
11,000 – 11,999	-	1	-	1	-	-	-	-
Total	828	4,552	877	4,625	2,936	9,867	2,954	9,944

Source: MTCA data extracted from SAS

4.4.4 This Review also analysed the number of tax audits carried out by the VAD within MTCA. The audits undertaken identified potential additional tax revenue.

Table 5: Audit activity and average potential tax yield per audit (2023 - 2025)

Type of Assessment	Year	Total taxpayer population due to submit a tax return as at July 2026	SAS high risk score (> 3,000) between October and December 2025	Number of concluded tax audits	Potential additional income tax revenue generated following the audit (€)	Potential average tax yield per audit (€)
PIT	2023	71,725	NA	93	1,892,749	20,352
	2024	77,712	NA	79	3,153,259	39,915
	2025	82,127	112 – 236	68	5,077,501	74,669
	Total			240	10,123,509	
CIT	2023	38,616	NA	60	8,540,718	142,345
	2024	41,368	NA	26	2,386,845	91,802
	2025	44,243	2,354 – 5,523	42	12,251,749	291,708
	Total			128	23,179,312	

4.4.5 Table 5 shows the following:

a. The total number of audits carried out as a percentage of the total taxpayer population constitutes less than one percent.

b. The Review identified a significant disparity between the number of taxpayers assigned risk scores and the number of audits ultimately carried out. When compared to the total number of audits carried out during 2023 and 2025, the above figures indicate that only a relatively small proportion of risk-rated taxpayers can realistically be subjected to audit activity. This reflects the operational challenge faced by MTCA in translating identified compliance risks into active enforcement interventions.

4.4.6 Upon completion of an audit, VAD may either determine that there is no case situation or notify the taxpayer the amount due arising from the tax audit. The taxpayer may either accept or contest the audit outcome. In the latter case, the matter is classified as under assessment and the taxpayer may lodge an objection with the MTCA within 30 days. In this regard, this Review analysed the extent to which the audits carried out by VAD result in either no case, agreement or are subject to an assessment. Table 6 refers.

Table 6: Distribution of audits by outcome (2023 - 2025)

Year	Audits with a "no case" outcome	Agreement Number of tax audits	Agreement €	Assessment Number of tax audits	Assessment €	Total Number of tax audits	Total €
2023	82	50	2,869,561	21	7,563,906	153	10,433,467
2024	35	41	1,587,658	29	3,952,446	105	5,540,104
2025	36	41	1,869,281	33	15,459,969	110	17,329,250
Total	153	132	6,326,500	83	26,976,321	368	33,302,821
Total (%)	42%	36%	19%	22%	81%	100%	100%

Table 6 shows that between 2023 and 2025, the following materialised:

a. 42 per cent of cases resulted in a "no case" outcome. MTCA contended that in certain cases, during the audit stage, a taxpayer may satisfactorily reply to MTCA enquiries without any adjustment being needed to the tax due. While a certain level of "no-case" results is expected within any compliance framework, the proportion identified during this Review, showed the need to further strengthen the risk analysis by widening its scope and, if deemed necessary, adjust the weighted scores to encompass the newly added variables.

b. In 132 of tax audits, that is 36 per cent of the total number ofaudits carried out, the taxpayer agreed with the proposed adjustment.

c. In the remaining 22 per cent of the cases, the taxpayer disagreed with the outcomes of the audits.

d. Of note, is that the figures presented in the preceding paragraph, translate to 81 per cent of the total amount due following the tax audit. This inverse relationship between the number of audits subject to a follow-up assessment and their respective materiality illustrates that, generally, the more complex and material cases in financial terms are more prone to be subject to litigation. Documentation reviewed by this Office also showed that this same situation also prevailed in the years preceding 2023.

e. Of the 368 total number of concluded audits between 2023 - 2025, at least 63 percent of the audits materialised before MTCA introduced SAS as a risk score criteria for audit selection.

f. Section 4.5 of this Chapter discusses the eventuality when the taxpayer does not agree with the outcome of the tax audits and proceeds with raising a formal objection.

4.4.7 In complementing the tax audit function, VAD also issues compliance letters. These letters are issued in instances where MTCA deems that the tax return submitted by a particular taxpayer is not fully accurate. During 2024 and 2025, MTCA issued 51 and 25 compliance letters respectively. In such instances taxpayers are requested to voluntarily adjust their tax return declaration. Table 7 refers.

Table 7: Compliance letters issued by VAD and the respective outcome

Year	Taxpayer category	No. of Compliance Letters Issued	No. of Taxpayers who regularised their situation following the issuance of Compliance Letter	Extra Income Tax declared following the submission of the new Tax Return	No. of outstanding cases
2024	CIT	16	2	€ 53,341	14
	PIT	35	15	€ 127,582	20
	Total	51	17	€ 180,923	34
2025	CIT	8	4	€ 20,158	4
	PIT	17	16	€ 90,018	1
	Total	25	20	€ 110,176	5

4.4.8 Table 7 shows that during the period under review, the number of compliance letters issued was very limited. During 2024 and 2025, such a mechanism generated additional tax amounting to €180,923 and €110,176. However, it also shows that 39 taxpayers during the two-year period did not comply to such a measure.

4.4.9 The processes discussed in this Section, namely the number of tax audits and compliance letters is materialising as MTCA is encountering resourcing and operational capacity issues. The following refers:

a. During the undertaking of this performance audit, MTCA's audit functions included 10 Accountants and two Senior Accountants assigned to Full Administrative Audits, alongside other resources allocated to other audits, such as Criminal Assistance Audits and Aspect Audits. An MTCA commissioned review, dated May 2026 has identified areas, that need to be strengthened within the VAD. In this regard, MTCA contends that the number of auditors has since increased by six recruits to bring the total to 16 accountants. Furthermore, MTCA expressed the intention to continuing strengthening the VAD in line with its upcoming strategy. MTCA emphasised that it is not intending to focus solely on the conduct of more full audits, but should encompass better segmentation, more differentiated interventions, enhanced workflow support, improved reporting of outcomes, and the continued refinement of risk analytics, with the overall emphasis placed on promoting compliance rather than enforcement alone.

b. Considering that this is the first year of operation, MTCA's risk-based audit selection framework is yet to reach level of maturity where data-driven risk scoring consistently supports precise and reliable case targeting.

c. MTCA contends that it is issuing a limited number of compliance letters as it does not have yet in place the adequate set-up and resources to effectively implement such a deterrent mechanism, particularly with respect to following up on cases subsequent to the issue of compliance letters.

4.5 Between 2018 and 2025, a number of audit cases were revised during the objections stage

4.5.1 The Objections and Appeals Unit within the MTCA serves as an important review mechanism for taxpayers who contest assessments issued by VAD. In the context of income tax audits, the former unit examines objections submitted against MTCA's VAD audit findings and assessments, reviews the supporting evidence and arguments presented by both the taxpayer and MTCA officials, as well as determines whether the original assessment should be upheld, revised or withdrawn. The Unit therefore plays a key role in ensuring that tax assessments are applied fairly, consistently and in accordance with the relevant legislation, while also contributing to the resolution of tax disputes before they proceed to further appeal or litigation, through the court of appeal.

4.5.2 Between 2018 and 2025, the MTCA's Objections and Appeals Unit received 91 appeals related to the outcome of income tax audit cases. This figure does not include cases arising from best-of-judgement assessments, which were not primarily audit-related but nonetheless generated a large volume of objections and appeals.[10]

[10] The Review found that, during an earlier period, numerous assessments had been issued on a best-of-judgement basis and were later found to overestimate taxpayers' liabilities. As a result, a significant number of these assessments were contested through such objections and appeals process.

4.5.3 The 91 cases do not necessarily relate to audits conducted within the same period of the audits reviewed in the previous sections, but rather to objections submitted during the period under review. Furthermore, the data does not include cases subsequently referred to the Appeals Tribunal, as the timelines of the original audit and the work of the Objections and Appeals Unit occur over different periods. Table 8 provides further details on the concluded cases.

Table 8: Cases concluded by the Objections and Appeals Unit following Verification and Audit Department audits (2018 - 2025)

	Number of cases	Tax due following audit	Overall tax deducted during Objections and Appeals stage	Revised tax due following Objections and Appeals stage
		€	€	€
No change in tax due following the Objections and Appeals stage	10	1,714,367	-	1,714,367
Revised tax due following the Objections and Appeals stage	81	10,449,869	(5,762,173)	4,687,696
Total Objections	**91**	**12,164,236**	**(5,762,173)**	**6,402,063**

Source: MTCA

4.5.4 Table 8 shows the following:

i. 89 per cent of the submitted objections were subject to a revision during the Objections and Appeals Stage.

ii. The objections and appeals stage reduced the overall tax payment of 81 cases by 55 per cent, from €10.4 million to €4.7 million.

4.5.5 The Review identified a range of factors contributing towards the reduction of assessments during the objections and appeals process, namely:

- In several instances, assessments raised in previous years were considered overstated or unreasonable by taxpayers, resulting in appeals and subsequent reassessments.
- Certain cases also arose from differing interpretations of tax legislation, leading to revisions during the appeals stage.
- Moreover, in some cases, additional documentation or information was only submitted by taxpayers during the objections or appeals process and was therefore not available to MTCA at the initial assessment stage of the audit. Since the submission of tax returns is generally required in order to proceed with an appeal, the Objections and Appeals Unit may, in certain instances, be in a better position to reassess the taxpayer's actual liability based on more complete information becoming available at a later stage.

4.5.6. To mitigate this situation, the VAD as well as the Objections and Appeals Units are meeting frequently to address the afore-mentioned situation. MTCA contends that outcomes of these discussions are not documented.

4.5.7 As at March 2026, a further 56 income tax related cases were still outstanding. This situation can be partly attributable to the prioritisation allocated to VAT objections. While understandable from a statutory compliance perspective, this has contributed towards delays in the resolution of income tax objection cases. As a result, income tax cases may remain unresolved for prolonged periods before reaching final determination. An analysis of data covering the period 2018 and 2025, showed that on average, MTCA took approximately one year to conclude an objection while the median processing time was around six months. This situation affects the overall timeliness and efficiency of the end-to-end enforcement process and delays the final settlement and collection of tax liabilities.

4.6 Conclusion

4.6.1 This Chapter identified several operational and structural issues affecting the efficiency and effectiveness of MTCA's audit and enforcement framework. Significant challenges persist in relation to audit selection, audit coverage, the sustainability of audit outcomes, the timeliness of objection processes and system integration.

4.6.2 However, MTCA has made improvements in establishing the foundations for a more structured and intelligence-led approach to audit selection. Notably, the commencement of implementation of the SAS risk assessment system and the Compliance Risk Management Triage Board represent significant milestones, aligned with a broader strategic shift towards risk-based compliance management. These developments reflect a clear organisation commitment to strengthening the use of data, analytics and governance framework to support more targeted, consistent and transparent audit decision-making.

Chapter 5

Concluding Remarks

5.1 Introduction

5.1.1 This performance audit examined the extent to which the Malta Tax and Customs Administration (MTCA) has the appropriate mechanisms in place to support accurate reporting in income tax declarations for both individuals and corporate entities, while facilitating voluntary compliance. The audit was undertaken against the backdrop of Malta's self-assessment income tax system, where taxpayers bear primary responsibility for correctly declaring their income, and where the effectiveness of the tax administration depends on robust governance, reliable data, timely intervention and risk-based compliance management.

5.1.2 The audit also took place during a period of institutional and technological transition. Since its establishment in 2023, the MTCA has embarked on a broad transformation programme aimed at becoming more integrated, data-driven and technologically enabled, including through the implementation of the Strategic Plan 2023 - 2025, *Delivering Transformation*, the development of a subsequent strategy for 2027 to 2030, and the introduction of systems such as Statistical Analysis System (SAS) and the Integrated Tax and Customs Administration System (ITCAS).

5.1.3 Against this context, the findings outlined in the preceding Chapters should be interpreted as reflecting both progress and transition. The audit identified several positive developments, including the establishment of a strategic transformation programme, the introduction of new data and risk-management tools, targeted data-cleansing exercises, reminder campaigns, and the creation of structures intended to strengthen compliance management. However, the audit also identified areas where management arrangements, implementation planning, monitoring, documentation, accountability and organisational capacity require further strengthening to enable the MTCA to fully realise the intended benefits of its reform agenda.

5.2 Strategic Conclusions

This review elicited a number of key conclusions. The following refers.

5.2.1 Strategic direction has been established, but implementation is in early phases - The MTCA Strategic Plan 2023-2025, *Delivering Transformation*, provided an important framework for organisational transformation, setting out priorities relating to awareness and education, compliance and enforcement, as well as efficiency and effectiveness. The engagement of external expertise and the development of a reform programme also helped translate the strategy into projects, milestones and governance structures.

5.2.2 Data governance remains a foundational requirement for effective tax administration - A reliable taxpayer register is central to almost every aspect of income tax administration, including filing compliance, risk analysis, tax audit selection, enforcement and taxpayer support. The audit identified that historical gaps in register maintenance, accumulated backlogs and fragmented data environments continued to affect the accuracy and completeness of the tax base. This situation is also affected by the quality of data received from third parties. While MTCA has initiated data-cleansing exercises and wider integration efforts, the findings demonstrate that data governance cannot be treated as a one-off corrective exercise. Rather, it requires a continuous management function supported by clear ownership, regular reconciliation, audit trails, quality controls and timely updates from internal and external data sources.

5.2.3 Filing compliance is below expected levels - The audit showed that filing compliance remains below expected levels, particularly within the corporate taxpayer segment, and found that a number of outstanding returns remained unresolved for extended periods.

5.2.4 The penalty regime is currently operating as a stand-alone deterrent - The audit noted that the existing penalty framework is primarily fixed and time-based, and that penalties may become due only when missing returns are submitted or when assessments are issued. This reduces the immediacy of the financial consequence and may weaken the deterrent effect. The issue is not limited to the level of penalties, but also concerns how penalties interact with enforcement, monitoring and taxpayer behaviour.

5.2.5 Risk-based compliance management is progressing - The introduction of SAS and the establishment of the Compliance Risk Management Triage Board represent important steps towards a more intelligence-led audit selection process. These developments are consistent with MTCA's broader shift towards data-driven compliance management. However, the audit identified that audit selection decisions were not yet fully supported by mature documentation, complete audit trails or consistent justifications, particularly where manual judgement or management intelligence influenced case selection. Strong documentation is essential not only for internal control purposes, but also to support transparency, consistency, fairness and independent review.

5.2.6 Operational capacity constrains the translation of identified risks into enforcement activity - The audit identified a gap between the number of taxpayers flagged through risk-scoring processes and the number of audits or compliance interventions that MTCA could realistically undertake. While audit outcomes generated additional revenue, audit coverage remained constrained by available resources and operational capacity. This suggests that the effectiveness of a risk-based framework depends not only on the quality of risk identification, but also on the administration's ability to prioritise, allocate resources, deploy differentiated interventions and monitor results. Without sufficient capacity and clear prioritisation rules, there is a risk that material compliance risks remain identified but not adequately addressed.

5.2.7 **The sustainability of audit outcomes is affected by the quality and timeliness of downstream processes -** The objections and appeals process plays an important role in ensuring fairness and correcting assessments where appropriate. However, this Review noted that a number of audit cases were revised following the objections stage, and that further cases remained outstanding. This underlines the importance of strengthening quality assurance throughout the audit lifecycle. A sound governance framework requires not only robust enforcement action, but also timely, well-documented and defensible outcomes.

5.2.8 **Information is not easily accessible by management -** Across the areas reviewed, the audit identified areas where management information was not sufficiently robust. This includes reporting on strategy implementation, filing compliance trends, register-cleansing progress, audit selection decisions, compliance outcomes, penalty effectiveness and objections results. Such information is essential for senior management to understand whether reforms are producing the desired outcomes, whether resources are being deployed effectively, and whether compliance risks are being reduced.

5.3 Developments by MTCA post-audit

5.3.1 Subsequent to the conclusion of this audit assignment in July 2026, and prior to the publication of this Report, MTCA reported that it had undertaken further initiatives in support of the implementation of its strategy, as follows:

- Established the Risk Management Committee and the Project Management Committees. These Committees are supported by a broader governance framework responsible for overseeing the Digital Transformation Programme. The aim of these two Committees is to oversee the implementation of ITCAS, SAS, the consolidated data warehouse, e-invoicing, real-time reporting, and customs intelligence initiatives. Through such a framework, MTCA brings together both internal and external stakeholders.

- Developed a Target Operating model as a blueprint for process design, data management, performance measurement, and the implementation of ITCAS. This model was finalised and presented to the International Monetary Fund (IMF) in July 2026.

- Commenced the implementation of ITCAS on 27 April 2026, with full deployment scheduled for April 2029.

- Established an Internal Audit Directorate to strengthen governance, oversight, and assurance functions.

- Set-up a dedicated Data Management Unit and is currently in its initial stages of development.

- Progressing towards a single taxpayer view across Income Tax, VAT, and Customs. The strategy identifies this initiative as a key enabler in transforming the administration into a data-driven organisation capable of assessing Personal Income Tax (PIT) and Corporate Income Tax (CIT) risks through the integrated use of VAT and Customs data.

In due course, the above will inter alia feature in future follow-up audits in this area by this Office.

5.4 Recommendations

5.4.1 Drawing on the cross-cutting observations identified throughout this Performance Audit, this Office considers that MTCA should continue to build on its reform programme. In this regard, this Office proposes a number of recommendations. Table 9 refers.

Table 9: NAO's recommendations

Recommendation Number	Recommendation	Audit concern paragraph number
	Strengthen implementation planning for future strategies	
(i)	MTCA should ensure that its forthcoming strategic framework is supported by detailed implementation plans. These should include clearly defined deliverables, target dates, milestone indicators, responsible owners and reporting arrangements. Such an approach would improve management oversight, facilitate timely corrective action and strengthen accountability for delivery.	2.3
	Institutionalise taxpayer register maintenance as a continuous control function	
(ii)	MTCA should move towards a formal, ongoing taxpayer register maintenance framework. This should define data ownership, reconciliation procedures, update cycles, validation checks, escalation arrangements and audit trails. The framework should strengthen coordination, information flows and data cleansing with external sources. The latter include amongst others information flows with Malta Business Registry (MBR), JobsPlus and Identità. Moreover, Standard Operating Procedures (SOPs) should be established to define the procedures on how the taxpayer register is to be updated with third party data, and how unresolved anomalies are tracked to completion.	3.2
	Develop a more structured end-to-end filing compliance model	
(iii)	MTCA should strengthen the management of filing obligations by establishing a documented compliance model that covers the full lifecycle from pre-deadline communication to post-deadline follow-up, escalation, enforcement and case closure. The model should include clear timeframes, differentiated interventions according to taxpayer risk and behaviour such as reminders, and management reporting on unresolved cases. Such a mechanism would facilitate annual monitoring and more importantly the submission of all outstanding tax returns.	3.3

(iv)	*Review the effectiveness of the penalty regime within the broader compliance framework* MTCA should periodically review whether the penalty regime is achieving its intended deterrent effect. Such a review should consider not only the level of penalties, but also their timing, certainty, interaction with enforcement procedures, impact on taxpayer behaviour and alignment with voluntary compliance objectives.	3.4
(v)	*Strengthen documentation and audit trails in risk-based audit selection* MTCA should ensure that all material audit selection decisions are adequately documented, including the rationale for selecting or not selecting taxpayers flagged by risk-scoring systems. Where manual judgement, external intelligence or management discretion is applied, the basis for such decisions should be recorded in a manner that supports transparency, consistency and independent review. Moreover, documentation should as a priority concentrate on material decisions, significant departures from treatment criteria, substantive use of discretion, the non-selection of materially high-risk cases, significant intelligence-led referrals as well as the treatment chosen and the outcome.	4.3
(vi)	*Link risk assessment outputs to resource planning and intervention strategies* MTCA should use risk-scoring outputs to support informed workforce planning, audit capacity requirements and the mix of compliance interventions deployed. Where audit resources are insufficient to address all material risks, MTCA should document prioritisation criteria and consider alternative interventions, such as targeted compliance letters, desk reviews, thematic campaigns or sector-based initiatives.	4.4
(vii)	*Enhance quality assurance across the audit and objections lifecycle* MTCA should strengthen coordination between the Verification and Audit Department and the Objections and Appeals Department. While recognising that taxpayers, in some instances, may submit additional information at the objections and appeal stage, lessons emerging from revised or withdrawn assessments should be systematically analysed and used to improve audit selection, evidence standards, assessment quality and taxpayer communication.	4.5
(viii)	*Improve strategic and operational performance reporting* MTCA should develop a suite of management indicators covering strategy implementation, taxpayer register quality, filing compliance, audit selection, audit outcomes, penalty performance, objections and appeals, and resource utilisation. These indicators should be regularly reviewed by senior management and used to support accountability, learning and continuous improvement.	2.3, 4.3, 4.4 and 4.5

5.4.2 MTCA generally accepted the recommendations contained in Table 9. In addition, MTCA outlined the corrective measures already undertaken and the further actions planned to address the matters identified. A detailed account of Management's feedback on the proposed recommendations is provided in Appendix III.

5.5 Potential Areas for Future Audit Work

5.5.1 This performance audit was undertaken during a period of significant organisational and technological transformation within the MTCA. A number of initiatives reviewed by this Office were still being implemented at the time of the audit, including the deployment of new compliance risk management tools, ongoing taxpayer register cleansing exercises, data warehousing initiatives, and broader digital transformation projects. Consequently, the full impact of these reforms on compliance outcomes and organisational performance could not yet be comprehensively assessed.

5.5.2 In view of the strategic importance of these reforms and the significant financial implications of the taxation function, this Office intends to revisit this area in due course. This performance audit has identified a number of areas that merit further consideration and ongoing monitoring as the reform programme continues to evolve and mature:

I. Implementation of the MTCA transformation programme – An assessment of the extent to which the reforms underpinning the Strategic Plan 2023 - 2025 and the forthcoming strategic framework covering the period 2027 to 2030 translate into measurable improvements in compliance, operational efficiency and service delivery.

II. Taxpayer register and data governance – A review of the effectiveness of taxpayer register maintenance, data cleansing initiatives, and wider data governance arrangements.

III. Management of non-submissions and outstanding returns – An examination of MTCA's approach towards persistent non-compliance, long-outstanding tax returns and related enforcement activities.

IV. Tax arrears and debt recovery – A review of the effectiveness, efficiency and governance of MTCA's tax collection and debt management processes.

V. Large Taxpayers Office (LTO) operations - A review of the work undertaken by the LTO which serves as a dedicated one-stop shop for large taxpayers and high-net-worth individuals

5.5.3 The timing and scope of any future audit work would depend on the maturity of the initiatives currently being implemented and the risks prevailing at the time of the review.

5.6 Overall Concluding Remark

5.6.1 During these last two years, the MTCA has made important progress in laying the foundations for a more modern, integrated and data-driven tax administration. The establishment of a strategic transformation programme, the introduction of new analytical tools, the development of governance structures and the initiation of data-cleansing and compliance initiatives demonstrate a clear strategic direction for future progress. However, the audit also shows that the effectiveness of these reforms will depend on the strength of the management systems that support them. Planning must be sufficiently detailed, monitoring must be regular and evidence-based, decisions must be documented, responsibilities must be clear and performance information must be used to drive improvement.

5.6.2 In a self-assessment system, public confidence depends on the tax administration's ability to apply the rules fairly, identify risks promptly, intervene proportionately and enforce obligations consistently. Strengthening governance, transparency, accountability and performance management will therefore be central to ensuring that MTCA's ongoing transformation translates into measurable improvements in compliance outcomes, risk management and the integrity of income tax reporting.

Appendix I

Number of PITs' submitted and outstanding income tax returns (1999 – 2025)

	PIT		
Year	Submitted tax returns	Outstanding tax returns	Total
1999	60,891	1,431	62,322
2000	55,737	1,518	57,255
2001	51,353	1,679	53,032
2002	50,597	1,915	52,512
2003	52,884	2,060	54,944
2004	51,884	2,402	54,286
2005	53,908	2,664	56,572
2006	56,438	3,183	59,621
2007	67,275	3,945	71,220
2008	47,060	3,361	50,421
2009	47,324	4,367	51,691
2010	47,675	5,358	53,033
2011	50,469	6,181	56,650
2012	51,797	7,879	59,676
2013	54,279	10,312	64,591
2014	57,465	13,301	70,766
2015	62,123	16,826	78,949
2016	67,483	21,244	88,727
2017	71,442	27,294	98,736
2018	76,886	36,317	113,203
2019	81,838	47,897	129,735
2020	60,633	5,170	65,803
2021	60,375	5,061	65,436
2022	63,467	5,279	68,746
2023	65,696	6,170	71,866
2024	69,955	7,894	77,849
2025	72,857	9,416	82,273
Total	1,609,791	260,124	1,869,915

Source: MTCA data as extracted on 15 July 2026

Appendix II

Number of CITs' submitted and outstanding income tax returns (1999 to 2025)

	CITs		
Year	Submitted tax returns	Outstanding tax returns	Total
1999	4,329	150	4,479
2000	4,558	49	4,607
2001	4,862	67	4,929
2002	5,182	87	5,269
2003	5,459	74	5,533
2004	5,893	88	5,981
2005	6,436	101	6,537
2006	7,020	113	7,133
2007	7,641	139	7,780
2008	8,271	203	8,474
2009	8,880	221	9,101
2010	9,492	266	9,758
2011	10,297	309	10,606
2012	11,232	362	11,594
2013	12,342	416	12,758
2014	13,536	587	14,123
2015	15,247	654	15,901
2016	17,259	1,013	18,272
2017	19,553	1,493	21,046
2018	21,855	2,376	24,231
2019	24,169	3,852	28,021
2020	25,735	5,428	31,163
2021	26,770	6,857	33,627
2022	27,855	8,490	36,345
2023	28,470	10,526	38,996
2024	28,603	13,134	41,737
2025	26,928	17,686	44,614
Total	**387,874**	**74,741**	**462,615**

Source: MTCA data as extracted on 15 July 2026

Appendix III

Implemented and planned actions by MTCA in response to NAO recommendations

Recommendation	MTCA Position	Implemented action (as at September 2026)	Planned action
Strengthen implementation planning for future strategies	Accepted	• Engaged an external adviser to support planning, coordination and monitoring of the programme. • Established a Project Steering Committee and a Programme and Change Management Office. • Put in place governance for the Digital Transformation Programme, with the participation of internal and external stakeholders, including a Project Steering Committee established on 5 May 2026. • Signed the ITCAS contract and started implementation on 27 April 2026, with full go-live planned for April 2029. • Prepared a Target Operating Model for the administration, presented to the IMF at the end of July 2026, as the design basis for the next phase of implementation planning. • Use the Target Operating Model to sequence process redesign and ITCAS delivery against the implementation plan.	• Strengthen the monitoring of milestones, dependencies and deliverables, using project management tools; • Consolidate ownership, escalation and accountability arrangements; • Strengthen benefits-realisation monitoring; • Improve consolidated reporting across interdependent projects; • Keep the evidence that supports the reported status of each deliverable; • Carry the lessons of the 2023 to 2025 programme into MTCA's forthcoming strategic framework, with actions carried over from the earlier programme assigned to an owner, revised milestone and dependency, and none treated as closed because the earlier strategy period has ended; and

Recommendation	MTCA Position	Implemented action (as at September 2026)	Planned action
Institutionalise taxpayer register maintenance as a continuous control function	Accepted	• Began formal PIT register cleansing in August 2024 and continued to identify dormant, inactive and wrongly classified records. • Carried out a structured reconciliation with the Malta Business Registry and introduced a monthly update for struck-off companies. • Maintained an audit trail of changes made to individual taxpayer accounts. • Begun setting up a Data Management Unit and progressed data-management, integration and governance initiatives.	• Formalise data ownership and register-maintenance responsibilities; • Document reconciliation, validation, update-cycle and escalation procedures; • Strengthen extraction, version control and report-level reconciliation, so that reports can be reproduced and explained; • Track unresolved anomalies and ageing backlogs to completion; • Draw up a list of the data issues raised by the audit and make sure each is addressed through ITCAS and the related data initiatives; • Establish standard operating procedures for updating the register with third-party data, including data from the MBR, Jobsplus and Identità; and • Continue integrating taxpayer information across tax types and external sources.
Develop a more structured end-to-end filing compliance model	Accepted	• Ran pre-filing and post-deadline communication campaigns by SMS, email and letter, and provided taxpayer support at servizz.gov offices. • Issued default letters informing taxpayers that penalties are being incurred and issued estimated tax where applicable. • Continued to review taxpayer records and filing populations.	• Document the complete filing compliance lifecycle; • Set out separate treatment strategies for PIT and CIT; • Adopt consistent definitions of on-time, late, eventual and outstanding filing; • Segment taxpayers by risk and behaviour; • Define follow-up, escalation and case-closure arrangements, with timeframes; • Report on persistent and repeat non-filing; • Monitor the effect of register changes on filing populations; and • Expand targeted, technology-enabled interventions.

Recommendation	MTCA Position	Implemented action (as at September 2026)	Planned action
Review the effectiveness of the penalty regime within the broader compliance framework	Accepted	• Sent filing reminders and taxpayer notifications, and default letters after the deadline. • Informed taxpayers that penalties were being incurred and issued estimated tax where applicable. • Used other compliance and enforcement measures alongside penalties. • Continued to monitor filing behaviour and compliance outcomes.	• Review penalties within the wider compliance and enforcement framework; • Evaluate the timing, certainty and communication of consequences; • Assess how penalties, estimates and other interventions interact, and how taxpayers behave after compliance action; • Use the integrated Tax and Customs Administration System, the single taxpayer account and the consolidated data warehouse to increase automation; • Take the review into account in the consolidated Revenue Act and other legislative developments; and • Set indicators for deterrence and compliance outcomes
Strengthen documentation and audit trails in risk-based audit selection	Accepted	• Established the Triage Board in 2025, composed of senior officials from several directorates and meeting monthly. • Adopted Terms of Reference for risk prioritisation and treatment selection. • Set out in the February 2026 Triage framework that Triage teams minute their actions and refer them to the Risk Management Unit and the Risk Management Steering Committee, and that no audit is initiated without human review of the case. • Introduced SAS-supported risk assessment and cross-functional consideration of identified risks.	• Keep formal minutes of Triage Board meetings; • Define proportionate documentation standards for material decisions and align the Terms of Reference with them; • Record the rationale for significant treatment choices, including where materially high-risk cases are not selected for full audit; • Record the material use of intelligence and management judgement; • Introduce case-management and workflow functionality that captures Triage Board decisions; • Improve the depth of the Board's periodic reports; • Retain the evidence that supports case-treatment decisions; and • Use treatment outcomes to refine risk rules.

Recommendation	MTCA Position	Implemented action (as at September 2026)	Planned action
Link risk assessment outputs to resource planning and intervention strategies	Accepted with conditions	• Established a risk-based compliance management framework and introduced SAS-supported risk assessment and case distribution • Completed the Compliance Risk Management framework in March 2025, with a compliance risk register, a risk management policy, Compliance Improvement Plans and named risk owners, and completed the taxpayer segmentation work in August 2024. • Brought 17 VAT, 13 PIT, 50 CIT, and 5 watch list rules into live use in SAS to score risk, with case assignment to accountants and inspectors carried out through the SAS workflow. Another 5 on Transfer pricing and 5 on wealth rules are soon to be live in SAS too. • Established governance for risk prioritisation and treatment selection. • Continued to use external intelligence and referral sources. • Applied treatments other than full audits, including compliance letters, verification and aspect audits.	• Improve the link between risk, fiscal materiality, capacity and treatment; • Generated monthly tax payer risk register through SAS with the respectivescore card for each case. All cases are selected from SAS. • Plan resources across the whole range of interventions and expand differentiated treatment pathways; • Analyse no-case outcomes by cause and refine risk indicators, datasets, thresholds and weightings; • Make greater use of VAT, Customs and other information in taxpayer risk assessment; • Improve follow-up of compliance letters, with participation from all functions; and • Report treatment coverage and outcomes, not audit volume alone.

Recommendation	MTCA Position	Implemented action (as at September 2026)	Planned action
Enhance quality assurance across the audit and objections lifecycle	Accepted	• Maintained operational coordination between Verification and Audit and Objections and Appeals. case distribution • Reviewed assessments through the objections process, taking account of new evidence and legal arguments that arose after the audit. • Applied review and assurance processes within each function and continued to refine audit and compliance methods.	• Formalise lessons-learned arrangements and document the discussions between the two functions and the actions agreed; • Categorise the reasons for revised or withdrawn assessments, separating new evidence from process and legal-interpretation issues; • Feed the findings into audit methodology, risk rules and treatment strategies; • Identify information first supplied at objection stage that could be requested earlier or captured in the return; • Strengthen taxpayer communication and evidence requests where appropriate; and • Report to management on audit sustainability, objection outcomes and the ageing of objection cases.
Improve strategic and operational performance reporting	Accepted	• Introduced SAS reporting and analytical capabilities and dashboards that support operational analysis. • Report to management on audit sustainability, objection outcomes and the ageing of objection cases. Continued development of the consolidated data warehouse. • Prepared a Target Operating Model, presented to the IMF at the end of July 2026, which provides the design reference for integrated performance and management information. • Strengthened programme and project reporting. • Put in place governance and assurance arrangements, including the Internal Audit Directorate, that support performance review.	• Establish a consolidated suite of strategic and operational indicators, with an owner, calculation method and reporting frequency for each; • Strengthen data lineage and reconciliation behind the key indicators; • Report on compliance treatments and outcomes, and make strategy delivery and resource use more visible; • Expand dashboards, exception reporting and senior-management reporting; • Continue developing integrated data and the single taxpayer view; and • Use performance information systematically for accountability, learning and management action.

2025 - 2026 (to date) Reports issued by NAO

NAO Annual Report and Financial Statements

July 2026	National Audit Office Annual Report and Financial Statements 2025

NAO Audit Reports

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December 2025	Report by the Auditor General on the Public Accounts for the year 2024
December 2025	Performance Audit: Home-Based Medical and Clinical Services for the Elderly
December 2025	Performance Audit: A Strategic Evaluation of Malta's Smart Specialisation Strategy for Research and Innovation
February 2026	Follow-up Audit Reports by the National Audit Office Volume II 2025
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