The measures announced tonight by the Minister of Finance, the Economy and Investment in the budget speech for 2012 include:

- A cost of living increase of €4.66 per week
- Introduction of measures aimed at incentivising industry
- A “parents” income tax computation is being introduced in addition to the current “single/separate” and “married” income tax computations
- Implementation of a scheme to reduce accumulated VAT penalties and interest
- Incentives for investment in energy-saving measures and the creative economy

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.

### CONSOLIDATED FUND 2011/2012

<table>
<thead>
<tr>
<th></th>
<th>2012 (€ millions)</th>
<th>2011 (revised) (€ millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Recurrent Revenue</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tax revenue</td>
<td>2,542</td>
<td>2,384</td>
</tr>
<tr>
<td>Non tax revenue</td>
<td>419</td>
<td>312</td>
</tr>
<tr>
<td>Total</td>
<td>2,961</td>
<td>2,696</td>
</tr>
<tr>
<td><strong>Recurrent Expenditure</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Personal emoluments</td>
<td>609</td>
<td>587</td>
</tr>
<tr>
<td>Programmes &amp; initiatives</td>
<td>1,494</td>
<td>1,457</td>
</tr>
<tr>
<td>Contributions to public entities</td>
<td>230</td>
<td>216</td>
</tr>
<tr>
<td>Operational and maintenance expenses</td>
<td>117</td>
<td>114</td>
</tr>
<tr>
<td>Interest on public debt</td>
<td>231</td>
<td>214</td>
</tr>
<tr>
<td>Total</td>
<td>2,681</td>
<td>2,588</td>
</tr>
<tr>
<td><strong>Recurrent Surplus</strong></td>
<td>280</td>
<td>108</td>
</tr>
<tr>
<td><strong>Capital expenditure</strong></td>
<td>(425)</td>
<td>(303)</td>
</tr>
<tr>
<td><strong>STRUCTURAL DEFICIT</strong></td>
<td>(145)</td>
<td>(195)</td>
</tr>
<tr>
<td><strong>Consolidated Fund Balance – 1 January</strong></td>
<td>25</td>
<td>(125)</td>
</tr>
<tr>
<td><strong>Financing</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Direct loan repayments</td>
<td>(510)</td>
<td>(129)</td>
</tr>
<tr>
<td>Net contributions to sinking funds - local/foreign</td>
<td>16</td>
<td>(4)</td>
</tr>
<tr>
<td>Loan facility to Air Malta</td>
<td>-</td>
<td>(52)</td>
</tr>
<tr>
<td>Loan facility to Greece</td>
<td>(17)</td>
<td>(34)</td>
</tr>
<tr>
<td>Local loans</td>
<td>700</td>
<td>570</td>
</tr>
<tr>
<td>Repayment of loans to Government</td>
<td>52</td>
<td>-</td>
</tr>
<tr>
<td>Other</td>
<td>(24)</td>
<td>(6)</td>
</tr>
<tr>
<td><strong>Consolidated Fund Balance – 31 December</strong></td>
<td>97</td>
<td>25</td>
</tr>
</tbody>
</table>

### DOMESTIC ECONOMIC PERFORMANCE

#### Government deficit

- The deficit for 2011 is expected to reach €181.7 million (this includes an offset of €13.9m of general Government adjustments not included in the above table) or 2.8% of GDP. This is in line with the estimates given in last year’s budget speech. It is anticipated that the deficit will decrease to €153.9 million (which includes €8.7m of general Government adjustments not included in the above table) in 2012 or 2.3% of GDP.
Overview Budget 2012

Inflation
- The inflation rate was volatile during the year, increasing from 0.96% in October 2010 to 2.73% in September 2011.

Gross Domestic Product (GDP)
- The GDP for 2011 is expected to be €6,465 million representing an increase of 4.9% (in monetary terms) over 2010.

Foreign Trade and Balance of Payments
- During the first nine months of 2011, imports increased by 13.3% to €3,526 million. During the same period, exports also increased by 10.8% to €2,245 million.

The Labour Market
- At 30 June 2011, the number of people registering for work amounted to 6,212 or 4.0% of the labour force (the 30 June 2010 figure was 6,775 or 4.4% of the labour force).
- The number of gainfully occupied in June 2010 reached 149,331, of which 72% were employed by the private sector.

Tourism
- Tourist departures for the period January to September 2011 increased by 6.6% over the same period last year to 1,126,543 visitors.
- Cruise liner passenger arrivals increased by 17.1% during the period January to September 2011 to 403,703 passengers.
- Earnings from tourism registered an increase of 20.6% during the first half of 2011 to €343.8 million.
- On a per capita basis, expenditure by tourists increased by 7.3% to €555.6 per person during the first half of 2011, while earnings per night spent during the period increased from €69.3 to €76.4.

Manufacturing
- During the period January to July 2011, the total industry turnover index increased by 5.7% when compared to the same period in 2010.

Foreign Direct Investment
- Net Foreign Direct Investment inflows decreased from 14.9% of GDP during the first half of 2010 to 3.8% of GDP during the corresponding period of 2011, i.e. a decrease of €326.2 million.
- The decrease is mainly due to a decrease of €370.6 million in funds invested in the local economy.

COST OF LIVING ALLOWANCE (COLA)
- The weekly cost of living increase for 2012 is €4.66. In line with recent years, this increase shall be granted in full to pensioners.
- The COLA increase shall also apply to social benefits (including supplementary assistance and energy benefits), so that the increase in pensions will not result in a loss of benefits.

INCOME TAX
Income tax exemption in respect of income from certain copyrights
- A tax exemption is being introduced for income from certain copyrights similar to the current exemption applicable in respect of income from patents on inventions. The exemption should apply to income from copyrights on books, film scripts, music and art.

Income tax deduction for cultural and creative education
- An income tax deduction of €100 will be granted to parents in respect of children attending educational courses provided by cultural and creative teaching institutions. The deduction will be available in respect of courses provided by licensed and accredited schools or teachers.

Attracting high quality labour to Malta – income tax incentives
- An income tax credit will be provided to companies for the development of educational digital games. This tax credit will be equivalent to the amount of expenditure incurred on the development, subject to a maximum credit of €15,000.
- The 15% personal income tax rate scheme will be extended to international professionals such as game directors and game designers, as well as academics and researchers in the research and development sectors.
- Fiscal incentives which were previously introduced for the financial services industry and online gaming will now also be applicable for:
  - Maltese professionals returning to work in Malta in important industry sectors,
  - Foreign highly qualified workers that are needed in local industrial sectors, and
  - People wanting to come to Malta to perform research and commercialise an invention or technology in Malta.
New income tax brackets applicable to parents

- New income tax brackets will apply to income derived by parents having children in their custody that are under 18 years of age (or up to 21 years of age if in tertiary education) and are not gainfully employed.
- The income tax brackets applicable to such parents are the following:

<table>
<thead>
<tr>
<th>Taxable income</th>
<th>Rate</th>
<th>Deduct</th>
</tr>
</thead>
<tbody>
<tr>
<td>€0 - €9,300</td>
<td>0%</td>
<td>-</td>
</tr>
<tr>
<td>€9,301 - €15,800</td>
<td>15%</td>
<td>€1,395</td>
</tr>
<tr>
<td>€15,801 - €21,200</td>
<td>25%</td>
<td>€2,975</td>
</tr>
<tr>
<td>Over €21,200</td>
<td>35%</td>
<td>€5,095</td>
</tr>
</tbody>
</table>

- Individuals qualifying for the above tax rates should benefit from an annual tax saving of between €75 and €420 per parent.

Amendments to the Part-Time Work Rules

- Individuals in full time employment, receiving full time education or in receipt of a pension, deriving income from part-time work are entitled to opt for a 15% tax rate in respect of the part-time income or profits. This beneficial rate is applicable on the first €7,000 income/profits derived from such part-time work.
- This 15% tax rate is currently not available in respect of remuneration from part-time work paid to pensioners who take up employment with or provide services in any capacity to government. This restriction will no longer apply and pensioners will be able to opt for the 15% tax rate in respect of part-time employment or part-time self-employment with the government.
- Furthermore, the 15% tax rate is currently only applicable in the event that the part-time employment is with an employer that is not considered the “same employer” as the full-time employer. The government should no longer be considered as the “same employer”, i.e. individuals having a part-time employment with a government entity and being employed full-time with another government entity, will benefit from the 15% tax rate in respect of the income derived from the part-time employment, subject to satisfying certain statutory conditions.
- The current deadline of 15th February applicable to the payment of the 15% tax will be extended to the 30th June.

Deduction for school fees

- The allowable tax deductions for private school fees will be increased to:
  - €1,300 (from €1,200) in respect of each child attending day care, reception and kindergarten;
  - €1,600 (from €1,200) in respect of each child attending primary school;
  - €2,300 (from €1,600) in respect of each child attending secondary school.

Restoration and renovation of certain properties – fiscal and other incentives

- Properties designated as grade 1 or grade 2 scheduled buildings and property in Urban Conservation Areas will benefit from certain fiscal incentives.
- Any person who invests in the restoration of these properties for the purpose of selling or renting such properties will benefit from:
  - 10% final withholding tax on rental income from residential property;
  - 15% final withholding tax on rental income from commercial property;
  - 10% final withholding tax (instead of 12%) on sale of such property or 30% (instead of 35%) on the gain.
- Tax credit of 20% on expenditure which qualifies for the restoration of property for commercial purposes. This credit increases to 30% in respect of grade 1 and 2 scheduled properties.
- Refund of 20%, up to a maximum of €5,000, of the expenses incurred for the restoration of privately owned property.
- Until the 31st December 2013 there shall be a stamp duty exemption in respect of the transfer of such property between heirs to facilitate the consolidation of ownership.

Subsidy on rent for residential purposes

- Home owners wishing to rent property to families qualifying for the rental subsidies will be able to register such property with the Housing Authority. Income from the rental of such properties will benefit from a final withholding tax of 10%.

Income tax incentives for the elderly

- The income tax deduction for fees paid in respect of residence in a private home for the elderly will be increased to a maximum of €2,500 (from €2,000).
- Elderly individuals and persons who are exempt from income tax that have paid the 15% withholding tax will receive a refund of the tax paid without having to file an income tax return.
OTHER FISCAL MEASURES

VAT related measures
- Incentive for businesses to regularise their VAT position. This includes the introduction of a scheme whereby businesses may settle VAT dues and pay a reduced amount of penalties and accumulated interest. This scheme will be subject to the condition that VAT returns which are due on or after 15 November 2011 must be submitted, with the relative VAT payment, on time. More details regarding this scheme will be issued in a Legal Notice.
- No VAT on services of private nursing/ home help offered by the private sector.

Excise duty
- The duty on bunkering fuel for ships outside Maltese territorial waters will increase to €5 per tonne.
- Excise duty on cigarettes and tobacco products is being increased by 5.8% and 8.5% respectively.
- Excise duty on cement is being increased by €3 on every tonne.
- No change in the excise duty rate on mobile telephony but the manner of calculation of duty will change.

Motor vehicles registration tax
- The motor vehicle registration tax system for private vehicles is being revised to be brought in line with the principles applied to commercial vehicles. This system encourages the acquisition of vehicles having a Euro 5 or 4 classification which are considered to be more environmentally friendly.
- The registration tax on motor vehicles with Euro 1 to 3 emissions (or worse) will increase from 1 January 2012. The registration tax on Euro 4 and 5 vehicles will remain unchanged.

Other incentives related to environmentally friendly vehicles
- Similarly to last year, another scheme is being introduced from 1 December 2011 which will provide for a benefit of 15.25% of the new car’s value up to a maximum of €2,000 on the scrapping of an old car subject to the satisfaction of certain conditions.
- This scheme will be available for a year or until 3,000 people benefit from it.

Children’s allowance
- The minimum children’s allowance will increase from €100 to €350 per annum for each child.

Pensions
- Extension beyond the first five years of marriage of entitlement to a fixed pension for widows and widowers in case of re-marriage.
- The disability pension will not be reduced where the disabled person’s earnings do not exceed the minimum wage.
- A person receiving a disability pension will not lose the entitlement to such pension should he/ she marry and the spouse receives a salary.
- A retirement pension is reduced by the amount of a service pension. This reduction does not take into account the first €806 of a service pension and this amount is now being increased to €1,006.

Cultural measures
- New companies involved in cultural education will be exempt from the registration fee applicable to new companies as well as from payment of their annual registration fee for a three year period.

TV licences
- TV licences are being abolished but outstanding licences would need to be settled in terms of a scheme to be issued for this purpose.

OTHER MEASURES

Enterprise incentives
- MicroGuarantee Scheme – government to provide bank guarantees on loans (on investment or working capital) to be taken by micro businesses (both existing or new entities) employing up to 20 persons. The scheme will guarantee 90% of bank loans between €2,500 and €100,000 taken from commercial banks. Qualifying companies to pay a premium on the interest rates or the balance.
- An investment of €30 million in the pharmaceutical and life sciences sector through BioMalta Campus. Malta Enterprise together with Sultan Scientific Company will set up a private investment fund to invest in projects set up in BioMalta Campus or in international joint projects.

Education
- A fund amounting to €1 million will be allocated to sustaining independent schools. The fund shall be utilised on individual student needs, investment in software and IT licences, science and sport facilities and the professional development of teachers.
- During 2012, the learning support assistant scheme at private schools shall be allocated a further investment of €400,000.
A number of scholarships in various sectors shall be awarded to students to further their studies. €900,000 have been allocated to this initiative.

Sport

- As from the next academic year, a school specialising in sports for secondary level students shall be set-up. The aim of this initiative is for students to focus on sport activities whilst retaining academic subjects.
- Sport-related scholarships will be awarded to students for the development of their skills both in Malta and abroad.
- Aid will be given for the construction of a motor race track.

Health

- As part of the supportive housing scheme for mental health patients released from Mount Carmel Hospital, an allocation of apartments will be made to persons with no alternative housing.
- Various initiatives for dementia treatment including training for carers in this field and a helpline for the general public.

Employment incentives for women

- Maternity leave will be extended by two weeks (i.e. to 16 weeks) in 2012 and a further two weeks (i.e. to 18 weeks) in 2013. The additional cost amounting to €160 per week will be borne by the government. This measure will be discussed within MCESD to determine how it can be introduced with the least negative impact on the private sector.
- Opening of three new child care centres.

Other

- Soffit and aperture insulation – Refund of 15.25% of eligible expenses up to a maximum of €1,000. A budget €400,000 shall be allocated to this scheme.
- As from 1 January 2012, a scheme shall be introduced to settle arrears in vehicle licence fees.
- An annual sum of €300 will be allotted to every individual aged 80 years or more living on their own or with family members.

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:

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