In this year’s budget speech, the Finance Minister announced a number of tax measures, including a new transitory tax bracket designed to gradually reduce the income tax burden on income in the top tax bracket, under €60,000 per annum to 25% over three years; changes to the applicability and administration of duty; and certain new incentives to industry. Of special note is the extension of the period during which time one can opt between a tax on capital gains or the final withholding tax upon the sale of immovable property and a removal of duty upon a transfer by inheritance or donation between parents and their children.

Income tax measures

Income tax rates and bands

- The introduction of a transitory tax bracket on income up to €60,000 per annum, the tax on which will be gradually reduced over the coming three years from 32% to 29% to 25% as demonstrated in the table below; consigning the 35% top rate to income earned above the €60,000 threshold.

<table>
<thead>
<tr>
<th>Rates</th>
<th>Basis Year</th>
<th>Single Computation</th>
<th>Married Computation</th>
<th>Parent Computation</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Bands</td>
<td>Maximum Saving</td>
<td>Bands</td>
</tr>
<tr>
<td>0%</td>
<td></td>
<td>up to €8,500</td>
<td>€</td>
<td>up to €11,900</td>
</tr>
<tr>
<td>15%</td>
<td></td>
<td>€8,501 - €14,500</td>
<td>€11,901 - €21,200</td>
<td>€9,301 - €15,800</td>
</tr>
<tr>
<td>25%</td>
<td></td>
<td>€14,501 - €19,500</td>
<td>€21,201 - €28,700</td>
<td>€15,801 - €21,200</td>
</tr>
<tr>
<td>32%</td>
<td>2013</td>
<td>1,215</td>
<td>939</td>
<td>1,164</td>
</tr>
<tr>
<td>29%</td>
<td>2014</td>
<td>€19,501 - €60,000</td>
<td>€28,701 - €60,000</td>
<td>€21,201 - €60,000</td>
</tr>
<tr>
<td>25%</td>
<td>2015</td>
<td>1,620</td>
<td>1,252</td>
<td>1,552</td>
</tr>
<tr>
<td>35%</td>
<td></td>
<td>over €60,000</td>
<td>over €60,000</td>
<td>over €60,000</td>
</tr>
<tr>
<td>Total Maximum Saving</td>
<td></td>
<td>4,050</td>
<td>3,130</td>
<td>3,880</td>
</tr>
</tbody>
</table>

Cost of Living Adjustment

The cost of living adjustment (COLA) for 2013 has been announced at €4.08 per week.
• The tax exemption for EU cross-border mergers and/or divisions is to be re-introduced under the control of the Inland Revenue Department, following the repeal of the exemption several years ago. It is proposed that the exemption will be applicable solely at the discretion of the tax authorities upon there being shown to their satisfaction genuine economic rationale for the cross-border merger and/or division.

• An extension of the current 7 year period during which a person selling immovable property may opt between paying tax on the capital gains or the 12% final withholding tax is to be extended to 12 years as from 2013.

• The introduction of tax credits equal to 20%, up to a maximum of €200,000, of expenditure for the restoration and development of property in zones outside of urban conservation areas.

• The recently created Financial Services Think Tank has put forward some 150 recommendations under two strategic pillars:
  i. The establishment of an international market for pensions and retirement schemes; and
  ii. The strengthening of Finance Malta’s role to foster the expansion of the financial services sector.

A number of these recommendations will be proposed in the Budget Implementation Act to ensure that the financial services sector is able to continue to respond to the market while at the same time ensuring a sufficiently strong and comprehensive regulatory regime to ensure the integrity of the sector and safeguard the reputation of the country.

• A tax deduction of up to €2,500 for persons, the parents of persons, or other persons close to the person with a disability who are paying fees for residency services in respite houses or centres.

• An outright income tax exemption for voluntary organisations complying with the provisions of the NGO Act and other related and/or subsidiary legislation.

Incentives to Industry

• Extension of Micro Invest Scheme for a further 2 years and extension of such scheme to businesses employing up to 30 people.

• New Scheme entitled B.START providing for a tax deduction of up to €30,000 to existing enterprises in relation to seed capital investment in a new enterprise approved by Malta Enterprise Corporation.

• Licensed hotels will benefit from investment aid on 15% of capital expenditure in the form of tax credits (no capping).

• Scheme of incentives to foster the increase of boutique hotels in Valletta, Mdina and the Three Cities including tax deductions on investments related to the purchase and development of these sites.

Duty on Documents and Transfers

• The introduction of a reduced rate of stamp duty of 2% upon the purchase of property outside of urban conservation areas, for the purpose of restoration and development.

• A revision of the administrative practice of property valuation in that:
  i. couples or persons purchasing their residential home and who will be obtaining a bank loan to finance the purchase, will be able to provide the bank architect’s property valuation as evidence of the market price;
  ii. where the value of the property exceeds €250,000, while the promise of sale is in force, the buyer and seller will be able to request a valuation from the department’s architect, on which value duty would be charged. It is proposed that this valuation will be valid for 6 months from the date of issue.

While mention was only made of such a valuation for the purpose of calculating duty, it is likely that this valuation would also be utilised as the basis on which to calculate tax for capital gains purposes, where applicable.

• As from 1 January 2013 duty upon the transfer of immovable property by inheritance or donation between parents and their children shall be removed.

• The 3.5% duty ceiling for the purchase of any immovable property or any real right over such property for the purpose of establishing therein or constructing thereon one’s sole, ordinary residence will be raised from €116,468.67 to €150,000.

VAT

• VAT exemption on diesel purchased by fishermen for the purposes of fishing to be extended to 2013.

• A scheme to relieve the cost of fuel purchased by farmers similar to that in place for fishermen.

• VAT refund on the purchase of sports equipment for personal use.

Excise Duty

Excise Duty is to be increased as follows:

• 2c per litre on fuels;
• 6% on cigarettes;
• 8% on tobacco; and
• €5 per tonne on cement.

Motor Vehicle Registration Tax

• Up to 30% reduction for Euro Standard 5 vehicles.
• An average increase of 10% for Euro Standard 4 vehicles.
• 12.5% reduction for N1 commercial vehicles.
• Motorcycles with an engine capacity of under 250cc and classic cars aged 50 years or over to be exempt from tax.
• Introduction of a rebate of €200 to any person who converts their car to work on autogas, capped to the first 1,000 applicants, and a corresponding reduction in the annual circulation licence for such cars registered after 2009, based on their reduced emissions.
• Removal of annual circulation licence for classic cars, which definition has been changed to cover vehicles over 30 years of age, to be replaced by a nominal administrative fee of €8.
• Extension of licence regularisation scheme.