

# Newsalert\*

## Tax and Legal Services



Malta

9 November 2009

The measures announced tonight by the Minister of Finance, the Economy and Investment in the budget speech for 2010 include:

- A cost of living increase of €5.82 per week
- Introduction of various measures aimed at incentivising industry
- No changes to income tax bands
- Introduction of new anti-abuse provisions aimed at attacking aggressive tax planning ideas
- Overhaul of motor vehicles registration tax system on commercial vehicles
- A number of measures providing refunds and grants in the energy sector

**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 2010

### CONSOLIDATED FUND 2009/2010

	2010	2009 (revised)
	€ (millions)	€ (millions)
<b>Recurrent Revenue</b>		
Tax revenue	2,331	2,225
Non tax revenue	344	241
<b>Total</b>	<b>2,675</b>	<b>2,466</b>
<b>Recurrent Expenditure</b>		
Personal emoluments	551	542
Programmes & initiatives	1,422	1,399
Contributions to public entities	205	174
Operational and maintenance expenses	110	110
Interest on public debt	196	195
<b>Total</b>	<b>2,484</b>	<b>2,421</b>
<b>Recurrent Surplus</b>	<b>191</b>	<b>45</b>
Capital expenditure	(430)	(303)
<b>STRUCTURAL DEFICIT</b>	<b>(239)</b>	<b>(258)</b>
<b>Consolidated Fund Balance – 1 January</b>	<b>(115)</b>	<b>(87)</b>
	<b>(354)</b>	<b>(345)</b>
<b>Financing</b>		
Local – Direct loan repayments	(191)	(251)
– Investment (equity acquisition)	-	(1)
Net contributions to sinking funds - local/foreign	(16)	(17)
Local loans	550	499
	<b>343</b>	<b>230</b>
<b>Consolidated Fund Balance – 31 December</b>	<b>11</b>	<b>115</b>

### DOMESTIC ECONOMIC PERFORMANCE

#### Government deficit

The deficit for 2009 is expected to reach €217.6 million (including €40m of general government adjustments not included in the above table) or 3.79% of GDP. This compares to an original estimate of €99.8 million. It is anticipated that the deficit will increase to €233.8 million (including €5m of general government adjustments not included in the above table) in 2010 or 3.93% of GDP.

\*connectedthinking

©2009 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.



## Inflation

- The inflation rate for the year to September 2009 stood at 3.46%.

## Gross Domestic Product (GDP)

- The GDP for 2009 is expected to be €5,744 million representing a decrease of 2% from September 2008.

## Foreign Trade and Balance of Payments

- During the first nine months of 2009, imports decreased by 20.8% to €2,084 million. During the same period, exports also decreased by 22.6% to €1,188 million.

## The Labour Market

- At 30 June 2009, the number of people registering for work amounted to 7,273 or 4.8% of the labour force (the 30 June 2008 figure was 5,861 or 3.9% of the labour force).
- The number of gainfully occupied in June 2009 reached 144,743, of which 72% were employed by the private sector.

## Tourism

- Tourist arrivals for the period January to September 2009 decreased by 108,827 or 10.4% to 936,342 over the same period last year.
- Cruise liner passenger arrivals for the period January to September 2009 decreased by 27.7% to 294,795 passengers.
- Gross earnings from tourism for the first six months of 2009 amounted to €227.8 million, down by €26.1 million over the same period last year.

## Manufacturing

- During the first six months of 2009, turnover in the manufacturing industry declined by 21.6% to €878 million. This was driven mainly by a drop in exports.

## Foreign Direct Investment (FDI)

- Net FDI increased by €48 million to 6.8% of GDP from January to June 2009 when compared to the same period last year.
- This was mainly driven by a decrease in funds invested abroad, which decrease offset a smaller decrease of funds invested in Malta.

## COST OF LIVING ALLOWANCE

- The weekly cost of living increase for 2010 is €5.82. This increase shall be granted in full to pensioners.

## INCOME TAX

### Revision of tax bands

- No revision of income tax bands was announced.

### Deductions and Exemptions

- Persons donating at least €150 to the Malta University Research, Innovation and Development Trust Fund will be entitled to a reduction of the same amount from taxable revenue up to a maximum of €50,000.
- Tax exemption on royalties and similar income (up to a maximum to be established) for persons/ entities undertaking research leading to qualifying patents covering their inventions.
- Tax treatment with respect to alimony payments made to an estranged spouse is being extended to cover payments established by foreign courts, subject to approval by the Commissioner of Inland Revenue.

### Income tax and VAT refunds

- No refund on overpaid income tax/ VAT will be paid to taxpayers if there are outstanding VAT returns or income tax returns.

### Income tax exemption for self-employed working mothers

- Tax benefits granted to working women rejoining or returning to the labour market shall also be extended to self-employed mothers up to a maximum credit of €5,000 per year.

### Tax on property transfers

- The current possibility to opt out of the 12% final withholding tax on immovable property transfers shall be extended from five years to seven years, for transfers occurring during the years 2010 and 2011.

### Tax deduction for childcare services

- A deduction in the taxable income of €1,000 will be provided in respect of children who are older than three years and who attend registered centres in summer.

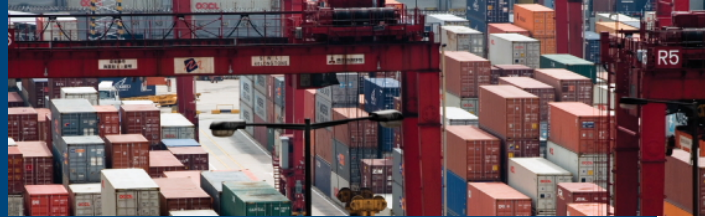
### New anti-abuse measures

- Introduction of various anti-abuse measures aimed at attacking certain aggressive tax planning ideas.

## OTHER FISCAL MEASURES

### Integration of Inland Revenue, VAT and Customs Departments

- Commencement of process to integrate Inland Revenue, VAT and Customs Departments. The key aims of this measure involve sharing information between the said departments and carrying out their functions in a more effective manner.



## Taxpayers' Charter

- Development of a Taxpayers' Charter aimed at fostering more transparency and accountability by the respective government departments towards taxpayers.

## Registration/ licence fees for boats

- Registration/ licence fees for boats will be reduced on the basis of engine-size.

## Excise duty on cigarettes

- Excise duty on cigarettes and tobacco is being increased by €0.15.

## Motor vehicles registration tax on commercial vehicles

- The motor vehicles registration tax system for commercial vehicles is being revised to reflect the European Union standard. This system encourages the acquisition of commercial vehicles having a Euro 5 or 4 classification which are considered to be more environmentally friendly.
- For commercial vehicles classified as Euro 3 or less, the motor vehicle registration tax will be based on weight rather than value.
- Some transitional measures will be provided so as to allow the changeover to the revised system of registration tax for commercial vehicles.

## Commercial vehicle licences

- Commercial vehicle licences will also be taking into consideration European Union standards.
- Licence fees for commercial vehicles having a Euro 5 or 4 classification will be reduced in the first nine years.
- For commercial vehicles having a Euro 3 classification or lower the licence fees will be increased.
- Some transitional measures will apply for those commercial vehicles which are registered by the end of this year so that the new system will only apply after the lapse of four years.

## Certain measures against abuse

- Measures will be taken against contraband of cigarettes and alcohol. Measures will also be taken in order to control abuse in the purchase of fuel. All fuel will be specifically marked by Customs and harsher penalties will be introduced in the case of abuse.

## OTHER MEASURES

### Enterprise incentives

- An amount of €7 million shall be allocated as allowances to industry for international competitiveness, research and innovation, and e-business.
- Malta Enterprise shall introduce new initiatives to enable investors to:
  - bring vertical activities to their existing operations;
  - set up shared services centres;
  - benefit from fiscal reinvestment tax credits i.e. a tax credit for profits reinvested in projects approved by Malta Enterprise.
- Reserve Fund for assisting enterprises in temporary difficulties.
- Development of 2 Micro Enterprise Parks in Mellieha and Xewkija (Gozo) and an investment of €16 million in the Kordin, Hal Far, Bulebel, Mosta and Xewkija industrial areas.
- An investment of €1.7 million in research and innovation so as to double the Research and Innovation Fund, set up a databank regarding the Human Genome Project, etc.

### Small enterprises and the self-employed

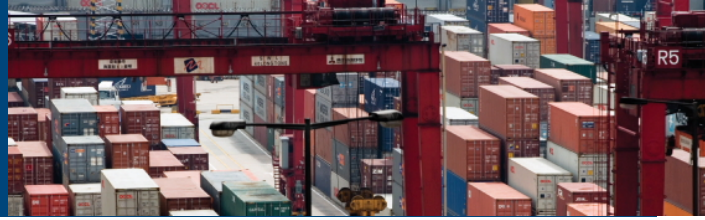
- A micro-credit of up to €25,000 to provide liquidity for investment.
- 40% tax credit (increased to 60% for investments in Gozo) up to a max of €25,000 to those who employ up to 10 persons and sole traders who makes a qualifying investment in the next 2 years.
- Incentive for expenses incurred to increase workplace accessibility to new employees suffering from disability.
- A fund to assist the Trades and Crafts Enterprises.

### Schemes and incentives for job creation

- Introduction of new schemes relating to job creation, including measures which give experience-related opportunities to the unemployed.
- Various measures to assist disabled people at the workplace, including personal assistance and aid to employers who upgrade their workplaces to employ disabled persons.

### Childcare related measures

- Training and one-off financial assistance to those who give childcare services at their homes while taking care of the children of others.



- Help with the payment of childcare costs to mothers seeking to join training programs.
- Financial assistance to employers who incur costs related to the setting up of childcare services for the employees' children.
- Benefits paid in respect of children in residential homes and in foster families are being increased from €40 to €70 per week. The age for assistance shall be increased to 21 years in the case of those who are still studying or following an approved ETC training programme.

## Incentives for culture and creativity

- A number of fiscal incentives in the culture and creativity fields, e.g. benefits to encourage Maltese authors to publish literary works, computer animation, films and television programmes, etc.
- Establishment of a fund for the purchase of contemporary works of art from Maltese authors, etc.

## Measures related to energy consumption

- Up to 50% refund of the cost of photovoltaic cells, up to a maximum of €3,000.
- Grant of 40% of the cost of solar water heaters up to a maximum of €560, which is restricted to, amongst others, low-income families, first time buyers whose value of property does not exceed €120,000, families which are entitled to fixed children's allowance and Gozo residents.
- Energy grants, varying between €55 to €205 (depending on the size of the family) to those that consume less than 10,000 units, in order to reduce the impact on the revision in energy prices due to be introduced with effect from 1 January 2010.

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:



167, Merchants Street, Valletta VLT 1174, Malta

Tel: +356 21 247 000 Fax: +356 21 244 768

[www.pwc.com/mt](http://www.pwc.com/mt)