

Newsalert *

Tax and Legal Services



Malta

18 October 2006

The measures announced tonight by the Prime Minister and Minister of Finance in the budget speech for 2007 include:

- Changes to the income tax bands so as to increase the amounts which are taxable at the lower rates;
- Tax benefits for expenses on childcare services;
- Plan to speed up the payment to taxpayers of old tax refunds;
- Energy benefit and incentives for energy conservation;
- Reduction of Lm10 in the tax on air travel as from June 2007;
- Setting up of a Venture Capital Fund as a licensed Collective Investment Scheme;
- A cost of living increase of Lm1.75 per week (Lm2.25 less Lm0.50 per week given last year to compensate for increases in oil prices).

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 2007

CONSOLIDATED FUND 2006/2007

	2007 Lm (millions)	2006 (Revised) Lm (millions)
Recurrent Revenue		
Tax revenue	851	802
Non Tax revenue	142	164
Total	993	966
Recurrent Expenditure		
Personal emoluments	204	205
Programmes & initiatives	497	482
Contributions to Public entities	67	73
Maintenance expenditure	36	36
Interest on public debt	76	77
Total	880	873
Recurrent Surplus	113	93
Capital Expenditure	(168)	(151)
STRUCTURAL DEFICIT	(55)	(58)
Consolidated Fund Balance - 1 January	(31)	(46)
	(86)	(104)
Financing		
Local – Direct Loan Repayments	0	0
– Assets' Sales Proceeds	0	74
Net Contributions to Sinking Funds - local/foreign	(5)	(1)
Local Loans	50	0
	45	73
Consolidated Fund Balance - 31 December	(41)	(31)

DOMESTIC ECONOMIC PERFORMANCE

Government deficit

The deficit for 2006 is expected to reach Lm57.8 Million or 2.81% of GDP. Government is continuing to aim at further reduction of the deficit over the next couple of years. This is projected to be Lm54.4 million (2.52% of GDP) in 2007 going down to Lm32.8 million (1.44% of GDP) in 2008 and Lm22.2 million (0.93% of GDP) in 2009.

* **connectedthinking**

©2006 PricewaterhouseCoopers. All rights reserved. "PricewaterhouseCoopers" refers to the Maltese firm of PricewaterhouseCoopers or, as the context requires, other member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

Overview Budget 2007



Inflation

- For the year to September 2006 the inflation rate was 3.42%, up from 2.8% as at September 2005. The increase is mainly attributed to increases in oil prices.

GDP

- The GDP for 2007 is expected to be Lm2,163 million representing an increase of Lm106 million over the revised estimate for 2006.

Foreign Trade and Balance of Payments

- During the first eight months of 2006, importation increased by Lm129 million to Lm965 million whereas exports increased by Lm65 million to Lm593 million.

The Labour Market

- At 30 June, the number of people registering for work amounted to 6,601, i.e. 4.5% of the labour force (the 30 June 2005 figure was 6,218, i.e. 4.3% of the labour force).
- The number of gainfully employed at June 2006 reached 146,489 of which 139,437 were in full time employment.
- The number of persons employed in the public sector decreased by 2,342.

Tourism

- Tourist arrivals for the period January to August 2006 decreased by 29,800 to 767,836.
- Cruise passenger arrivals increased by 31%.
- Gross income from tourism for the first six months of 2006 amounted to over Lm101 million.

Manufacturing

- Large enterprises increased turnover by 8% to Lm495 million in the period January to June 2006.
- Investment amounted to Lm31 million, representing an increase of 30% over the same period last year.

Foreign Investment

- In January to June 2006, foreign investment amounted to Lm312 million, i.e. an increase of Lm212 million over the same period of 2005.
- The incentives package under the Business Promotion Act is being revised and a new legal framework is being proposed.

Introduction of the Euro

- Government still aims to introduce the Euro on 1 January 2008.

Financial Services

- The Prime Minister noted with satisfaction the approval by the EU Commission of the Maltese full

imputation tax system. The anti-abuse provisions in the updated tax regime are being debated with the EU Code of Conduct Group and the Government hopes to conclude this political process imminently. Publication of the proposed legislation implementing the agreement with the Commission as from 1 January 2007 is anticipated soon.

INCOME TAX

- Revision of tax bands:** Changes have been announced to individuals' bands of progressive income tax rates. These changes should translate in maximum tax savings of Lm243 per annum for those applying the joint computation (married rates) and Lm155 per annum for those applying the single computation.

Resident married couples opting for joint computation

Income Range		Multiply by	Deduct
From	To		
Lm	Lm		Lm
0	4,500	0%	0
4,501	8,000	15%	675
8,001	10,000	25%	1,475
10,001+		35%	2,475

Resident single persons and married couples opting for separate computation

Income Range		Multiply by	Deduct
From	To		
Lm	Lm		Lm
0	3,250	0%	0
3,251	5,500	15%	487.50
5,501	6,750	25%	1,037.50
6,751+		35%	1,712.50

- Incentives for childcare services:** A deduction of up to Lm400 is being introduced for individuals for expenses incurred on licensed childcare services.

Payments by employers in respect of childcare services for employees shall become deductible expenses. Such expenses will no longer be considered as a taxable fringe benefit, and thus no longer taxable in the hands of employees.

- Deduction for school fees:** The allowable tax deductions for private school fees will be increased to Lm 600 in respect of each child attending secondary schooling and Lm 400 in respect of each child attending primary schooling.

- Refunds:** Persons entitled to tax refunds relative to years preceding the introduction of self assessment will be informed of amounts due and provided with

Overview Budget 2007

a repayment schedule. Repayment period is likely to range between 12 months and 36 months. Interest of 1% per month will accrue in favour of taxpayers on amounts unpaid after the stipulated timeframe.

OTHER FISCAL MEASURES

- **Tax on airline tickets:** This is being reduced by Lm10 as from June 2007.
- **Transmission of immovable property causa mortis:** The value of the deceased's ordinary residence on which no stamp duty is charged is being raised from Lm10,000 to Lm15,000. The value on which the 3.5% duty rate is chargeable in the case of the deceased's ordinary residence which is also occupied at time of death by transferee/s is also being raised from Lm10,000 to Lm15,000.

The value on which a stamp duty rate of 3.5% is chargeable in the case of a dwelling house which is not the ordinary residence of the deceased but which is occupied by one or more of the transferees, is being increased from Lm20,000 to Lm30,000.

- **VAT on cultural activities:** A VAT exemption without credit is being extended to cultural services and activities which are provided or organised by recognised non-profit making cultural societies
- **Social security on part-time employment being principal employment:** The minimum flat weekly contribution of Lm5.79 on part-time employment income will be replaced from 1 January 2007 by a contribution of 10% of the said part-time income.
- **Host families:** Operators in this sector are being given an option to be exempt from social security payments with retrospective effect.

COST OF LIVING ALLOWANCE

- The weekly cost of living increase for 2007 is Lm2.25. However the actual increase being granted this year is Lm1.75 because the said increase includes Lm0.50 per week paid in advance in 2006 to compensate for the impact of the increase in energy costs.

OTHER MEASURES

- **Gozo licences:** Licence renewal fees for Gozo accommodation and catering establishments will be 25% lower than current rates after 1 January 2007.

SMEs: Possibility for persons working in their family business to be registered as employed persons for Social Security purposes.

Amendments are proposed to commercial licences legislation, so as to decrease cost of such licences and to improve the relative administrative process.

- **Venture Capital Fund:** Setting up of a Venture Capital Fund which would be licensed as a Collective Investment Scheme by the Malta Financial Services Authority and allocation of Lm900,000 for the initial purchase by Government of equity in the said fund.
- **Energy Related Benefits:** Introduction of a benefit in the form of a 'voucher' to be exchanged upon payment of water and electricity bills for families who depend on non-contributory benefits.

Introduction as from 1 November 2006 of a 20% rebate on the cost of acquisition of certain domestic white goods that are certified to be energy efficient, subject to a maximum of Lm50.

- **Supplementary aid:** As from 1 January 2007, the amount of supplementary aid for low-income married couples and single persons who do not benefit from Children's Allowance is being increased by between Lm12.50 and Lm20.
- **Pensions:** The severe disability pension will not be withdrawn during first 5 years of marriage between a person receiving a severe disability pension and a person without any disability regardless of the income earned by the non-disabled spouse.

A widow or a widower receiving a widows pension will still be entitled to receive the same pension rate even if such widow or widower earns more than the minimum wage or during the first five years of a subsequent marriage.

- **Securitisation:** Government intends to settle long outstanding amounts due to persons that had their property expropriated. Government will transfer some of its properties to a Special Purpose Vehicle which will be quoted on the Malta Stock Exchange and will issue bonds to the public, with preference being given to those who are owed amounts for expropriated property.

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:

PRICEWATERHOUSECOOPERS 

167, Merchants Street, Valletta VLT 03, Malta

Tel: +356 21 247 000

Fax: +356 21 244 768

www.pwc.com/mt