**HIGHLIGHTS**

Reduction of the top progressive income tax rate for individuals from 29% to 25% on income up to €60,000

The removal of the capital gains tax system upon transfers of immovable property and the introduction of a final-tax system on all property transfers

Changes in motor vehicle registration tax

Introduction of a vehicle scrappage scheme

Measures to increase employment

Reduction of commercial water and electricity bills

Changes to VAT registration rules

Major changes to the Eco- Contribution regime

Transport measures aimed at combatting traffic congestion

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**Introduction**

On the 17th November 2014, the Minister of Finance, the Hon Professor Edward Scicluna has presented his budget speech for 2015. This document highlights the main fiscal measures as well as the latest economic statistics on the Maltese economy.

The Maltese economy is expected to grow by 3.5% in 2015 compared to 1.2% in 2014. By the second quarter of 2014, employment in Malta increased by 3%, one of the highest in Europe with the unemployment rate standing at 6.4%.

**The economy in 2014 and estimates for 2015**

**DEFICIT**

The deficit stood at 2.1% of GDP in 2014 and is expected to be reduced to 1.6% of GDP in 2015 and further to 1.0% of GDP in 2016. The deficit for 2015 is expected to amount to €130m compared to €167m in 2014.

**GDP**

The GDP for 2014 stands at €7,895m and is expected to increase to €8,276m in 2015.

**NATIONAL DEBT**

The national debt for 2015 is expected to be at 69% of GDP.

**COST OF LIVING ADJUSTMENT (COLA)**

The cost of living increase for 2015 shall be of €0.58 per week. The weekly minimum wage for 2015 will be increased by the COLA to €166.27. The COLA shall also be applied in full to pensioners.
Income Tax Measures

• Changes to the income tax brackets applicable to individuals

The highest personal income tax rate of 29% applicable to individuals who earn less than €60,000 will be further reduced to 25% under single, married and parent computations. Income over €60,000 will remain taxable at 35%.

The tax rate applicable to an individual earning income from dividends will remain as was applicable prior to the changes to the tax brackets in 2013.

The tax free income ceiling applicable to those opting for a single tax computation, will be increased to €9,150. Hence those who earn only the minimum wage will not be taxable even when taking into consideration the statutory bonuses. This also applies to pensioners whose pension does not exceed the minimum wage.

The married rates of tax shall also be applicable to those persons joined under a civil union.

• Tax deductions

A tax deduction for transport costs, up to a maximum of €150 per annum, shall be given to parents sending their children to private or church schools using private transport.

A tax deduction of 50% in respect of donations made by companies to the Malta Community Chest Fund is being introduced provided a signed certificate is issued to the donor.

• Other tax measures

Tax exemptions are to be introduced in relation to inheritance to disabled persons when such inheritance is settled in trust.

• Income tax rate on waterpolo activities

Waterpolo players shall also benefit from a reduced tax rate of 7.5%, similar to the reduced tax rate applicable to footballers.

Employment Measures

• Grant to the elderly

A grant of €300 will be paid to those persons over 75 years of age.

• Additional bonus

A one-time bonus of €35, which shall be paid by the Government shall be given to those full-time employees who will not benefit from the reduced highest income tax rates. All pensioners and those persons receiving social benefits will also be eligible. Students and part-time employees will receive the benefit pro-rata.

• In-work benefit

Families with children up till 23 years of age, where both parents are in employment earning a joint annual income between €10,000 and €20,400 and where the wife’s income does not exceed €3,000 will receive a monetary benefit ranging from €250 to €1,000 per child. Single parents engaged in employment earning between €6,600 and €15,000 annually will be eligible to a benefit ranging from €120 to €1,200 per child. For example a family where the husband works full-time and the wife works part-time and their joint earnings is about €12,000 annually will receive a benefit of €1,000 per child. A single parent on minimum wage will receive a benefit of €1,200. A benefit of €500 would be paid to a single parent earning an annual wage of not more than €12,500.

• Maternity Leave

The additional four week period of maternity leave paid by the Government at €160 per week is being increased to €166.27 per week to reflect the increase in the minimum wage.

A maternity leave fund shall be set up whereby every employer will pay for every employee a contribution to the fund. The 14 week Maternity Leave will be paid from this fund.

As from 1st January 2015, maternity leave to self-employed women will be paid by the Government at the minimum wage of €166.27 per week for a total of 14 weeks.

Maternity leave benefits shall be extended to those parents who adopt a child.

• Employment of disabled persons

Maltese Law currently provides that companies employing more than 20 people must have in their employment at least 2% of its workforce made up of people with disability. Those companies not abiding by such rule will now have to compensate by paying an annual amount of €2,400 for every disabled person that should have been employed, up to a maximum of €10,000. For 2015 the employer will pay one third of the amount due, two-thirds in 2016 and the full amount in 2017.

Furthermore, those employing a person with disability will be exempt from paying the respective social security contributions and shall also be entitled to an income tax credit equivalent to the wage paid up to a maximum of €4,500 for every disable person employed.

• Employment Scheme

Employers who employ persons at a disadvantage, will be refunded 50% of the wage up to a maximum of €5,000. The amount of refund will be increased to €10,000 when the disadvantaged employee is also a single parent. This benefit will apply on a pro-rata basis to those employers who switch such employees from part-time to full-time.
**Work Programme**

A ‘Work Programme’ concept will be introduced with the aim of helping the long term unemployed and inactive persons to return to employment. Employers making use of the Work Programme to employ such persons will be eligible up to €2,750 for every employee on a 3 year period.

**Employment in Gozo**

A scheme will be launched to encourage employment and maintenance of full time employment in the tourism industry in Gozo. Every employer who engages people on a full time basis or changes the contract of employment from part time basis to full time basis will benefit from a refund of the Social Security costs of such employees. The refund shall amount to €1,000 for every full time employee. During the off peak season between November and March a twice weekly training programme will be launched for employees in the tourism sector. Employers will receive €30 per day of training of their employees and €100 per month will be given to employers who engage ITS students.

**Unemployment and social benefits**

**Youth Guarantee Programme**

A programme shall be offered to those unemployed persons under the age of 23 years. Those who refuse to follow this Youth Guarantee Programme (a training programme) will cease to receive unemployment benefits. Those currently receiving unemployment benefits will have a four month period to enroll for the Programme. If a person does not follow the Programme, unemployment benefits will not be paid until the person reaches the age of 23.

This programme also applies to single parents who are under 23 years of age and are in receipt of unemployment benefits.

**Single Parents Benefits**

As from 1st January 2015, single-parents who are in employment earning more than €56.95 per week will continue receiving 65% of the social benefits in the first year, 45% in the second year and 25% in the third year. Their employers will also benefit from 25% of the social benefit. Single parents will also continue to receive the social benefit when the child turns 18 years but has not reached 23 years of age.

**Social Benefits after marriage**

A single parent receiving social benefits will continue to receive the benefit if she/he gets married or enters in a civil union with an employed person. The benefit will however be reduced gradually and the person will continue to receive 65% in the first year, 45% in the second year and 25% in the third year.

**Social Benefits**

Those persons receiving social benefits and who are uncertain as to their entitlement to such social benefit will have until February 2015 to verify their entitlement and regularize their position. Those who verify such entitlement after February 2015 will have to pay a one-time penalty if the benefit was not due to them and provided the benefit paid to them was not a result of a fraudulent abuse of the system.

**Property Tax Reform**

**Transfers of immovable property**

As from 1st January 2015, the 35% capital gains tax system will be completely removed and an 8% final withholding tax system on all property transfers shall apply with the following two exceptions:

1. In the case of individuals who are not property traders, the final withholding tax rate shall be of 5%, where such property is sold within 5 years from acquisition, and
2. In the case of property acquired before 31st December 2003, a 10% final tax system shall apply.

The above percentages are applicable on the transfer value with no allowable deductions.

Property transfers whose promise of sale or notice of transfer has been made by the 17th November 2014 will remain taxable under the previous regime.

The existent tax exemptions currently applicable, such as the exemption upon the transfer of property occupied as main residence, the intra-group exemption upon transfers between group of companies and the tax exemption in relation to property transfers pursuant to a judicial separation will remain applicable.

**Stamp Duty Exemption on division of property between co-owners**

Currently the division of immovable property between co-owners attracts stamp duty. This is being removed in those cases where the co-owners receive the same value owned in the property prior to the division.

**First-time property buyers**

The stamp duty exemption for first time buyers on the first €150,000 of the value of the property is being extended to 30th June 2015. The contract of sale must be made by not later than 30th June 2015.
Education
Funds approved under the Training Aid Framework shall be paid within four months of the application.

A bonus of €400 per child, reduced to €200 for the fourth child onwards, shall be given to families with low income whose children attend school for at least 95% of the statutory time.

- Stipends
The stipends will increase in line with the COLA adjustment.

Pensions
As from 1st January 2015, persons having missing contributions will be allowed to pay up to 5 years contributions, which might not necessarily be the last five years, in order to enhance their pension.

Persons between 62 and 74 years of age, who are not in receipt of a pension, will receive a bonus of up to €200 provided that they have at least 5 years paid contributions. The bonus will be of €100 if the amount of contributions paid is for at least one year but less than 5 years.

Persons employed with the Civil Protection Department will now also be able to benefit from the retirement pension after 25 years of service.

Full pension will remain applicable to those disabled pensioners who are still in employment.

A new residency programme, United Nations Pensions Programme shall be introduced with the aim of attracting to Malta people retiring from employment with the United Nations.

VAT Measures
The obligation to register for VAT when the annual turnover is less than €7,000 has been re-introduced.

As from 1st January 2015, the VAT rate on audio books and books published on CDs, DVDs, SD-cards, USB drives and similar items, will be reduced from 18% to 5%.

Tourists will be eligible for a VAT refund on expenditure incurred in Malta during their stay, prior to departure from the island.

Eco- Contribution Reform
The eco-contribution on tyres, ammunition catridges and some types of oils is being removed and replaced by excise duty.

The Government is committed to remove the Eco-Contribution on electronic and electrical devices by 1st September 2015.

Operators in this sector are to either subscribe with one of the approved schemes or else provide a plan on how they intend to comply with the WEEE Directives (Waste Electric and Electronic Equipment Directives). This to be made by the 30th June 2015.

The second phase of the reform is to be made in 2016 subject to discussions with those having an interest in this sector.

Environmental Friendly Measures
- Energy
Those who had invested in photovoltaic (PV) panels and who had benefitted from a 50% grant, are now able to increase the number of PV panels in the same residence by April 2015 and benefit from the original feed-in-tariff of 22c.

Those businesses and organizations who applied for EU funding in relation to the installation of PV panels will now have until 30th April 2015 to apply for the feed-in-tariff.

As from March 2015, the reduction of 25% on electricity bills and 5% on water bills will be extended to the commercial sector.

- Motor Vehicles
As from 1st January 2015, road licences will be revised. The licence for those vehicles registered from 1st January 2009 onwards with emissions of carbon dioxide of not more than 100g/km will remain unchanged.

Registration tax on quad bikes (ATVs) is to be reduced as from 1st January 2015.

Registration tax on motorcycles of less than 250cc, and classified as ‘vintage’ will be exempt from registration tax. This measure will be applicable as from 1st January 2015.
A motor vehicle scrappage scheme will be launched, applicable from 1st December 2014, whereby a grant of between €700 and €900 will be given to those persons who scrap an old vehicle and invest in a new one. The scheme shall be open to 600 applicants.

Indirect tax

The excise tax on cigarettes and tobacco, wine, cement and bunkering fuel shall be revised. The price of petrol and diesel is guaranteed to remain stable until the end of March 2015.

The price of unleaded petrol shall be reduced by 2c per litre, to €1.42 per litre and the price of diesel shall be reduced by 1c per litre to €1.35 per litre. These prices are to remain stable until March 2015.

Other measures

- Duty on documents

The duty on documents on insurance policies with the exemption of life insurance policies, will increase by 1 cent for every euro with the minimum being of €13.

- Benefits for investment

A Seed Investment Programme shall be launched whereby private investors investing in the share capital of start-up companies shall be eligible to a tax credit equivalent to the investment in share capital up to an amount of €250,000 in one year. Further details on this Programme will be made available in due course.

- Other

Swimming pool licences to increase by 15%.

Gas prices to remain at €18 until April 2015.

Tower cranes of up to 10 square meters will pay a permit of €10 a day while tower cranes of more than 10 square meters will pay a permit of €15 a day.

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