

Newsalert*

Tax and Legal Services



Malta

15 October 2007

The measures announced tonight by the Prime Minister and Minister of Finance in the budget speech for 2008 include:

- Changes to the income tax bands so as to increase the amounts which are taxable at the lower rates;
- Increase from Lm30,000 to Lm50,000 in the value of the acquisition of a first residence which is subject to stamp duty at 3.5% and reduction in stamp duty for transfers of first personal residence from parents to children;
- Pensioners shall be entitled to work and have earnings even exceeding minimum wage without forfeiting any part of their pension;
- Various social measures are being introduced, including those extending children and other allowances, assistance to the handicapped and the aged and encouragement for sports and cultural activities;
- Extension of paid maternity leave from 13 to 14 weeks;
- A cost of living increase of Lm1.50 per week (Lm1 of this increase is being advanced from next year's COLA).

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.

* **connectedthinking**

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Overview Budget 2008

CONSOLIDATED FUND 2007/2008

	2008	2007 (Revised)
	Lm (millions)	Lm (millions)
Recurrent Revenue		
Tax revenue	911	865
Non Tax revenue	124	112
Total	1,035	977
Recurrent Expenditure		
Personal emoluments	209	207
Programmes & initiatives	527	505
Contributions to Public entities	69	67
Maintenance expenditure	40	39
Interest on public debt	78	77
Total	923	895
Recurrent Surplus	112	82
Capital Expenditure	(141)	(131)
STRUCTURAL DEFICIT	(29)	(49)
Consolidated Fund Balance – 1 January	(33)	(29)
	(62)	(78)
Financing		
Local – Direct Loan Repayments	0	0
– Assets' Sales Proceeds	0	0
Net Contributions to Sinking Funds - local/foreign	6	(6)
Local Loans	80	50
	86	44
Consolidated Fund Balance - 31 December	24	(34)

DOMESTIC ECONOMIC PERFORMANCE

Government deficit

The deficit for 2007 is expected to reach Lm37.2 million or 2.11% of GDP. Government is continuing to aim at further reduction of the deficit over the next couple of years. This is projected to be Lm30.2 million (1.21% of GDP) in 2008 going down to Lm3.8 million (0.17% of GDP) in 2009 and turning into a positive balance of Lm25.5 million (0.95% of GDP) in 2010.

Overview Budget 2008



Inflation

- For the year to September 2007 the inflation rate was 0.81%, down from 3.42% as at September 2006.

GDP

- The GDP for 2008 is expected to be Lm2,436 million representing an increase of Lm140.6 million over the revised estimate for 2007.

Foreign Trade and Balance of Payments

- During the first seven months of 2007, imports decreased by 3.1% to Lm830.9 million whereas exports increased by 5.9% to Lm554.6 million.

The Labour Market

- At 30 June, the number of people registering for work amounted to 5,701, i.e. 3.9% of the labour force (the 30 June 2006 figure was 6,601, i.e. 4.5% of the labour force).
- The number of gainfully employed at June 2007 reached 146,404 of which 140,067 were in full time employment.

Tourism

- Tourist arrivals for the period January to August 2007 increased by 58,038 to 825,874 over the first eight months of 2006.
- Cruise passenger arrivals increased by 26.6% to 295,220 passengers.
- Gross income from tourism for the first six months of 2007 amounted to Lm108.7 million.

Manufacturing

- Manufacturing industry grew by 4.1% over the first six months of 2006.
- Enterprises increased turnover by Lm20 million to Lm506.4 million in the period January to June 2007.

Foreign Investment

- Net foreign direct investment declined from Lm424 million (41.2% of GDP) to Lm117.5 million (10.8% of GDP) from January to June 2007 when compared to the same period last year (the 2006 figures included certain one-off privatization proceeds).

Port reform

- During 2007, agreement on the port reform was reached and this has led to a reduction by 20% in the cost of handling domestic merchandise.

COST OF LIVING ALLOWANCE

- The weekly cost of living increase for 2008 is Lm1.50 (€3.49). 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 Lm341 (€794) per annum for those applying the joint computation (married rates) and Lm230 (€536) per annum for those applying the single computation.

Resident married couples opting for joint computation

Income Range		Multiply by	Deduct
From	To		
Lm0 €0	Lm4,894 €11,400	0%	Lm0 €0
Lm4,895 €11,401	Lm8,800 €20,500	15%	Lm734.1 €1,710
Lm8,801 €20,501	Lm12,020 €28,000	25%	Lm1,614 €3,760
Lm12,021+ €28,001+		35%	Lm2815.8 €6,560

Resident single persons and married couples opting for separate computation

Income Range		Multiply by	Deduct
From	To		
Lm0 €0	Lm3,498 €8,150	0%	Lm0 €0
Lm3,499 €8,151	Lm6,010 €14,000	15%	Lm524.7 €1,222
Lm6,011 €14,001	Lm8,156 €19,000	25%	Lm1,125.6 €2,622
Lm8,157+ €19,001		35%	Lm1,941 €4,522

- Personal deductions for Sport Activities:** Parents, whose children attend approved sport activities, will be entitled to a deduction against their taxable income. The deduction can reach a maximum of €100 (Lm42.93).
- Deductions for Sport Activities:** Companies will benefit from a tax deduction for donations made to sport organisations or athletes in national or international sport events.
- Deductions for Cultural Activities:** Companies financially supporting approved non-profit cultural organisations will be entitled to a tax deduction for such donations. A tax deduction is also being introduced to companies in respect of scholarships given to local artists up to a maximum of €18,600 (Lm8,000).

Overview Budget 2008

- **Deductions for payments made for residential services for the elderly:** A deduction of up to €2,000 (Lm859) a year is being introduced with respect to costs relating to residential services for the elderly.
- **Deductions for School Fees:** Tax deductions relating to private school fees have been extended to kindergarten fees. This deduction applies up to a maximum of €1,000 (Lm429) a year.

Stamp Duty

- **Inheritance of residential home:** The surviving spouse will be exempted from stamp duty on the inheritance of the couple's residence upon the demise of the other spouse, as long as the residence is not sold before the death of the surviving spouse.
- **Transfer of property to children:** Reduction to 3.5% of duty on transfers of immovable property by parents to children to be used as the latter's residence.
- **First-time residence:** The stamp duty rate of 3.5% currently charged on the first Lm30,000 (€70,000) value of the immovable property for the first residence is being raised to a value of Lm50,000 (€116,468).

OTHER FISCAL MEASURES

- **Refund of VAT on sports facilities expenditure:** Refunds of VAT will be granted to recognised non-profit sports organisations in respect of VAT incurred on expenditure related to sports facilities.
- **5% VAT rate on letting of sites for artistic and cultural activities:** The VAT rate on the letting of sites used for artistic and cultural activities, entrance to museums, art exhibitions, concerts and theatres (excluding cinemas) will be reduced from 18% to 5%.
- **VAT exemption on art classes:** An exemption from VAT in respect of art classes provided by organisations recognised by a designated body.
- **Pension entitlement to persons in gainful occupation:** Persons in gainful occupation beyond pensionable age may earn more than the minimum wage without forfeiting their pension.
- **Incentives for unemployed:** The Government will contribute the equivalent of one year's social security contributions for persons over 45 years of age who have been unemployed for a period of 5 years and obtain an appropriate self-employment licence.
- **Service pensioners:** Lm200 (€466) from a service pension will be ignored when calculating entitlement to the social security pension.

OTHER MEASURES

- **Employment of disabled persons:** As from 1 January 2008 employers of disabled persons registered with the ETC shall be exempt from the payment of national insurance contributions in the first three years of employment of the employee.
- **New unemployment register:** A new unemployment register is being introduced for people seeking work only on a part-time basis.
- **Maternity leave:** As of 1 January 2008 the paid maternity leave shall increase by one week to 14 weeks. The cost of this additional week shall be borne by Government through a credit against the employer's social security contributions.
- **Children's allowance:** Government is proposing numerous measures amongst which:
 - the allowance granted in respect of the second and any other subsequent child under the age of sixteen shall be doubled;
 - the minimum annual reckonable income shall, for the purpose of calculating the amount of children's allowance due, be reduced from Lm2,770 (€6,452) to Lm2,000 (€4,658);
 - the minimum children's allowance payable shall be increased from Lm52 (€121.12) to Lm107 (€250) per annum in respect of every child.
- **Stipends:** As from the next academic year a stipend scheme is being set up for Maltese resident students who undertake studies for an undergraduate degree at a foreign university.
- **Home loan interest rate subsidy:** Government shall subsidise up to 1% over the base rate established by the Central Bank when this is higher than 3.75%. The subsidy shall be granted for 10 years on the purchase of the first residence which value does not exceed Lm50,000 (€116,468).
- **Setting-up of a Film Fund:** An amount of Lm100,000 (€232,900) shall be devoted towards the creation of a film fund as an incentive to locally produced films.
- **Energy Related Benefits:** Retention of the 20% rebate subject to a maximum of Lm50 (€116) on the acquisition of certain domestic white goods that are certified to be energy efficient. The rebate on purchase of electric cars is being increased to 20% subject to a maximum of Lm1,000 (€2,329).

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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