Budget Analysis 2015:

Audit Tax Advisory

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2015:

Budget
An Analysis
Maternity Leave and the In-work benefit

Duty on Documents

VAT and Eco-Tax

General Fiscal Incentives

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Introduction

On 17th November, the Hon. Minister of Finance presented the 2015 Budget Speech.

This year’s Budget seeks to “encourage and compensate work effort”.

See below for further information, including our comment on what it means for individual and small businesses.
The Maltese Economy

Encouragingly, the Maltese economy is expected to grow by 3% during 2014 and by a projected 3.5% in 2015. Projections on the deficit to GDP ratio are also promising, this is expected to go down to only 1.6% during 2015.

Cost of Living Adjustment/ Stipends and the One-time bonus

As previously announced, the reward for cost of living based on the COLA mechanism will be Euro 0.58c per week. Nonetheless, a one-time, free of tax ex-gratia bonus of Euro 35 will be given to employees, pensioners and others who will not be affected by the adjusted tax bands (see below). This will not be an additional cost to employers. Minimum wage will remain exempt from any income taxed irrespective of any increases therein.

Stipends will now also be subject to the COLA mechanism pro-rata.

Additionally, stipends and grants given to students will now be EXEMPT from tax, hence favoring working students.
Maternity Leave and the In-work benefit

As a measure to encourage gender neutrality especially in private sector employment, the Government will alter the maternity leave mechanism by setting up a purposed fund towards which employers contribute in proportion to the number of employees employed. Employers will then finance any maternity leave given indirectly through such fund. Maternity leave for employed and self-employed women will also increase.

An in-work benefit will be paid to those low-to-medium income families where both spouses are in employment and have dependent children up to 23 years of age. This benefit will also apply to single parents in employment.

Social Security

A one-time concession is being offered to persons still in employment but who would have not paid sufficient social security contributions to render them eligible for a pension, to pay a maximum of five years social security contributions. This will be particularly beneficial for persons having less than 5 years missing contributions towards their pension.

Persons who are already pensioners but do not receive a pension due to insufficient social security contributions paid, may benefit from a bonus of Euro 100 annually if they would have paid at least one year’s contribution. Should they have paid more than 5 years’ contributions, this annual bonus would increase to Euro 200.
Income Taxation

The improved tax bracket for individuals

As already known, a Maltese individual's income tax will now be computed on 4 brackets, as the 29% bracket has now been repealed and replaced by the amplified 25% bracket. Dividend income will still be subject to the rules introduced in the 2014 Budget Act.

The 2015 Income Tax Brackets

<table>
<thead>
<tr>
<th>Single Rates</th>
<th>Parental Rates</th>
<th>Joint Rates</th>
</tr>
</thead>
<tbody>
<tr>
<td>0%</td>
<td>0 – 8,500</td>
<td>0 – 11,900</td>
</tr>
<tr>
<td>15%</td>
<td>8,501 – 14,500</td>
<td>9,801 – 15,800</td>
</tr>
<tr>
<td>25%</td>
<td>14,501 – 60,000</td>
<td>15,801 – 60,000</td>
</tr>
<tr>
<td>35%</td>
<td>60,000 and over</td>
<td>60,000 and over</td>
</tr>
</tbody>
</table>

Taxation on immovable property

Taxation of immovable property transfers will now be revamped considerably as follows:

- By default, sales of immovable property will trigger an 8% FWT on the transfer value;
- If the property being sold would have been acquired before 2004, the rate is increased to 10%;
- If the property is sold by non-property traders who would have kept the property for less than 5 years, the rate is decreased to 5%.

This regime will not affect sales of property in respect of which a promise of sale (konvenju) has been entered into by 17 November 2014.
Taxation of income derived by waterpolo players

In the light of the measure introduced during the 2014 Budget targeting taxation of income derived by football players, in this year’s Budget the same measure has been extended to waterpolo. Hence, waterpolo players can now opt to have their waterpolo income taxed at a flat tax rate of 7.5%.

Donations to the Malta Community Chest Fund

Companies donating not less than Euro 2,000 to the Malta Community Chest Fund, will get 50% of the amount of donation deducted from their 2015 taxable income.

Duty on Documents and Transfers

Insurance Contracts

Stamp duty on every policy of insurance will increase from Euro 0.10c to Euro 0.11c for every Euro or part thereof of the agreed yearly premium. The minimum duty chargeable will also increase from Euro 11.65 to Euro 13.

No changes will be made to stamp duties on life insurance policies.
Extension of the Duty Exemption for First Time Buyers

During the 2014 Budget, the Government announced a one-time concession which applied to persons who did not own any immovable property, prior to 1 January 2014. The scheme was meant to cease in December 2014, however, it will now be extended to 30th June 2015. First time property buyers will save up to Euro 5,250 on the first Euro 150,000 of the value of the immovable property.

Duty Exemption on property divided between Co-Owners

In the case of contracts for the divisions of immovable property where the owner acquires a divided share which has the same value as when it is undivided, no tax will be payable. This will give owners the incentive of not having to pay excessive taxes.

Exemption on property transfers between Co-Owners

Transfers between two individual co-owners, where the property has been acquired for the purpose of residing in it or building their main residence thereon, will be exempt from capital gains and stamp duty.

General fiscal incentives

Benefits for those who provide Employment and offer Training to their employees

Through the re-launch of the European Social Fund, employers will be able to access the fund when they employ disadvantaged persons or provide training for their employees.
**Disabled Person**

Employers employing disabled persons will be exempt from paying social security contributions for such employee. In addition, employers can also be eligible to claim a tax deduction on profits equivalent to the disabled person’s wage. The maximum credit cannot exceed Euro 4,500 for each employee.

A number of fiscal incentives for Trusts and Foundations will be introduced, with the aim of helping disabled persons. Some of these incentives will include:
- An exemption of capital gains taxes; and
- The elimination of stamp duty on transfer of residential property which is the residence of the parents and which is transferred to the Trust or Foundation initially for disabled children.

**Incentive for cruise liners’ overnight stays**

Cruise liners overnighting in Malta will be allowed to open their on-board casinos, after obtaining approval from the Lotteries and Gaming Authority, to their registered passengers against a fee payable to the government. In addition, cruise liners which choose to remain overnight in Gozo will be exempt from paying the fee.

**Reduction in Utility rates**

Utility rates will be reduced by 25% in the case of electricity and 5% in the case of water. This will take effect as from March 2015 and will apply to both commercial and residential users.

**Incentives for the film industry**

A set of incentives in connection with specialised courses for the local film industry will be introduced.
Seed Investment Programme

To assist start-ups, tax incentives will be introduced in the form of a tax credit equivalent to the investment made in the company, up to a maximum of Euro 250,000 per annum.

United Nations Pension Programme

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

VAT and Eco-Tax

Changes to the VAT Registration Requirements

The controversial VAT non-registration possibility for persons whose turnover falls below Euro 7,000 will now be repealed and every person who carries out an economic activity will be required to register for VAT under the applicable registration. This mechanism seeks to curb the abuse which such incentive was occasioning on Income Tax revenues.

VAT on e-Books

To keep consistency with the reduced 5% VAT rate for printed books, this rate will now also apply in respect if e-Books acquired online or published on electronic media.

Eco-Tax on electrical equipment

The eco-tax contribution on electrical equipment including refrigerators and televisions will now be repealed.
VAT Refunds for non-EU residents

During the next year, a system whereby visitors, coming from countries outside of the EU, can obtain a refund on VAT before leaving Malta will be introduced.

Others

The renamed Malta Gaming Authority will now also host a Gaming Academy with the aim of ensuring local skillful labour in the sector.

The implementation of the Family Business Act is now imminent. This seeks to facilitate the businesses’ succession process.

Persons acquiring mechanized bicycles will be eligible for a grant of 15.25% on the original cost.

Parents whose children utilise school/organised transport will be eligible for a tax credit on part of their transport costs of up to Euro 150.
Students
in collaboration with Kunsill Studenti Universitarji

Maintenance Grants
Stipends will increase by the pro-rata amount of COLA.
Students will receive a one-time additional annual bonus of €35 on a pro-rata basis.

Employment
The Youth Guarantee, funded through the European Social Fund, will be strengthened. For 2015, 700 Traineeships and 200 Work Trials will be financed.

Creativity and Innovation
Introduction of a set of incentives in connection with specialised courses for the local film industry.

Villa Bighi in Kalkara is to be converted into a National Centre for Interactive Science.

Tax Incentives
A reduced VAT rate on e-books will be introduced, from 18% to 5%.

All student maintenance grant income will be tax exempt.

University
Government capital expenditure will increase from 4.5 million to 7 million.

80% of research in Malta is carried out by the University of Malta. Research activity will increase through funds provided both by Government as well as the EU.
**MCAST**
Establishment of an Entrepreneurship Centre to facilitate business start-ups.

More apprenticeship opportunities.

Introduction of National Vocational Qualifications.

**Transport**
The new public transport system will see more routes introduced and an overall improvement in the service of public transport. Bus fares to remain unchanged.

During 2015, to incentivise the use of alternative transport, Government will grant a sum equivalent to 15.25% of the cost of a pedelec bicycle.

Government will open bus lanes to those cars which are carrying three or more passengers. Introduction of reserved parking zones for high occupancy cars.

**Miscellaneous**
The Government is committed to make Malta and Gozo a Wi-Fi state.

The former Umberto Colosso school will be converted to a Youth Village housing all the services offered by Aġenzija Żgħażagħ, amongst others.
The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate and will actually be implemented. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.