

CLIENT NEWS

BUDGET 2012

Economic situation

Budget measures

Introduction

The 14 November 2011 saw the presentation to Parliament of the fourth budget of the current legislature. The main objective of the 2012 budget appears to focus on the reduction of government expenditure without having to resort to drastic increases in taxation. The measures taken in this budget aim to maintain economic growth amid the global recession.

Economic situation

The government aims to achieve its deficit reduction target of 2.8% of GDP for 2011, in line with its forecasts. Malta's deficit for fiscal year 2012 should be reduced further to 2.3% of GDP. This trend of fiscal consolidation, the government adds, goes to show that the deficit reduction for 2011 would not simply be a one-off occurrence. Rather, it is part of an overall plan of long-term fiscal consolidation which should ultimately lead to a balanced budget in the near future.

Inflation

The inflation rate throughout the year ranged from 0.96% in October 2010 to 2.73% in September 2011.

Budget measures

The Minister of Finance noted that, for the second consecutive year, Malta was one of only a handful of EU member states that had managed to reduce its fiscal deficit in 2011. The budget measures put forward seek to preserve and improve on this reduction while further lowering the unemployment rate. However, the Minister cautioned that such measures should not come at the expense of economic growth, which, during the first half of 2011 averaged 2.6%.

Cost of living allowance

The weekly cost of living increase for 2012 is to be €4.66. Therefore, as from 1 January 2012, the national minimum wage will increase to € 158.06.

The following table shows the estimated Consolidated Fund for 2011 and 2012.

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Consolidated Fund 2011/2012 (forecast)		
	2011 € million	2012 € million
Recurrent Revenue		
Taxation	2,384	2,542
Other	312	419
Total Recurrent Revenue	2,696	2,961
Recurrent Expenditure		
Expenses	(2,375)	(2,450)
Interest on public debt	(214)	(231)
Total recurrent expenditure	(2,589)	(2,681)
Recurrent surplus	108	280
Capital expenditure	(303)	(425)
Deficit	(195)	(145)
Financing costs	(225)	(482)
Public Sector (Borrowing Requirement)	(420)	(628)
Consolidated Fund Balance 1st Jan	(125)	25
Local Loans Issuance	570	700
Consolidated Fund Balance 31st Dec	25	97

Direct taxation

Extension of income tax exemption for certain royalty income

Income derived from patents and inventions approved by Malta Enterprise is currently exempt from income tax in Malta. This exemption is being extended to income from copyrights on books, film scripts, music and art.

Extension of the highly qualified persons rules

A recent amendment to the Income Tax Act enables highly qualified expatriates who relocate to Malta to benefit from a flat 15% tax rate on any income derived from duties performed in Malta, subject to them earning a minimum income of €75,000.

An extension to these rules now widens the net of professionals who are eligible to qualify for this favourable tax rate, namely:

- Returned migrants who have established a lucrative career abroad and return to Malta to work in important industrial sectors, such as the manufacturing industry;
- Highly skilled and qualified expatriates whose talent is required for certain industrial sectors; and
- Individuals who conduct research or who market an invention or new technology locally.

Incentives for the digital games industry

The Minister highlighted the need to continue investing in research and strategy for the development of digital games. This will be done via the following three measures:

- The establishment of the Malta Games Fund with an overall investment of €150,000;
- A tax credit scheme to Maltese companies on any expenditure incurred in the development of the game or on a maximum expenditure of €15,000; and
- The flat 15% tax rate for highly qualified individuals will be extended to game directors and game designers, as well as to academics and researchers in the research and development sectors.

Amendments to the part-time employment rules

The Part-Time Work Rules will be amended as follows:

- Pensioners working part-time with the government will now be able to benefit from the 15% tax rate applicable to part-time employees. This means that all pensioners are now entitled to avail themselves of the flat 15% rate upon their part-time earnings;
- The government and all public authorities will no longer be considered as the same employer for the purposes of the Part-Time Work Rules. Therefore, civil servants are entitled to benefit from the 15% tax rate while they are employed on a part-time basis with a public entity other than their full-time employer; and
- The deadline for the payment of the 15% tax will be extended to 30 June.

New income tax bands for parents

While the existing income tax rates and bands are to be left unchanged, an entirely new tax category will be introduced. This will be known as the *parental computation* and will apply to earnings of working parents who support children under the age of 18 years who are not gainfully occupied (or individuals under the age of 21 who further their studies to tertiary education). The new income tax brackets will be as follows:

Income	Parental tax rates
Up to €9,300	0%
€9,301 - €15,800	15%
€15,801 - €21,200	25%
Over €21,200	35%

Other incentives for parents

The following incentives are beneficial to parents:

- Discussions with relevant stakeholders will be held in order to extend current maternity leave provisions in Malta. The government is proposing that the maternity leave entitlement should increase to 16 weeks in 2012 and to 18 weeks in 2013. In this case, employers would be compensated for the extra leave to the tune of €160 per week;
- The minimum amount of children's allowance will increase from €100 to €350 per child;
- Parents whose children attend cultural and creative courses at teaching institutions may benefit from a €100 reduction in their tax base;
- Costs related to learning support assistants borne by parents of children attending independent schools will be subsidised in full; and
- Tax deductions for parents who send their children to private schools shall also be adjusted as follows:

Level of education	2011	2012
	€	€
Day care, kindergarten or reception	1,200	1,300
Primary	1,200	1,600
Secondary	1,600	2,300

Amalgamation of tax departments

The government announced that the process of amalgamation between the Inland Revenue Department and the VAT Department will continue. The use of electronic tax submissions was also encouraged.

Incentives to industry

The following incentives have been proposed with the aim of stimulating Maltese business and creating or maintaining any competitive advantage that an industry may possess:

The MicroINVEST and Create Schemes have been extended for a further year. The MicroINVEST Scheme enables small businesses which employ up to ten people and create new investment opportunities and jobs to benefit from a 40% tax credit up to an amount of €25,000. The Create Scheme provides for a tax credit of up to €25,000, will be extended to businesses who invest in Valletta;

The government is to provide bank guarantees on loans taken out for investment or working capital by micro businesses employing up to 20 persons. The scheme will guarantee 90% of bank loans of between €2,500 and €100,000 taken out from commercial banks.

An investment of €30 million will be pumped into the pharmaceutical and life sciences sector through the BioMalta Campus. A private investment fund will be set up between Malta Enterprise and Sultan Scientific Company with the aim of investing in projects set up in BioMalta Campus or in international joint projects.

VAT-related issues

Firms which are currently in arrears on their VAT payments will be able to regularize their position. This will be done through a scheme whereby businesses may settle any overdue VAT payments and pay a reduced rate of penalties and interest. This is subject to the condition that any VAT returns which ought to have been filed by 15 October 2011 must now be filed by 15 January 2012. Any arrears are to be settled by 15 January 2013. This scheme would only apply to arrears accumulated up to 14 November 2011. Any returns due on or after the 15 November 2011 must be submitted on time and must include the full payment. Failing this, the taxpayer would not be entitled to benefit from this scheme. Some other VAT-related incentives to be implemented are as follows:

- No VAT on the services of nursing or home help provided by the private sector;
- A 15.2% rebate on the purchase of fitness equipment for private use;
- A rebate of up to €1,000 on investment of roof insulation and double glazing;
- An extension of the car scrapping scheme for the first 3,000 cars. A Vat refund, up to a maximum of €2,000, on the purchase of a new car satisfying certain criteria, provided that the old car is duly scrapped.

Motor Vehicles Registration tax

The private car registration system is being revised so as to further align it with the Euro standard (as is the case with commercial vehicles). The registration tax for vehicles within the Euro 1 and Euro 3 classification will increase as from 1 January 2012. However, cars falling within the Euro 4 and Euro 5 classification will not be affected.

Excise duty

A number of indirect taxes have been increased or introduced as a result of the budget, namely:

- Excise duty on cigarettes is being raised by 5.8% on each packet and 8.5% on other tobacco products;
- An increase of €3 in excise duty for every tonne of cement is being proposed; and
- Duty on bunkering fuel for ships outside Maltese territorial waters will increase to €5 per tonne.

Property

The government is to implement a number of incentives to promote the regeneration of urban zones for the acquisition, restoration and conservation of scheduled buildings in grades 1 and 2 of Urban Conservation Areas. These include:

- An exemption from stamp duty upon transfers of property between heirs until 31 December 2013;
- A 20% rebate on restoration expenses incurred by individuals restoring their own property, subject to a maximum of €5,000;
- Companies restoring their own property which was being used for commercial purposes may benefit from a tax credit of 20% on their expenditure or 30% for grade 1 and grade 2 scheduled properties; and
- Companies or individuals who undertake the restoration of such properties for the purpose of renting or selling same properties will also benefit from:
 - a) A 10% final withholding tax on rental income from residential property;
 - b) A 15% final withholding tax on rental income from commercial property;
 - c) A 10% final withholding tax (instead of 12%) on the sale of such property or 30% (instead of 35%) on the gain.

A favourable 10% final withholding tax will also apply to home owners wishing to rent property to families who qualify for rental subsidies, subject to their registration with the Housing Authority the satisfaction of any conditions laid down by same authority.

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