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Economic Highlights

The Hon. Minister of Finance Prof Edward Scicluna last night defined the budget as “a budget to strengthen our country”.

Despite positive signs, difficulties and uncertainties are still predominant in the international economy. Economic growth is expected to reach 3.0 percent by the end of 2014 and accelerate further to 3.5 percent in 2015, with domestic demand remaining the main driver.

Employment growth is also expected to maintain a strong momentum and rise by an average of 2.0 percent in 2014 and 2015.

Inflation is expected to be relatively low in 2014 and to moderate to 1.5 percent in 2015.


The deficit currently stands at 2.1% of GDP and is expected to be reduced to 1.6% of GDP in 2015 and further to 1.0% of GDP in 2016. The deficit for 2015 is expected to be €130m compared to €167m at the end of 2014.

Personal Tax and incentives

• Income Tax Rates and bands

<table>
<thead>
<tr>
<th>Rates</th>
<th>Single computation</th>
<th>Married computation</th>
<th>Parent computation</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Bands</td>
<td>Bands</td>
<td>Bands</td>
</tr>
<tr>
<td>0%</td>
<td>up to €8,500</td>
<td>up to 11,900</td>
<td>up to €9,800</td>
</tr>
<tr>
<td>15%</td>
<td>€8,501-€14,500</td>
<td>€11,901-€21,200</td>
<td>€9,801-€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>over €60,000</td>
<td>over €60,000</td>
<td>over €60,000</td>
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</tbody>
</table>

Effective year of assessment 2016 (basis year 2015) the top band tax rate for income up to €60,000 will be reduced from the current 29% to 25% across all computations.

The tax rate applicable to an individual earning income from dividends will remain as was applicable prior to the changes to the tax brackets in 2013.

The married rates of tax shall also be applicable to those persons joined under a civil union.

Pensioners whose pension does not exceed the minimum wage will also be exempted from paying income tax.

Water polo players shall also benefit from a reduced tax rate of 7.5%, similar to the reduced tax rate applicable to footballers.
• **Cost of living adjustment**

The cost of living increase for 2015 will be €0.58 per week, compared to €3.49 last year. The weekly minimum wage for 2015 will be increased by the COLA to €166.27 from €165.68 last year. Stipends will also rise according to the cost of living adjustment.

• **Additional bonus**

A one off €35 bonus will be granted to all persons in receipt of social security benefits, all low income earners, and all those tax payers working full-time not benefitting from the 2015 income tax reductions.

The bonus would also be given on a pro-rata basis to students in their stipend.

• **Tax deductions**

Parents of children who attend private schools and who make use of school or scheduled transport will be eligible for a tax credit on part of their transport charges, up to a maximum of €150.

• **Other tax measures**

Tax exemptions are to be introduced in relation to inheritance devolving disabled persons when such inheritance is settled in trust.

• **Maternity leave**

The additional four week period of maternity leave paid by the Government at €160 per week is being increased to €166.27 per week to reflect the increase in the minimum wage.

A maternity leave fund shall be set up whereby every employer will pay for every employee a contribution to the fund. The 14 week Maternity Leave will be paid from this fund.

As from 1 January 2015, maternity leave to self-employed women will be paid by the Government at the minimum wage of €166.27 per week for a total of 14 weeks.

Maternity leave benefits shall be extended to those parents who adopt a child.

• **In work benefit**

Families with children up till 23 years of age, where both parents are in employment earning a joint annual income between €10,000 and €20,400 and where the wife’s income does not exceed €3,000 will receive a monetary benefit ranging from €250 to €1,000 per child. Single parents engaged in employment earning between €6,600 and €15,000 annually will be eligible to a benefit ranging from €120 to €1,200 per child. For example a family where the husband works full-time and the wife works part-time and their joint earnings is about €12,000 annually will receive a benefit of €1,000 per child. A single parent on minimum wage will receive a benefit of €1,200. A benefit of €500 would be paid to a single parent earning an annual wage of not more than €12,500.
• **Single Parents benefits**

As from 1 January 2015, single-parents who are in employment earning more than €56.95 per week will continue receiving 65% of the social benefits in the first year, 45% in the second year and 25% in the third year. Their employers will also benefit from 25% of the social benefit. Single parents will also continue to receive the social benefit when the child turns 18 years but has not reached 23 years of age.

• **Pensions**

The necessary changes will be made to the Legal Notice exempting from tax those persons who are on a pension which do not exceed the equivalent of the minimum wage so as to ensure they remain tax exempt.

Persons who have defaulted in the payment of their Social Security Contributions will be allowed to pay the equivalent of 5 years contributions in order to enhance their pension. These may not necessarily be based on the last five years.

Persons between 62 and 74 years of age, who are not in receipt of a pension, will receive a bonus of up to €200 provided that they have at least 5 years of paid contributions. The bonus will be of €100 if the amount of contributions paid is of at least one year but less than 5 years. Persons employed with the Civil Protection Department will now also be able to benefit from the retirement pension after 25 years of service.

Full pension will remain applicable to those disabled pensioners who are still in employment.

The Government will launch a United Nations Pension Programme designed to attract foreign pensioners retiring from international organisations to reside in Malta.

**Business Tax and incentives**

• **Reduction in utility rates for industry**

As from March 2015, utility rates for industry will be reduced by 25% in the case of electricity and 5% in the case of water.

• **Incentives for cruise liners overnight stays**

Cruise liners remaining in Malta overnight may, after obtaining approval from the Lotteries and Gaming Authority and upon the payment of a fee, open their casinos to registered passengers. In addition, and in order to promote Gozo, cruise liners which choose to visit Malta and Gozo will be exempt from paying the fee.

• **Seed investment programme**

As a measure to assist start-ups, tax incentives will be introduced in the form of tax credits for investors, equivalent to the level of share capital invested in a company, up to a maximum of €250,000 per annum.
• **Tax deductions**

A tax deduction of 50% in respect of donations made by companies to the Malta Community Chest Fund is being introduced provided a signed certificate is issued to the donor.

• **Work programme**

A ‘Work Programme’ concept will be introduced with the aim of helping the long term unemployed and inactive persons to return to employment. Employers making use of the Work Programme to employ such persons will be eligible up to €2,750 for every employee on a 3 year period.

• **Employment of disabled persons**

Maltese Law currently provides that companies employing more than 20 people must have in their employment at least 2% of its workforce made up of people with disability. Those companies not abiding by such rule will now have to compensate by paying an annual amount of €2,400 for every disabled person that should have been employed, up to a maximum of €10,000. For 2015 the employer will pay one third of the amount due, two-thirds in 2016 and the full amount in 2017.

Furthermore, those employing a person with disability will be exempt from paying the respective social security contributions and shall also be entitled to an income tax credit equivalent to the wage paid up to a maximum of €4,500 for every disable person employed.

• **Employment scheme**

Employers who employ persons at a disadvantage, will be refunded 50% of the wage up to a maximum of €5,000. The amount of refund will be increased to €10,000 when the disadvantaged employee is also a single parent. This benefit will apply on a pro-rata basis to those employers who switch such employees from part-time to full-time.

**Indirect Taxes**

1. **VAT**

The obligation to register for VAT when the annual turnover is less than €7,000 has been reintroduced.

The VAT rate on audio books and books published on CDs, DVDs, SD-cards, USB drives and similar items, will be reduced from 18% to 5% to bring them in line with the VAT rate that applies to books published in paper format.

2. **Excise Duties**

The excise tax on cigarettes and tobacco, wine, cement and bunkering fuel shall be revised. The price of petrol and diesel is guaranteed to remain stable until the end of March 2015. The price of unleaded petrol shall be reduced by 2c per litre, to €1.42 per litre and the price of diesel shall be reduced by 1c per litre to €1.35 per litre. These prices are to remain stable until March 2015.
3. Eco- Contribution reform

The eco-contribution on tyres, ammunition cartridges and some types of oils is being removed and replaced by excise duty.

The Government is committed to remove the Eco- Contribution on electronic and electrical devices by 1st September 2015.

Operators in this sector are to either subscribe with one of the approved schemes or else provide a plan on how they intend to comply with the WEEE directives (Waste Electric and Electronic Equipment Directives). This to be made by the 30 June 2015.

The second phase of the reform is to be made in 2016 subject to discussions with those having an interest in this sector.

4. Other

- Licences

As a measure to promote the use of environmentally friendly cars, licences on certain cars will be marginally increased with effect from 1 January 2015. Cars registered on or after 1 January 2009 with CO2 emission rates not exceeding 100g/km will not be affected.

- Generic

Swimming pool licences to increase by 15%.

Gas prices to remain at €18 until April 2015.

Tower cranes of up to 10 square meters will pay a permit of €10 a day while tower cranes of more than 10 square meters will pay a permit of €15 a day.

Stamp Duty

- Extension of Stamp Duty exemption in relation to first time property buyers

The stamp duty exemption for first time buyers on the first €150,000 of the value of the property is being extended to 30 June 2015. The contract of sale must be made by not later than 30th June 2015

- Stamp Duty Exemption on division of property between co-owners

Currently the division of immovable property between co-owners attracts stamp duty. This is being removed in those cases where the co-owners receive the same value owned in the property prior to the division.

- Duty on documents

The duty on documents on insurance policies with the exemption of life insurance policies, will increase by 1 cent for every euro with the minimum being of €13.
Taxation on immovable property transfers

• Transfers of immovable property

As a measure to reduce bureaucracy and enhance tax revenues, as from 1 January 2015, the 35% capital gains tax system will be completely removed and an 8% final withholding tax system on all property transfers shall apply with the following two exceptions:

1. In the case of individuals who are not property traders, the final withholding tax rate shall be of 5%, where such property is sold within 5 years from acquisition

2. In the case of property acquired before 31 December 2003, a 10% final tax system shall apply

The above rates are applicable on the transfer value with no allowable deductions.

Property transfers whose promise of sale or notice of transfer has been made by the 17th November 2014, will remain taxable under the previous regime.

The current tax exemptions, such as the exemption on the transfer of property occupied as main residence, the intra-group exemption on transfers between group of companies and the tax exemption in relation to property transfers pursuant to a judicial separation will remain applicable.

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