HIGHLIGHTS

1. Widening of the income tax exempt brackets for individuals
2. New optional income tax rate for commercial property rental
3. Reduced income tax rate for coaches and players
4. Measures to revamp property market
5. Extension of Stamp Duty exemption for first-time buyers
6. Reduced VAT Rate on sports activities and facilities
7. Re-introduction of the Motor Vehicle Scrappage Scheme
8. Extension of in-work benefit

INTRODUCTION

On the 12th October 2015, the Minister of Finance, the Hon Professor Edward Scicluna presented his budget speech for year 2016. This document highlights the main fiscal measures as well as the latest economic forecasts on the Maltese economy.

The cost of living increase for 2016 shall be of €1.75 per week. The weekly minimum wage for 2016 will be increased by the COLA to €168.02. The COLA shall also be applied in full to pensioners.

THE ECONOMY IN 2015 AND ESTIMATES FOR 2016

<table>
<thead>
<tr>
<th>Year</th>
<th>The deficit is expected to be</th>
<th>The national debt as a percentage of GDP is expected to stand at</th>
<th>The GDP is expected to be</th>
<th>Unemployment rate is expected to stand at</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>1.6%</td>
<td>66.56%</td>
<td>€ 8,983m</td>
<td>5.60%</td>
</tr>
<tr>
<td>2016</td>
<td>1.1%</td>
<td>65.22%</td>
<td>€ 8,549m</td>
<td>5.80%</td>
</tr>
</tbody>
</table>
INCOME TAX MEASURES

- Reduced income tax rates applicable to resident individuals

As from 2016, the exempt income tax bracket for resident individuals will be widened for those earning up to €19,500 (Single Declaration), those earning up to €21,200 (Parent Declaration) and for those earning up to €28,700 (Married Declaration).

The following are the new tax brackets applicable for 2016.

<table>
<thead>
<tr>
<th>Rate</th>
<th>Single Rate (€)</th>
<th>Married Rate (€)</th>
<th>Parent rate (€)</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 %</td>
<td>up to 9,100</td>
<td>up to 12,700</td>
<td>up to 10,500</td>
</tr>
<tr>
<td>15 %</td>
<td>9,101 – 14,500</td>
<td>12,701 – 21,200</td>
<td>10,501 – 15,800</td>
</tr>
<tr>
<td>25 %</td>
<td>14,501 – 60,000</td>
<td>21,201 – 60,000</td>
<td>15,801 – 60,000</td>
</tr>
<tr>
<td>35 %</td>
<td>60,001 and over</td>
<td>60,001 and over</td>
<td>60,001 and over</td>
</tr>
</tbody>
</table>

- Fiscal consolidation for companies

A new fiscal consolidation concept in income tax legislation will be introduced whereby companies forming part of the same group of companies will be able to file their income tax return aggregately. This will continue to simplify the income tax computation process.

- Capital allowances

A new measure, which is still being discussed is the introduction of capital allowances on investment in premises used as an office space, complementing the already existing capital allowances on capital expenditure on hotels, car parks and industrial buildings.

- Reduced tax rate on sport activities

The reduced income tax rate of 7.5% currently applicable to waterpolo and football players shall be extended to coaches and players of any type of sports.

- Rental of Property

The 15% final withholding tax option on rental income from residential property is being extended to the rental of commercial property and shall also be available to companies. Inter-company rentals between entities that form part of the same group shall be excluded from this measure.

- New income tax rates for extra-duty work for Police corps.

With effect from 1st January 2016, police corps members who carry out ‘extra duties’ for organisations, individuals and companies shall be taxed separately at a tax rate of 15%.

- Community Chest Fund

The tax deduction in respect of donations of not less than €2,000 made by companies to the Malta Community Chest Fund is being increased to 100% of the amount donated (previously 50%).

SOCIAL BENEFITS

- Pilot Fund – Live-in carer

A pilot fund of €1 million is being proposed from which subsidies will be paid out when a qualified full- or part-time carer will be engaged by an elderly person. The maximum subsidy shall be of up to half of the minimum wage and pro-rata in case of part-time employment. The program will be offered to elderly persons who as at today are still on the waiting list for admission to a residential home for the elderly. Those who benefit from the fund will subsequently be removed from the waiting list.

- Social benefits

In the case of social assistance calculations, as from 2016, the earnings of employed children forming part of the
household income will no longer be taken into consideration as part of the means test. With such a measure, the €16.30 per week previously deducted for every working child will no longer be effective.

- **Pensions**

The Government aims to increase the national minimum pension to 60% of the average income by the year 2027. In view of this, as from next year, the minimum pension for those who have contributed the required amount for a two-thirds ratio will amount to €140 every week or €7,280 annually. A pro-rata amount will be paid to those pensioners who do not have sufficient Social Security contributions for the two-thirds ratio.

As a result of the above measure, 12,000 pensioners will benefit from this increase which will be paid as follows:

- An average increase of €8.92 per week for those pensioners who are over 75 years of age;
- An average of €8 per week for those who are under 75 years will come into effect;
- Married couples who are currently receiving the national minimum pension will receive an additional benefit of €4.15 per week including the cost of living allowance.

In order to sustain this increase in pension rate, the validity of contributions will increase by one year from the current 40 year period for those persons born after 1968.

The following are other incentives aimed at improving pension related matters:

1. Those parents who had a career break for two years either to nurse their new born, to specialise in their career or to continue their studies, will be credited with two years contributions
2. Those persons who have deferred their pension entitlement and remained in their gainful occupation will benefit from a percentage increase in their eventual pension payout throughout their lifetime
3. Retirement pensions will be paid as from the first day in which the person retires from his/her occupation whereas widowers pensions will be paid as from the date of demise of the deceased spouse
4. Persons aged over 75 years will still enjoy the €300 annual grant
5. Those pensioners who are receiving a service pension will continue to benefit from a €200 deduction from the amount of service pension which is deductible from their two-thirds entitlement.

- **In-Work Benefit**

The In-Work Benefit scheme shall remain in force in year 2016. Single parents engaged in employment earning between €6,600 and €15,000 annually will be eligible for a benefit up to a maximum of €1,200 per child. Couples who are in employment earning a joint annual income between €10,000 and €20,000 will receive a monetary benefit up to a maximum of €1,000 per child.

Families where only one individual is employed, with a minimum wage ranging between €6,600 and €12,700 and with children up till 23 years of age, will benefit from €150 per child.

The incentive applicable to parents who are both in employment will remain in force. The benefit will rise to a maximum of €1,000 per child.

- **Employment of disabled persons**

Currently the Law charges a penalty of €800 per disabled person not employed to those employers who employ more than 20 employees. To encourage employment of disabled persons, this fine is being increased to €1,600 as from next year. To encourage the employability of disabled persons, the Government will be paying 25% of Social Security Contributions of disabled employees and employers will be refunded 25% of the wage cost of the disabled persons and will receive a subsidy of €125 per week for three years.
• **Gozo employment tax credit**

More incentives will be launched to encourage the creation of new jobs with the private sector in Gozo. The incentive will be given to enterprises which will employ a person on a contract of employment of at least three years and will be given as a refund of 20% of the medium wage up to €5,000.

**ASSISTANCE TO ENTERPRISES**

• **Assistance to Start-Ups**

Malta Enterprise will be launching another scheme to assist new start-up companies. This scheme will be in the form of a grant, payable back to the corporation over a period of 10 years. This financial aid can reach up to €200,000 pari passu to private equity. In the case of enterprises engaged in the development of innovative products, processes or services and which will exceed the prevailing industry levels, the financial aid can reach up to €500,000 and will cover investment in new machinery. Assistance can also be provided to companies which will be generating funds through crowdfunding initiatives.

• **Incentives to the Film Industry**

The Government will be increasing the funds allocated to marketing and public relations for the promotion of Malta as a filming destination with the aim of further building upon the established success of the same Malta film industry.

• **Export Trade Guarantee**

A mechanism will be introduced whereby a guarantee will be provided to exporters for exports to high risk countries.

• **Family Business Act**

A white paper regarding legal proposals, improved corporate governance incentives and fiscal incentives with the aim of having a more sustainable method of business transfers within family members will soon be issued for public consultation.

• **Insolvency legislation**

To improve competitiveness, legislation regulating cases of bankruptcy or insolvency of enterprises will be reformed. This will enable investors, creditors and banks to make informed and speedy decisions.

• **Assistance aimed at promoting women’s participation in enterprises**

In order to mobilise female participation in the workplace, the Government will be revising the Micro Invest scheme so that women engaged in self-employment or enterprises which are mainly owned by women will be eligible for a maximum Micro Invest tax credit of €50,000.

• **Registration of small companies and Medium Sized Enterprises**

In order to reduce costs for small and medium-sized enterprises, as from next year, registration fees for the incorporation of a company will be reduced to €100. This only applies to companies which are incorporated electronically and which have a share capital not exceeding €1,500.

• **Participation in public tenders**

The Government will continue to encourage small enterprises to participate in public tenders by reducing the performance guarantees required from 10% to 4% when the value of the contract does not exceed €500,000. Moreover, the concept of the Single Bond will be introduced whereby enterprises which have more than one contract with the same department or public entity, can give only one guarantee instead of opening a guarantee for each awarded contract.
• **Assistance for research and development**

To facilitate further Research and Development, enterprises employing persons in possession of doctorate qualifications in sciences, IT and engineering or those who are furthering their studies to obtain this qualification, will be given a tax credit of up to €10,000 for new employees engaged for a period exceeding 12 months.

• **Assistance to small enterprises engaged in the manufacturing sector**

Malta Enterprise will be launching an incentive whereby small undertakings will be compensated for relocation costs when moving to premises leased from the private sector to continue with their manufacturing activities. This incentive can be given over a period of 2 years and each enterprise can receive up to €10,000 per annum.

• **Assistance for the transfer of knowledge**

Malta Enterprise will be launching a scheme to assist enterprises in the transfer of knowledge. This assistance will be given in the form of a tax credit but may be also given in the form of financial aid when the project is considered as significant for the development of the company.

**TRANSPORT**

• **Refund of VAT paid on car registration tax.**

VAT paid on car registrations effected between 1st May 2004 and 31st December 2008 will continue to be refunded during the year 2016. As from next year the ex-gratia payments on cars registered during the year 2005 will be refunded in full.

• **Eco friendly measures**

As a result of the success of the scheme for bicycles, the same will be extended in the coming year. This will take the form of a reimbursement of 15.25% of the cost of the bicycle or electronic bikes up to €250. Transport Malta will also be working on a National Cycle Plan.

Moreover, the Government will be incentivising corporations which invest in bicycle racks to be used by their employees to park their bikes when these are used as a mode of commutation to work. A fund of €150,000 will be allocated towards this purpose, whereby the Government will be subsidising half of the cost incurred by an enterprise to make bicycle tracks on their premises.

• **Scrapage schemes**

The Government will be relaunching the scrapage scheme for old vehicles with high emissions.

- A subsidy of €7,000 will be given upon the replacement of an old vehicle (over 10 years of age) with an electric vehicle
- A grant of €4,000 will be given for the acquisition of an electric vehicle but where no other vehicle has been scrapped
- A grant of €2,000 for an electric quadricycle
- For passenger vehicles, a grant of €2,000 will be paid for hybrid vehicles with carbon dioxide emissions ranging between 50 and 65g/km, and €3,000 for plug-in hybrid electric vehicles with carbon dioxide emissions ranging between 1 and 50g/km
- A grant of €900 will be given for the acquisition of vehicles with carbon dioxide emissions not exceeding 100g/km, whereas a grant of €700 will be given for the acquisition of vehicles with carbon dioxide emissions between 101g and 130g/km.

This scheme will begin from 1st January 2016.

• **Further incentives for vehicles with low emissions**

In order to encourage the acquisition of vehicles with low emissions, persons who own a hybrid or electric vehicle will be exempt from CVA tariffs applicable to vehicles entering Valletta.
Enterprises which acquire hybrid or electric vehicles will also be allowed to claim capital allowances against their income at the rate of 50% of the cost of the vehicle in the year of acquisition.

Vehicles which have clocked more than 160,000 kilometers will be obliged to undergo a VRT test every year instead of every two years.

- Encouraging the use of small motorcycles

The Government will be promoting the use of small motorcycles rather than motor vehicles. As from next year, the road licence for motorcycles with a cylinder capacity of 125cc will be reduced drastically to a flat rate of €10 per annum. Registration tax on electric motor cycles will also be abolished.

**INDIRECT TAX**

- Fuel pricing

With effect from 1st January 2016, the price of petrol will be reduced by €0.03c whilst that of diesel will be reduced by €0.04c. The aforementioned prices account for an increase in duty of €0.03c.

Excise duty on lubricant oils will increase by €0.02c while petroleum will increase by €0.03c per litre. Excise tax on fuel oil will increase by €0.03c per tonne.

Gas prices will remain unchanged until the end of April 2016.

- Duty on Tobacco and Cement

Excise tax on cement shall increase by 5 Euro per tonne. The price of cigarettes and tobacco will also be subject to increases. The price of cigarettes will increase by 0.30 Euro per packet.

- **Excise duty on beer and alcohol**

Excise duty on beer is being increased by €0.20 per hectolitre per degree Plato.

Excise duty on alcohol and alcoholic beverages, other than beer, is being increased at rates of between 1.33% to 2.5%, depending on the type of product.

**EDUCATION, SPORTS AND CULTURE**

- Educational measures

1. Continuation of the sabbatical measure for teachers whereby they will be given the opportunity to have a one year leave on full pay when studying to improve their profession.
2. Stipends for Mature Students – as from January 2016, stipends will be granted to mature students who embark on courses in MCAST and the University of Malta.

- **Grant to Institute of Tourism Studies (ITS) students**

An investment of €56 million will take place in a new Institute of Tourism Studies at Smart City, Malta.

As from the next academic year, the Government will be paying a grant of €233 to every student attending the Institute of Tourism Studies (ITS). Such grant shall partially cover expenses related to educational material.

- **An increase in the allowance given to Gozitan students**

Allowances paid to Gozitan students studying in Malta will be increased by €300 per annum.

- **Donations to Artistic Funds**

Enterprises which make a donation towards arts will benefit from a tax credit amounting to 150% of the donation given.
• Assistance to Artisans

The Malta Artisan Council and Malta Enterprise will be embarking on a pilot project with the aim of encouraging new artisans to revive traditional crafts which are at risk of dying out. This project is expected to cost €1,000,000 and will be providing remuneration to persons in the artisan sector who pass on their knowledge with a view to developing a training institute.

PROPERTY MEASURES

• Stamp duty exemptions for first-time buyers

The stamp duty exemption for first time buyers which expired on 30th June 2015 is being extended. With retrospective effect for promise of sales ‘konvenji’ entered after 30th June 2015, first time buyers will benefit from a reduction in stamp duty of a maximum of €5,000 on the acquisition of their first residence. This incentive shall be available until the end of 2016 and a refund of the duty paid will be available to those first time buyers who concluded a promise of sale and a contract of purchase after 30th June 2015.

• Other property measures

• Compensations for expropriation cases.
  One of the measures announced during the Budget speech for 2014 was that all cases of expropriation of up to €15,000 had to be paid in full. For the 2016 budget, this measure is being extended for all expropriation cases of up to €50,000. It is estimated that about 200 plots will be covered.

• Inheritance law currently provides that if more than 51% of the heirs agree on the transfer value of an inherited property and the other heirs are not in agreement, the property can only be transferred after ten or five years from the inheritance’s date, depending on the year of inheritance. For this reason, in order to reduce the vacant property stock, such disposal period is being reviewed down from ten to three years for property already inherited and property yet to be inherited.

• To further reduce the volume of vacant properties and alleviate the demand for new building development, stamp duty will be reduced from 5% to 2.5% on properties which form part of an Urban Conservation Area (UCA) where contracts are finalised during the period of 1st January 2016 to 31st December 2016.

• The final withholding tax on property transfers is being reduced from 8% to 5% for home owners who sell or regenerate buildings in UCAs. This regeneration must be in compliance with the existing law on this area.

• Social Housing

With a view to encourage the improvement and refurbishment of old dwellings, the Housing Authority will be enhancing two existent schemes from which home owners may benefit. The subsidy scheme for refurbishment and improvement of residences occupied by owners or tenants shall increase from €10,000 to €11,000 whilst the highest grant under the ‘structural danger scheme’ will increase from €7,000 to €8,000.

VAT MEASURES

• VAT Measures – Reduced rate of VAT on sports activities and facilities

VAT on sports activities and facilities, as well as gym memberships, fitness centres, football nurseries and other sports activities, will be reduced from 18% to 7%.

ECO CONTRIBUTION

As from September 2015, the Eco- Contribution on certain electronic and electrical products has been removed. There are however certain products which are deemed harmful to the environment on which an excise tax will be introduced.
These include chewing gum, containers of certain alcoholic and non-alcoholic beverages as well as certain plastic sacks and plastic bags.

**ENVIRONMENTAL CONTRIBUTION TAX**

As from 1st April 2016, an environmental contribution tax shall be levied on all incoming tourists nights for tourists of at least 18 years of age. The rate shall be of 0.50 Euro per night spent by each tourist in Malta up to a maximum of 5 Euro per visit.

**GREEN ENERGY**

- **Assistance for the efficient use of energy**

The Ministry for the use of energy in collaboration with Malta Enterprise will be launching a financial scheme to help enterprises to invest in the efficient use of energy. This aid will be given on investment costs incurred for the regeneration of energy and additional costs associated with the investment.

**OTHER MEASURES**

- **Co-operatives societies**

A consultation process will be launched for a reform of the co-operatives sector. Such reform includes a revision of the current regulations in relation to the Central Co-operatives Fund as well as improvement in the Co-operatives Society Act namely the minimum number of working members required to form the co-operative society.

- **Single Permit**

Identity Malta – an investment will be made by Identity Malta in relation to the process for the issuance of a Single Permit whereby a residence permit and a work permit will be issued jointly in one single document, in line with EU directives.

The Malta Individual Investor Programme - more than €75 million were collected from this programme and 70% of these funds will be put towards the National Social Development Fund which fund shall be managed by distinct and competent persons.

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