Introduction

On the 4th November 2013, the Minister of Finance, the Hon Professor Edward Scicluna has presented his budget speech for 2014. This newsletter highlights the main fiscal measures as well as the latest economic statistics on the Maltese economy.

The Maltese economy is expected to grow by 1.7% in 2014 compared to 1.2% in 2013. By the second quarter of 2013, employment in Malta increased by 3%, one of the highest in Europe with the unemployment rate standing at 6.4%.

The economy in 2013 and estimates for 2014

DEFICIT
The deficit stood at 3.3% of GDP in 2012 and is expected to be reduced to 2.7% of GDP in 2013 and further to 2.2% of GDP in 2014. The deficit for 2014 is expected to amount to €151.7m compared to €191.3m in 2013.

GDP
The GDP for 2013 stands at €7,082 million and is expected to increase to €7,351m in 2014.

NATIONAL DEBT
The national debt for 2014 is expected to be at 72.62% of GDP.

COST OF LIVING ADJUSTMENT (COLA)
The cost of living increase for 2014 shall be of €3.49 per week. The weekly minimum wage for 2014 will be increased by the COLA to €165.69.

INFLATION RATE
The inflation rate in September 2013 stood at 0.6% compared to 2.9% in September 2012.
## Consolidated Fund 2013/2014

<table>
<thead>
<tr>
<th>Description</th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Recurrent Revenue</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tax revenue</td>
<td>2,806,477</td>
<td>2,637,000</td>
</tr>
<tr>
<td>Non tax revenue</td>
<td>466,441</td>
<td>413,579</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>3,272,918</td>
<td>3,050,579</td>
</tr>
<tr>
<td><strong>Recurrent Expenditure</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Recurrent expenses</td>
<td>2,721,675</td>
<td>2,596,900</td>
</tr>
<tr>
<td>Interest on public debt</td>
<td>234,743</td>
<td>228,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>2,956,418</td>
<td>2,824,900</td>
</tr>
<tr>
<td><strong>Recurrent Surplus</strong></td>
<td>316,500</td>
<td>225,679</td>
</tr>
<tr>
<td>Capital expenditure</td>
<td>452,800</td>
<td>405,479</td>
</tr>
<tr>
<td><strong>STRUCTURAL DEFICIT</strong></td>
<td>(136,300)</td>
<td>(179,800)</td>
</tr>
<tr>
<td><strong>Consolidated Fund Balance</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Financing</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Direct loan repayments</td>
<td>(511,661)</td>
<td>(370,283)</td>
</tr>
<tr>
<td>Net contributions to sinking funds</td>
<td>(59,726)</td>
<td>(10,534)</td>
</tr>
<tr>
<td>Acquisition of Equity</td>
<td>(28,855)</td>
<td>(65,618)</td>
</tr>
<tr>
<td>EFSF Credit Line Facility</td>
<td>(4,500)</td>
<td>(4,500)</td>
</tr>
<tr>
<td>Repayment of loans to Government</td>
<td>2</td>
<td>31</td>
</tr>
<tr>
<td>Sinking Funds balance of unconverted stock</td>
<td>0</td>
<td>28,380</td>
</tr>
<tr>
<td>Sale of non-financial assets</td>
<td>2,000</td>
<td>1,500</td>
</tr>
<tr>
<td>Local debt</td>
<td>650,000</td>
<td>630,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>47,260</td>
<td>208,976</td>
</tr>
<tr>
<td><strong>Consolidated Fund Balance (\equiv 1 \text{ January})</strong></td>
<td>(50,947)</td>
<td>(80,123)</td>
</tr>
<tr>
<td><strong>Consolidated Fund Balance (\equiv 31 \text{ December})</strong></td>
<td>(139,987)</td>
<td>(50,947)</td>
</tr>
</tbody>
</table>
Income Tax Measures

- **Changes to individual income tax brackets**

The highest personal income tax rate of 32% applicable to individuals who earn less than €60,000 will be further reduced to 29% under single, married and parent computations. Income over €60,000 will remain taxable at 35%.

Income arising from dividends distributed from Maltese companies will remain taxable at the effective tax rate of 35%.

The tax free bracket for single income tax computations will be increased to €8,950 to take into account the COLA.

As from 1 January 2014 persons whose income consists solely of pension income, and which does not exceed the minimum wage of €8,950 will not be subject to tax.

The tax free bracket for the parent computation will be increased from €9,300 to €9,800.

The age of children in respect of which parents qualify for the parent rate will be increased from 21 to 23 years provided that the child is receiving tertiary education.

Persons on the minimum wage who receive the COLA will be exempt from paying tax on the increase. This will apply equally to pensioners who at present are not paying tax.

- **Amendments to the Part-Time Work Rules**

The maximum part-time income subject to the preferential rate of 15% will be increased from €7,000 to €10,000 for part-time employed workers and to €12,000 for part-time self-employed persons.

Owners of business conducted on a part-time basis will now be able to employ not more than two employees and still be eligible to benefit from the reduced rate of tax of 15% on the income earned from their business.

Pensioners who are engaged in part-time self-employment can benefit from the 15% tax rate if their income does not exceed the minimum income on which Social Security Contribution is paid.

- **Interest and Penalties**

The rates of interest on unpaid income tax shall be reduced and based on flexible rates.

- **Measures related to immovable property**

The tax upon the transfer *causa mortis* of immovable property to persons with special needs has been removed. This would only apply in the case of *bona fide* transfers.

A one-time exemption from duty on documents upon the purchase of immoveable property will be given to first time buyers on the first €150,000 of the value of the property.

Interest on late payment of duty will be limited to the amount of duty due in the case of transfers *causa mortis*.

The Government will be revising the existing property valuation system which currently only permits Government appointed architects to carry out such valuations. Valuations from private architects will now be accepted under specific conditions.

- **Income tax rate on football activities**

The income tax rate on income from football activities by footballers will be reduced to 7.5%.

- **Taxation on rental income**

Persons in receipt of income in connection with the rental of residential property can be taxed on a final withholding basis at 15% on the gross rental income.
Family Friendly Measures

• Free child-care facilities

€3.8 million will be invested in the provision of free child-care facilities to families where both parents are employed. A White Paper will soon be launched to start the consultation process in this respect.

• Early school hours

As from next year, a new service will be introduced whereby parents can take their children to school one hour prior to the normal entrance hours. Children will also be given a healthy breakfast during this extra morning session, promoting also a healthy lifestyle at a young age. This service will be provided in joint consultation with the teachers who will be paid extra if they participate in this service.

• Increase in tax deduction on child-care facilities

The current tax deduction of €1,300 for the payment of child-care facilities will be increased to €2,000. This will benefit those parents who do not opt for the free child care facilities.

• Tax incentives to women returning to employment

As from 2014, husbands, whose wives are aged 40 or over, who would have been absent from employment for five years or more, and who return into employment, will be able to use the married income tax rates without taking the wives’ income into consideration, provided that the wives’ income does not exceed the minimum wage. This benefit will apply for a maximum period of five years.

• Tax deduction to encourage employment

A tax deduction will be introduced to those employing persons aged 45 to 65 years who are currently on the unemployment register. The deduction shall be of €5,800 for the first two years. Another deduction will be given on training offered to the same employees, which will cover 50% of the training cost up to a maximum of €400.

• Incentives to single parents

Those single parents that are on social benefits will be given a credit between €200 and €1,000 when engaged in intensive vocational training or when entering the education system on a full-time basis.

Investment Registration Scheme

An Investment Registration Scheme will be launched whereby persons in possession of investments or capital held in Malta or outside Malta which are not declared in Malta will be able to regularize their position whilst paying a justifiable fine.

Utilities

As from March 2014, domestic electricity and water bills will be reduced by an average rate of 25% and 5% respectively.

For commercial use, utility bills are expected to be reduced as from 2015.

Subsidy schemes will be launched to help families install solar water heaters and to perform insulation to ceilings.

Environmentally Friendly Measures

• Road Licenses

As from 1 January 2014, road licences shall be revised. Licences for motor vehicles registered after 2009 and with CO2 emissions ranging from 0 to 100 grams will remain unchanged.

• Reduction in vehicle registration tax

The registration tax on second hand motor vehicles imported from outside the EU will be reduced. This reduction will apply to vehicles with emission lower than 150g/km and which are up to 8 years old.

The registration tax on motor cycles with engines equal to or greater than 250cc will be reduced by 25%.

• Vehicle scrappage scheme

A motor vehicle scrappage scheme will be launched whereby a grant of between €500 and €900 will be given depending on the emissions of the new vehicle.
VAT Measures

From 1 January 2014, when a taxpayer submits on time its VAT payments in respect of VAT returns submitted on time will no longer be allocated against any pending arrears.

Dispositions on tax in dispute will be enacted to ensure payments are not offset against tax in dispute.

VAT returns submitted on time but without payment will no longer be subject to late filling penalties.

A system will be introduced whereby persons acquiring construction related services will have to pay VAT on services acquired if they do not possess enough evidence to substantiate quotes for work.

The rates of interest on unpaid VAT shall be reduced and based on flexible rates.

Indirect Taxes

The excise tax on cigarettes and tobacco, fuel, alcoholic drinks and beer, cement and bunkering fuel shall be revised. In spite of this, the price of diesel is guaranteed to remain stable until the end of March 2014. Negotiations are taking place regarding the price of petrol.

Other Measures

• Increase in stipends

As from 1 January 2014, stipends will increase pro-rata in line with the inflation rate. For 2014 stipends will increase by €16.06 per annum. Stipends to students attending veterinarian studies will be increased by €300 per month. Furthermore, students who repeat one particular year in their studies will not be deprived of their stipend for that one particular year.

• Jeremie and Micro-Invest Schemes

As already announced, the Jeremie Scheme shall be extended and the Micro-Invest Scheme will also be re-introduced. The micro-invest tax credit will be increased from 40% to 45% of the eligible expenditure and from 60% to 65% for Gozo based entrepreneurs.

• Eco- Contribution

The government is currently evaluating the eco-contribution mechanism in Malta to remove any dis-advantages in the system.

• Widows’ pension

Currently, a widow who is in employment or self-employment earning more than the national minimum wage and whose children attain 21 years of age will lose out on the widow’s pension entitlement. A measure will be introduced intended to remove the children’s age capping as well as the wage/salary capping and as a result thereof, widows falling in this category will continue to receive a full widows’ pension irrespective of their earnings from employment or self-employment and also of their children’s age.

• Service Pension

As from 2014, the amount of service pension not taken into consideration for Social Security Pension will be increased from €1,266 to €1,466.

• Exemption from social security contributions

A measure is intended to be introduced to exempt elderly people and disabled persons from paying their share of the social security contribution when employing live-in carers.

• Increase in allowance for children with special needs

The current weekly rate for a Disabled Child Allowance is €16.31 per eligible child. This shall be increased to €20 per child.

• Formation of Co-Operative Societies

Necessary amendments will be introduced so that co-operative societies will be able to be formed with a minimum of three members as compared to the current five member requirement.
Nexia BT is an audit, tax and advisory firm providing a full range of financial and advisory services to various kinds of organisations. The firm is a member of Nexia International, a top-ten worldwide network of independent business advisors, consultants, auditors and accounting firms present in over 100 countries.

Its mission statement is to provide clients with a value-added and personalised service of the highest standard.

The firm currently employs more than 65 employees, engaged across all of its departments.

Contacts

Ms. Antoinette Scerri B.Accty (Hons), Dip. Tax, AIA, CPA
email: antoinette.scerri@nexiabt.com

Ms. Stephanie Bianco B.Accty (Hons), AIA
email: stephanie.bianco@nexiabt.com

Nexia BT, The Penthouse, Suite 2,
Capital Business Centre, Entrance C,
Triq taz-Zwejt, San Gwann SGN3000. MALTA

Tel: +356 21637778
Fax: +356 21634383
info@nexiabt.com
www.nexiabt.com

The information contained herein is intended solely to provide general guidance on matters of interest for the personal use of the reader, who accepts full responsibility for its use. The information is provided with the understanding that the authors and publishers are not herein engaged in rendering legal, accounting, tax, or other professional advice or services. As such, it should not be used as a substitute for advice. While we have made every attempt to ensure the information contained herein has been obtained from reliable sources, we are not responsible for any errors or omissions, or for the results obtained from the use of this information. All information herein is provided "as is", with no guarantee of completeness, accuracy, timeliness or of the results obtained from the use of this information, and without warranty of any kind, express or implied, including, but not limited to warranties of performance, merchantability and fitness for a particular purpose. Nothing herein shall to any extent substitute for the independent investigations and the sound technical and business judgment of the reader. Laws and regulations are continually changing, and can be interpreted only in light of particular factual situations.