Date: 29 November 2012

New Fiscal Measures Announced in 2013 Malta Budget
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Introduction

The Minister of Finance, the Economy and Investment, the Hon. Mr. Tonio Fenech delivered the 2013 Budget Speech on the 28th November 2012 and announced a number of fiscal measures aimed at incentivizing investment and business, as well as alleviating taxation on a personal level, amongst others.

These measures are being introduced against a backdrop of positive economic growth, namely a projected 1.2% growth of the economy in real terms by end 2012, and Malta’s ongoing positive performance in the context of the current global financial crisis. The Government is confident that 2012 will close with a deficit of 2.3% GDP and is projecting a deficit of €95 million, down to 1.7% of GDP, for 2013.

This brief update looks at some of the more interesting fiscal measures announced in the 2013 Budget Speech, as these will affect growth in key industry sectors whilst alleviating the tax burden on individuals generally.

Personal tax

Quite a range of personal tax incentives and other changes to the tax system impacting on individuals in a number of areas were announced in the 2013 Budget Speech. Some of the highlights of these changes are:

- A key announcement related to the revision of the top 35% personal tax bracket, to now apply to income earned above the €60,000 threshold, and the introduction of a new tax bracket of 32% (reducing to 29% and 25% respectively over the following 2 years) with effect from 2013;

- Transfers of immovables by way of donation by, or upon the death of, parents to their children shall now be exempt;

- An individual purchasing an immovable or real right thereon to establish therein or construct thereon his sole ordinary resident will benefit from an extension of the reduced 3.5% transfer duty ceiling from €116,468.67 to €150,000;

- A range of other incentives including: tax and pension incentives for disabled persons, credits for social security contributions applying to parents born between 1952-1961 returning to gainful occupation.

Real Estate Sector

- A number of the fiscal changes are clearly targeted at stimulating activity in the real estate market, as well as promoting the rehabilitation and restoration of properties in towns and villages, whilst discouraging additional construction activity (through yet another increase in excise duty levied on cement). In addition to the changes to the transfer duty regime referred to above, the Minister of Finance also announced:
• The extension of the current 7 year period, during which a person selling immovable property may opt between paying tax on the capital gain and a 12% final withholding tax (widely credited with contributing to stagnation in the real estate market) to 12 years as of 2013;

• The introduction of a reduced 2% transfer duty rate for the purchase of property outside urban conservation areas for the purposes of restoration and development. This is complemented by the introduction of a tax credit of 20% of restoration and development expenditure, capped at €200,000;

• A revision of the current administrative practice relative to property valuations for transfer duty purposes, further to which purchasers shall now be able to rely on bank valuations or government valuations sought at acquisition.

Incentives for Various Business Sectors

A number of fiscal incentives shall be introduced with the specific aim of further encouraging investment in Malta as well as supporting growth in other key industry segments. These incentives include:

• The tax exemption for EU cross border mergers and/or divisions shall be re-introduced and shall apply at the Revenue’s discretion if evidence may be provided as to the fact that the reorganisation is made for bona fide commercial reasons;

• Film industry - Rebate on qualifying expenditure relative to film production, in the form of a cash grant, to be increased from 20% to 23% (to 25% if featuring Malta);

• Hotel industry - Malta Enterprise Incentive Guidelines to be revised to allow certain licensed hotels to benefit from an uncapped 15% tax credit based on capital investment made;

Other incentives aimed at fostering growth within the business sector include the extension of the MicroINVEST scheme for a further 2 years, with said scheme being now extended to businesses employing up to 30 employees; the extension of the High Energy User Scheme to certain businesses in Gozo; the launch of a B.START scheme providing for a tax deduction capped at €30,000 to existing enterprises in relation to seed capital investment in approved enterprises, amongst others.

Other Fiscal Measures

Other fiscal measures include a revision of various vehicle registration taxes as well as of various excise duties, various incentives to promote clean energy investment and water conservation; an income tax exemption for voluntary organisations complying with the Voluntary Organisations Act.

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