

# Newsalert\*

## Tax and Legal Services



Malta

3 November 2008

The measures announced tonight by the Minister of Finance, the Economy and Investment in the budget speech for 2009 include:

- Changes to the income tax bands so as to increase the amounts which are taxable at the lower rates;
- Changes to income tax and VAT interest and penalties;
- Major changes in the taxation of motor vehicles and road licences;
- Changes to various licences and indirect taxes, e.g. boat licences, tax on fuel, alcohol and tobacco, and eco-contribution;
- Introduction of some new incentives for industry;
- A cost of living increase of €4.08 per week.

**This newsletter sets out a summary of these and of the other main budget measures. More details on the changes to tax legislation will be given as soon as the relative laws are published.**

## Overview Budget 2009

### CONSOLIDATED FUND 2008/2009

	2009	2008 (Revised)
	€ (millions)	€ (millions)
<b>Recurrent Revenue</b>		
Tax revenue	2,238	2,120
Non tax revenue	313	264
<b>Total</b>	<b>2,551</b>	<b>2,384</b>
<b>Recurrent Expenditure</b>		
Personal emoluments	538	515
Programmes & initiatives	1,310	1,343
Contributions to public entities	160	166
Operational and maintenance expenses	98	98
Interest on public debt	196	187
<b>Total</b>	<b>2,302</b>	<b>2,309</b>
<b>Recurrent Surplus</b>	<b>249</b>	<b>75</b>
Capital expenditure	(348)	(275)
<b>STRUCTURAL DEFICIT</b>	<b>(99)</b>	<b>(200)</b>
<b>Consolidated Fund Balance – 1 January</b>	<b>(62)</b>	<b>(56)</b>
	<b>(161)</b>	<b>(256)</b>
<b>Financing</b>		
Local – Direct loan repayments	(208)	(93)
– Investment (equity acquisition)	-	(7)
Net contributions to sinking funds - local/foreign	(17)	14
Local loans	500	280
	<b>275</b>	<b>194</b>
<b>Consolidated Fund Balance - 31 December</b>	<b>114</b>	<b>(62)</b>

### DOMESTIC ECONOMIC PERFORMANCE

#### Government deficit

The deficit for 2008 is expected to reach €200.1 million or 3.5% of GDP. This compares to an original estimate of €70.3 million. It is anticipated that the deficit will reduce to €98.8 million (1.6% of GDP) in 2009. Government has revised the timetable for turning its deficit into a surplus, which is now targeted to be achieved in 2011 rather than 2010.

\*connectedthinking

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## Inflation

- The inflation rate for the year to September 2008 stood at 3.7%, up from 0.83% as at October 2007.

## Gross Domestic Product (GDP)

- The GDP for 2009 is expected to be €5,990 million representing an increase of €251 million or 4.4% over the revised estimate for 2008 in nominal terms.

## Foreign Trade and Balance of Payments

- During the first eight months of 2008, imports decreased by 4.1% to €2,261 million. During the same period, exports also decreased by 9.4% to €1,338 million.

## The Labour Market

- At 30 June 2008, the number of people registering for work amounted to 5,390 or 3.9% of the labour force (the 30 June 2007 figure was 6,637 or 4.3% of the labour force).
- The number of gainfully occupied in June 2008 reached 145,257 of which 71% were employed by the private sector.

## Tourism

- Tourist arrivals for the period January to August 2008 increased by 79,500 or 9.6% to 905,374 over the same period last year.
- Cruise liner passenger arrivals for the period January to September 2008 increased by 13.9% to 407,465 passengers.
- Gross earnings from tourism for the first six months of 2008 amounted to €249.6 million.

## Manufacturing

- During the first six months of 2008, turnover in the manufacturing industry declined by 7.2% to €1,109 million. This was driven mainly by a drop in exports.

## Foreign Direct Investment (FDI)

- Net FDI declined from €329.6 million (12.7% of GDP) to €199.2 million (7.3% of GDP) from January to June 2008 when compared to the same period last year.
- This amount of FDI compares favourably with the EU27 average which stood at 5.9% of GDP in 2007.

## Financial Services

- As at August 2008, the number of credit institution licences issued by the Malta Financial Services Authority stood at 22 whereas those for financial

institutions stood at 16. There were 97 licences issued in respect of hedge funds.

## COST OF LIVING ALLOWANCE

- The weekly cost of living increase for 2009 is €4.08. This increase does not include the €2.33 which was anticipated last year. This increase shall also be granted in full to pensioners.

## INCOME TAX

### Revision of tax bands

- Changes have been announced once again to individuals' bands of progressive income tax rates. These changes should translate in maximum tax savings of €215 per annum for those applying the joint computation (married rates) and €153 per annum for those applying the single computation.

*Resident married couples opting for joint computation*

Income Range		Multiply by	Deduct
From	To		
€	€	%	€
0	11,900	0	0
11,901	21,200	15	1,785.15
21,201	28,700	25	3,905.40
28,701+		35	6,775.75

*Resident single persons and married couples opting for separate computation*

Income Range		Multiply by	Deduct
From	To		
€	€	%	€
0	8,500	0	0
8,501	14,500	15	1,275.15
14,501	19,500	25	2,725.40
19,501+		35	4,675.75

## Income tax exemption for working mothers

- A one year income tax exemption is granted to women returning to work after an absence of 5 years for every child under 16 years of age.
- An income tax exemption also applies for every other working mother in respect of children born during 2007 and subsequent years.

## Revision of tax penalties

- Penalties for late filing and taxpayers' defaults under the Income Tax Act and the Value Added Tax Act shall be revised.



- Interest for late payments of tax is to be reduced from 1% to 0.75% per month as from 1 January 2009.

## OTHER FISCAL MEASURES

### Exemption from stamp duty on inheritance

- Disabled persons residing with their parents or guardians will be exempt from stamp duty on the inheritance of their ordinary residence.

### Contribution on accommodation

- As from 1 January 2010 a contribution of €0.50 will be imposed in respect of every night spent by any person in any paid collective and private accommodation.

### Eco-contribution on plastic bags and certain printed material

- An eco-contribution of €0.15 will be charged on every plastic bag. Certain magazines and leaflets will be subject to an eco-contribution of €0.01 per 80 grams.

### Licences for pools

- As from 1 January 2009 the licence fees for private and public pools are being increased.

### Excise duty on alcohol and cigarettes

- Amendments (upwards/ downwards) in the excise duty rates are being introduced in respect of certain alcoholic drinks. Excise duty on cigarettes and tobacco is being increased by €0.20 with immediate effect.

### Motor vehicles registration tax

- A new system is being introduced in respect of the taxation of motor vehicles. The following are the salient points of the new system:
  - Tax reform favours smaller vehicles, lower level of emissions and cleaner technology;
  - The new registration tax rates may increase or decrease depending on the amount of CO<sub>2</sub> emissions, particulate matter, age and value of car – a maximum reduction of around 44% and a maximum increase of around 45% from the current registration tax rates;
  - The reform shall take place in two phases. The first phase, which will enter into force as from 1 January 2009, will include private vehicles for the carriage of persons (including self-drive, leased, garage-hire and motorcycles). Commercial vehicles will be included in the second phase;
  - For vehicles acquired during 2008 there will be the option to convert to the new system. Any refund of registration tax will be credited against the licence fees;

- Minimum registration tax will continue to apply on vehicles originating outside the EU/EEA and manufactured more than 5 years before their registration in Malta;
- The price of used cars imported into Malta for the first time shall be determined by local market conditions and a system outlining the car values will be established;
- VAT shall no longer be charged on registration tax;
- Persons who have been working outside of Malta for at least two years will not be liable to registration tax upon importation of the vehicle into Malta if the vehicle has been registered in their name for a minimum period of 2 years.

### Vehicle licences

- A new system for vehicle licences is also being introduced. The following are the salient points of the new vehicle licence system:
  - For vehicles registered as from 1 January 2009, the licence fee will depend on the category of emission level and the age of the vehicle, with such fee remaining fixed for the first five years (on the basis that the vehicle is in its best state), and then increasing gradually;
  - For vehicles registered before 1 January 2009, the licence fee will depend on the cylinder capacity and the age of the vehicle;
  - Licences on certain commercial vehicles will be increased by €91.83 to €185.

## OTHER MEASURES

### Enterprise incentives

- Malta Enterprise shall introduce a number of new schemes, including:
  - An amount of €500,000 shall be devoted towards initiatives intended to enable entrepreneurs to identify new markets;
  - Grants and the establishment of a Bio Technology Park in order to increase investment in research and development;
  - Legislation to help SMEs in the development of innovative processes, products and services;
  - Small Start-Up Scheme and expansion of the Kordin Business Incubation Centre to assist in the setting up of new companies;
  - E-business Development Grant Scheme to incentivise the use of IT within the enterprise;
  - Development of 2 Micro Enterprises Parks in Mellieha and Xewkija, Gozo, as industrial zones.

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## Small enterprises

- A number of other measures aimed towards small enterprises, including:
  - A Small Business Act to facilitate the regulatory framework within which small enterprises operate;
  - The introduction of General Accounting Principles for Small Enterprises to reduce the burden in terms of excessive reporting requirements currently applicable under IFRSs;
  - The grant of an income tax credit for 2 years in respect of small enterprises investing a minimum of €10,000.

## Measures relating to energy consumption

- A number of energy-related benefits are being introduced, including:
  - The granting of security vouchers entitling every family to free energy saving lamps;
  - An eco-contribution of €0.25 and €0.50 on every incandescent / fluorescent lamp and tube bulb respectively;
  - A refund of part of the cost of solar water heaters, up to a maximum of €460;
  - Schemes to finance 50% of investment in photovoltaic cells, up to a maximum of €3,000, and 33% of investment in roof insulation and double-glazed windows, up to a maximum of €300;

- Measures specifically targeted towards industry including:
  - i. Up to 60% of the cost of approved expenditure in renewable energy;
  - ii. Aid amounting to 40% in respect of energy system audits, up to a maximum of €300 and €1,000 for small and large enterprises respectively;
  - iii. The setting up of an offshore wind farm for the provision of energy;
  - iv. An increase in excise duty of €0.035 per litre of petrol and €0.02 per litre of diesel to finance a fund for the purpose of providing investment and incentives for the use of renewable energy.

## Service pensions

- A further €200 deduction (in addition to the current €466) from service pension will be ignored when calculating entitlement to the social security pension.

## Disabled persons

- Financing of the cost of facilitators of disabled children attending private schools.

## Home loan repayments

- A means-tested scheme involving the financing of up to 30% of the monthly loan repayments for a period of ten years in respect of first residences.

## Yachts

- Upward revision of annual registration fees in respect of yachts with effect from 1 January 2009.

The notes are designed to keep readers abreast with financial and tax developments. They are not intended to be a definitive or comprehensive analysis of the subject and should not be acted upon without prior consultation with the Partners or Senior Consultants of the firm. For further details please do not hesitate to contact:

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