The measures announced by the Minister for Finance in the budget speech for 2016 include:

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<td>Widening of the income tax free bracket for certain taxpayers</td>
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<td>Increase in the rate and scope of Excise Duty</td>
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MALTA BUDGET 2016
A review and commentary
ECONOMY

The economy in 2015

1.6%
The deficit for 2015 is expected to reduce to 1.6% of GDP. In 2016, the deficit is expected to be of €802m equivalent to 1.1% of GDP.

€8.5bn
GDP for 2015 is expected to be €8.5bn representing an increase of 4.2% (in real terms) over 2014.

5.4%
In June 2015, the number of people registering for work amounted to 10,594 (5.4% of the labour force).

€1.7bn
The visible trade gap reached €1.7bn for the period January to July 2015, reflecting a decrease in exports (7.1%) compared to an increase in imports (7.0%) over the same period in 2014.

€1.75
The weekly cost of living increase for 2016 is €1.75 per week. In line with recent years, this increase will be granted in full to pensioners and pro-rata to students.

INCOME TAX

Income tax for individuals, Deductions, Fiscal measures applicable to immovable property, Tax credits and Fiscal consolidation

1.6%
The 12-month moving average rate of inflation in August 2015 stood at 0.9%.

0.9%
The total industry turnover index up to July 2015 increased by 1.9% when compared to the same period in 2014.

5.2%
Tourist departures up to July 2015 increased by 5.2% over the same period last year to 970,100 visitors.

€3.1bn
Estimated tax revenue for 2015 is expected to be €3.1bn and is expected to rise to €3.6bn by 2018.

Deficit is expected to decrease to 1.6% of GDP

Introduction of capital allowances on office buildings

Income tax for individuals
- Individuals applying the single tax rates and earning up to €9,100 will not pay tax and those earning up to €19,500 will save up to €90 tax per annum.
- Couples applying the married tax rates and earning up to €12,700 will not pay tax and those earning up to €28,700 will save up to €120 tax per annum.
- Parents applying the parent tax rates and earning up to €10,500 will not pay tax and those earning up to €21,200 will save up to €105 tax per annum.
- Coaches and players of any sport will benefit from a reduced income tax rate of 7.5%.
- As from 1 January 2016, any work “extra duty” carried out by police officers for organisations, individuals and companies will be taxed separately at a rate of 15%.

Deductions
- A donation to the arts will be considered deductible at 150% of the amount donated.
- Companies that donate a sum of not less than €2,000 to the Community Chest Fund, during 2015, may consider the full amount of such donation deductible for income tax purposes.
- Businesses that purchase hybrid or electric vehicles may claim a wear and tear allowance amounting to 50% of the purchase price in the year of acquisition.
- Wear and tear allowances previously restricted to industrial buildings, hotels and car parks will also be available for office buildings.

Fiscal measures applicable to immovable property
- The option of applying for the final 15% tax rate on gross rental income will be extended to commercial property. This option is not available to intra group rent arrangements.
- As from 1 January 2016, the final tax rate on transfers of regenerated immovable property situated in Urban Conservation Areas will be reduced from 8% to 5% of the transfer value.

Tax credits
- The Micro Invest Scheme will be extended to provide a maximum tax credit of €50,000 to self-employed women and businesses that are majority owned by women.
- A tax credit to facilitate research and innovation will be granted to enterprises employing individuals with a doctorate or reading for a doctorate in science, ICT, or engineering. Such enterprises will be eligible to a maximum tax credit of €10,000, to the extent that such period of employment is at least of 12 months.
- Companies may qualify for either a tax credit or a grant for the ‘knowledge transfer’ between employees. The incentive is intended to transfer skills from existing employees to new employees.

Fiscal consolidation
- The introduction of fiscal consolidation will allow a group of companies owned by the same persons, to compute taxable income on a consolidated basis as if it were a single company.
Pensions

- The ‘Third Pillar’ pension will be enhanced with the introduction of schemes operated by private sector investors.
- Setting up of a working group to consider fiscal benefits for employers relating to private pensions based on the voluntary contribution method.
- The Pensions Strategy Group previously established to address the sustainability of the current pension system issued a report whereby 27 recommendations were proposed for public consultation. Government decided to address those recommendations having the highest priority.
- The Government will not be increasing retirement age nor increasing the national insurance contributions (except for the normal increases in contributions reflecting COLA), nor introducing new contributions.
- As from 1 January 2016, the minimum contributory pension and bonus will amount to €7,280 per year (€140 per week). Persons having insufficient average annual contributions will be entitled to a pro rata of the €7,280. Such a measure will translate into an average increase of €8.92 per week in respect of persons aged 75 years and over, and €8 per week in respect of persons under 75 years.

Contributions for persons with disability

- The Minister for Finance stated that one of the main reforms in social policy requires medium and large companies to employ a number of persons with disability.
- As from 1 January 2016, companies employing more than 20 employees and failing to employ a minimum number of persons with disability will be liable to pay a contribution of €1,600 per person (previously €800) with disability that should have been employed by the company. Such contributions will be utilised by the ‘Fondazzjoni Lino Spiteri’ to employ more job coaches in order to assist both employers and persons with disability in their workplace.

Other social measures

- Where a family receives social assistance on the basis of a means testing of income, the income earned by the children will not be taken into consideration for establishing whether such families are entitled to these benefits. Thus such a family would not forfeit its entitlement of €16.30 per week per working child who still resides in the family home.
- A grant of €300 will be paid to persons of 75 years and over.

Increase in the minimum contributory pension
OTHER MEASURES
Non-fiscal measures applicable to individuals and companies

Assistance from Malta Enterprise
- Fiscal incentives to assist enterprises to invest in certain energy efficient projects.
- Benefit of up to €10,000 per annum to be granted for a maximum period of 2 years to small enterprises renting additional manufacturing area from the private sector.
- Introduction of a new scheme by Malta Enterprise directed towards start-up entities. Such assistance shall be in the form of a sum repayable to Malta Enterprise over a period of 10 years.

Company registration fees
- The initial registration fee for companies registered in electronic format and whose authorised share capital does not exceed €1,500 shall be reduced to €100.

Family businesses and social entrepreneurship
- White Paper on legal measures, corporate governance measures and fiscal incentives intended to facilitate transfers of businesses between family members to be launched for public consultation.

Vacant property
- In case of a dispute concerning inherited property, the law will be changed so that where more than 51% of the heirs are in agreement, the property can be sold after three years from the date of inheritance as opposed to the current period of five or ten years.

Owners of commercial vacant property will now be obliged to keep such properties well maintained or incur penalties.

Education
- With effect from 1 January 2016, mature students who follow a course at MCAST or the University of Malta will receive a stipend.
- A grant of €233 will be given to each student who will be studying at the Institute of Tourism Studies.
- A new school will be opened to allow 16 year old students in possession of only one SEC examination to complete their studies. Such students will also be granted a stipend.

Incentives relating to cleaner / healthier means of transport
- The rebate of 15.25% on the price of bicycles and pedelec bicycles shall be extended and the maximum capping shall be raised to €250.
- €150,000 shall be allocated to cover half of the expenses incurred by employers in respect of bicycle racks for employees. Furthermore, €30,000 shall be allocated to local councils for projects aimed at encouraging the use of bicycles.

Scrappage schemes
- Various scrappage schemes and grants for small or low emission vehicles to be introduced and/or extended.

Incentives for Gozo
- Government will be transferring certain back office operations from Malta to Gozo (e.g. payroll department for the Police Force).
- Employers will be eligible to receive a refund of 20% of salary costs (capped at €5,000) for each employee who will be offered a contract of employment of at least three years in the private sector in Gozo.
- Gozitan students who are studying in Malta will benefit from an increase in their allowance by €300 annually.

In-work benefit
- Extension of the in-work benefit to a maximum of €150 per child annually applicable to parents where:
  - only one parent is gainfully occupied; and
  - such parent earns income between €6,600 and €12,700 per annum; and
  - The parents maintain under their custody dependent children who are not over 23 years of age.

Other Measures
- Malta Stock Exchange working on a plan to continue developing a capital market in Malta in the coming years.
- Introduction of an export trade guarantee for exports towards high risk jurisdictions.
- Other measures aimed at reducing bureaucracy for enterprises seeking to set up or expand businesses in Malta without reducing the necessary due diligence requirements. The aim of these measures is to reduce the average time that it takes for an entrepreneur to commence business in Malta from three weeks to one week.
- Reforms are planned to the insolvency legislation aimed at enabling stakeholders and other parties to make better-informed decisions and speed up the process at which business recovery takes place.
- Government will contribute €300,000 to the MHRA for the foundation of the Mediterranean Tourism Forum.
- Price of gas to remain fixed until April 2016.

Extension of in-work benefit to parents with only one working parent
Eco-Contribution and Excise Duty, other indirect taxes and other tax measures

**INDIRECT TAX**

**Eco-Contribution and Excise Duty**
- Certain products will no longer be subject to eco-contribution and will instead be subject to excise duty. These include chewing gum, plastic bags and bottles/cans of non-alcoholic beverages including water.
- As from 1 January 2016 the price of petrol and diesel will be reduced by €0.03 and €0.04 per litre respectively. This reduction is net of an increase in excise duty of €0.03 per litre.
- The excise duty on lubricant oils, petroleum and gas oil will be increased by rates of between 6.8% and 21.1% depending on the type of product.
- Excise duty on cement is being increased by €5 per 1,000kg to €40 per 1,000kg.
- Excise duty on cigarettes and tobacco products is being increased at rates of between 6% and 7%, depending on the type of product.
- 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.
- Bottles and cans of alcohol and alcoholic beverages will no longer be subject to eco-contribution.

**Other indirect taxes**
- A new environmental contribution of €0.50 per night will be imposed on every tourist of over 18 years of age arriving in Malta as from 1 April 2016. The contribution per tourist will be capped at €5 per visit.
- The VAT rate on sports activities, including gym memberships, fitness centres and football nurseries, is being reduced from 18% to 7%.

**Other tax measures**
- Government will continue with the process of refunding the excessive tax on car registrations by refunding such excessive tax paid during the year 2005.
- The stamp duty exemption for first time buyers is being re-introduced on promise of sale agreements signed from 1 July 2015 up to 31 December 2016. This will result in a maximum duty saving of €5,000.
- Stamp duty will be reduced from 5% to 2.5% on the transfer of properties situated in an Urban Conservation Area in relation to contracts that will be finalised during 2016.
- Owners of a hybrid vehicle or electric vehicle will be exempt from paying CVA tariffs when entering Valletta.
- Vehicles with more than 160,000 kilometres will be obliged to carry out the VRT annually rather than every two years.
- The license for small motorcycles with an engine of 125cc has been reduced to a flat nominal rate of €10 p.a.
- The registration tax on electric motorcycles has been removed.