On 17 November 2014, the Minister of Finance, Prof Edward Scicluna, presented the Budget for 2015.

Various measures have been announced in order to further strengthen the Maltese economy. These include a reduction from 29% to 25% in the income tax rate of persons earning up to Eur60,000, Capital Gains Tax in the case of sale of immovable property to be replaced by a Final Withholding Tax, as well as an increase in various indirect taxes.

We are therefore pleased to provide you with a summary of the main budgetary measures announced. Should you wish any further information about these measures, or any other aspects of the Budget, and how these may affect you, please do not hesitate to contact your contact partner in the firm or, alternatively, at info@emd.com.mt.

The Partners and Staff
STATE OF THE ECONOMY

During 2014 the Maltese economy continued to grow, with economic growth projected to reach 3% in 2014 and 3.5% in 2015.

The Maltese labour market has strengthened. Despite the fact that there has been an increase in labour force participation, the unemployment rate dropped to 5.8% in 2014 and should remained relatively unchanged in 2015.

- **Gross Domestic Product (GDP)**
  During 2014, nominal GDP is expected to grow by 5.1% and 4.8% in 2015, while real GDP is expected to grow by 3.0% in 2014 and 3.5% in 2015.

- **Inflation**
  The rate of inflation for the period to September 2014 stood at 0.6%. This is expected to increase to 1.5% in 2015.

- **Deficit**
  The Government’s deficit in 2013 stood at 2.7% and it is estimated that the deficit for 2014 will drop by 0.6% to 2.1%.

- **The Labour Market**
  The Labour Force Survey recorded an employment rate of 61.6% in the second quarter of 2014, this being 1% higher when compared to the corresponding quarter in 2013.

  Growth in employment is expected to remain strong and increase by 2.1 per cent and by 1.9 per cent in 2014 and 2015, respectively. Unemployment in 2014 is expected to drop to 5.8%, this being well below the expected EU average rate.

In 2014, all sectors are expected to register notable growth in employment in excess of 2%, except for manufacturing and construction where such growth is expected to be lower. In 2015, employment growth is expected to be more moderate in most sectors.

FISCAL MEASURES

- **Reduction in Income Tax**
  The rate of personal income tax of 29% applicable to those who earn Eur60,000 or less will be reduced to 25%. This will apply to every computation: single, married and parental. Income from dividends received by individuals will remain taxable at the current rates.

- **Tax Ceiling to be reviewed**
  As previous year the minimum wage earners will not be taxed. Thus, the present tax ceiling will be raised to take cost of living allowance (COLA) into consideration. Furthermore, pensioners whose pension does not exceed the minimum wage will also be exempt from paying income tax.

- **Seed Investment Programme**
  Income tax law will be amended to provide tax credits equivalent to the investment made in start-ups, subject to a maximum tax credit of Eur 250,000 per year.

- **Couples in Civil Unions**
  The Income Tax Act shall be amended so that couples in a civil union will be treated like married couples for tax purposes.
Choice of Main Residence for Tax Purposes

The tax system will be strengthened and enforced in order to reduce abuse of the tax exemption applicable to the sale of property which was served as the transferor’s sole or main residence for at least 3 years. A system will thus be introduced whereby individuals would be required to state their main residence according to transparent rules and conditions.

Property transfer

With effect from the 1st January 2015, the existing Capital Gains Tax and the existing 12% property transfers tax will be replaced by an 8% Final Withholding Tax. However, in the case of immovable property acquired before 2004 the Final Withholding Tax will be of 10%. In the case of property transferred within 5 years from date of acquisition by a non-trader in immovable property, the Final Withholding Tax will be of 5%.

The property transfer is subject to Final Withholding Tax on the value of transfer without any deductible expenses. The Final Withholding Tax is payable on the contract date of the sale of property.

Transfers of immovable property taking place on or after 1 January 2015 which are subject to a promise of sale agreement or a notice of transfer which has been notified to the Commissioner of Inland Revenue up to the 17 November, 2014 will still be subject to the current tax regime.

Tax Exemption on property divided between Co-Owners

In cases of contracts for the division of immovable property whereby a co-owner acquires a share which has the same value as when it was undivided, no duty on documents will be payable. This measure will give owners the chance to divide their property between them without having to pay excessive taxes. Co-owners will have the facility of not selling their share.

Exemption on Purchase of First Property

The duty on documents exemption for first time buyers of property to be used as a residence introduced in the last budget, will now be extended up to the 30 June 2015.

Duty on Documents

Duty on Documents on insurance documents and services will be increased from 10% to 11%, subject to a minimum of Eur13. No changes will be made to duty on documents on life insurance policies.

Excise Taxes

The following increases and introductions in excise tax were introduced:

- Wines – 20c per litre
- Cartridges and other ammunition - Eur0.70 per Kg
- Pneumatic Tyres/re-treated or used pneumatic tyres of rubber - Eur0.70 per Kg
- Petroleum oils - Eur0.23 per litre
- Fish Farm Feed - Eur5 per 1000 cigarettes
- Mobile telephony – 1%
- Cement - Eur8 per tonne
- Cigarettes - Eur5 per 1000 cigarettes
- Lead petrol (for airport use only) - Eur0.02 per litre
- Unleaded petrol - Eur0.01 per litre
- Gasoil, diesel, biodiesel, heavy fuel oil and kerosene - Eur0.02 per litre
- **Revision in Licences**

Licences on cars that pollute by more than 100g/km of Co2 will be reviewed, while those with Co2 emission rates of not more than 100g/km and registered after 2009 will not be affected.

Swimming pool licence fees will increase by 15%.

- **Reduction in Registration Tax on Quad Bikes**

The registration tax on ATVs or quad bikes will be reduced by almost 50% according to the engine cylinder capacity.

- **Elimination of Registration Tax on Vintage Motorcycles**

Government shall remove the registration tax on motorcycles classified as ‘vintage’ and having a cylinder capacity of 250cc or less.

- **Reforming Eco-Contributions**

The Government, is committed to reform the eco-contribution mechanism so that local businesses compete on a level playing field with foreign ones. The aim is to eliminate the eco-contribution on electrical goods and electronic equipment classified as WEEE products, by 1 September 2015.

- **VAT registration for small enterprises**

As from next year, whoever carries out any type of commercial activity has to be registered with the VAT Department irrespective of whether the amount of sales per year exceed Eur7,000 or otherwise and will be obliged to issue a fiscal receipt for sales. A series of measures will be introduced to combat evasion.

- **Non-EU Tourists VAT Claims**

A new system will be introduced which allows non-EU tourists to claim back and obtain a refund on VAT before leaving the country.

- **Reduced VAT on E-Books and Audio Books**

As from 1 January, 2015 VAT on E-Books and Audio Books will be reduced to 5%.

- **Fiscal Incentives for Trusts and Foundations set up to Help Disabled Persons**

An exemption from duty on the transmission causa mortis of assets into a trust or foundation which is set up for the benefit of a disabled person.

**OTHER PROPOSALS**

- **Cost of Living Allowance**

The cost of living increase for 2015 shall be equivalent to Eur0.58 per week.

A one-time additional bonus of Eur35 will be given to all persons in receipt of social security benefits, all low income earners and all those income tax payers working on a full-time basis and not benefitting from the 2015 income tax reductions. It will also be given on a pro-rata basis to students and part-time workers.

- **In-Work Benefit**

This benefit will be paid to those low-to-medium income families where both spouses are in employment and have dependent children up to the age of 23 years and to single parents in employment. These families will be entitled to Eur1,000 per year for each child. Single parents who have children and are in employment are entitled to Eur1,200.
per year for each child. This benefit will be calculated based on the yearly income net of national insurance contributions. Parents who are both in employment will be entitled for the benefit if they earn between Eur10,000 to Eur20,400 while if a single parent is in employment the benefit is applicable if the income ranges between Eur6,600 and Eur15,000.

- **Training Benefits**

Benefits for those employers who provide training to their employees are being reintroduced through the European Social Fund. Through this scheme, employers will be able to access the fund when they employ disadvantaged persons or provide training for their employees.

- **Maternity Leave**

The 4 weeks maternity leave paid by the Government will increase from Eur 160 per week to the minimum weekly wage. Furthermore, a special fund will be set up to which all private enterprises will contribute according to the number of employees in order to finance maternity leave. Women in self-employment will have their maternity benefit rate increased to the minimum wage for their 14 weeks of maternity leave. Maternity leave will also be given in case of adoption.

- **Third Pillar Pensions**

The Government is also introducing the Third Pillar Pensions.

- **Social security**

As from 1 January 2015 persons in gainful employment will be given the opportunity to pay any missing social security contributions up to a maximum of 5 years in order to be eligible or to improve their pension. As from 2015, persons between 62 and 74 years of age who retired from work and have no pension shall receive a bonus of Eur200 if they paid contributions for more than 5 years and of Eur100 if they pay contributions of more than 1 year and less than 5 years.

- **Full Disability Pension**

The Government is committed to upgrade social benefits for disabled persons. Therefore, the Government will make it easier for disabled persons in employment earning more than a minimum wage to get the full disability pension.

- **Employment of Persons with Disability**

Persons who employs a disabled person will be exempt from paying social security contributions for such employee, and he can also be eligible to claim a tax deduction on profits equivalent to the disabled person’s wage. The maximum credit cannot exceed Eur4,500 for each disabled employee.

Government shall enforce a law whereby at least 2% of the workforce of companies employing more than 20 employees shall be persons with disability. Companies which do not satisfy this threshold shall be required to make an annual contribution of between Eur 2,400 and Eur 10,000.

- **Allowable deduction in relation to MCF donation**

When a company donates not less than €2,000 to the Malta Community Chest Fund, it will be eligible to benefit from a deduction from chargeable income equivalent to 50% of the amount donated during year of assessment 2015.
Islamic Banking
Legislative amendments shall be introduced to encourage the establishment of financial institutions operating in the Islamic Banking Sector.

Shop Opening Hours
To enhance competitiveness and provide a better service to customers, regulations governing shops opening days and hours will be revised and a balance between customer convenience and worker rights will be sought.

Water and Electricity bills
As from next March 2015 electricity tariffs will be reduced by 25% and water tariffs by 5% for businesses.

Permits for Construction Equipment
As from 1st January 2015, Tower cranes of less than 10 meters will pay at the rate of Eur10 daily, whilst tower cranes of more than 10 meters will pay Eur15 daily.

Revision in Fees of Office
There will be marginal upward revisions in fees of office charged by Government departments.

Public Private Partnerships (PPP)
A number of PPPs will be entered into in various sectors. These include PPs in the health sector to seek to reduce waiting lists and address the issue of bed capacity, the rehabilitation of St Luke’s Hospital, construction of parking facilities in the Vittoriosa and Cospicua areas, the conversion of Villa Bighi in Kalkara into a National Centre for Interactive Science, the management of the Marsa Race Course, the construction of a breakwater between Valletta and Sliema, and the establishment of an Asset Management Bureau to manage the confiscation of assets and funds derived from criminal activities.

Car pooling and use of school/scheduled transport
In an effort to address traffic congestion, incentives shall be granted to encourage carpooling. Furthermore, parents whose children attend church or independent schools will be eligible for a tax credit up to a maximum of Eur150 if they use school or scheduled transport.

Gozo
A number of new projects have been announced for Gozo. These include the development of a medical hub in Gozo, studies for the possible construction of a rural airfield in Gozo, the conclusion of feasibility studies on the construction of a bridge or tunnel between Malta and Gozo, construction of a new cruise liner mooring buoy, new employment programmes in particular in the field of tourism, the creation of a new SME Park, and the building of a new home for the elderly.

The Gaming Industry
The Government will be introducing various measures to help this flourishing industry. The Lotteries and Gaming Authority, which is the regulatory authority in the gaming sector, will be converted to the Malta Gaming Authority to enable it to be better positioned to meet existing and future challenges in the industry. A Gaming Academy will be established to train local people to acquire the required skills to work in this industry. Furthermore, Gaming Malta will be set up to promote Malta as a primary jurisdiction for gaming.
Financial Services

As from next year a new draft law on arbitration in the field of financial services will be published for consultation.

Tourism

Ongoing efforts to continue increasing tourism and improve the financial situation in Air Malta by finding new routes, cost cutting exercises and refurbishing of the air fleet.

The Government will introduce a new program whereby cruise lines which remain in Malta during the night can, against a payment of a licence, open their casino for passengers. In addition, in order to promote Gozo, cruise liners which choose to remain overnight in Gozo will be exempted from the payment of this licence.

The Government will set up a foundation that promotes and encourages foreign conventions and congresses to be held in Malta.

Family Business Act

The Family Business Act will be introduced next year and will provide a clear definition of what constitutes a family business and will facilitate and incentivise the transfer of business between members of the same family.

Film Industry

The Government will introduce a set of incentives for the film industry and in connection with specialised courses for the local film industry.

Malta Individual Investor Programme

A National Fund for the Economic and Social Development will be set up to receive funds deriving from the Malta Individual Investor Programme.

United Nations Pension Scheme

A new personal tax scheme will be introduced to attract retired employees of international institutions such as the United Nations.
The above is a brief synopsis of the budget speech as delivered today 17 November 2014. Should you require any further information do not hesitate to contact us.

EMD is a multi-disciplinary organisation specialised in local and international tax consultancy, accounting, company formation and administration, recruitment and corporate services and includes the law firm EMD Advocates.

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