

Budget 2012

If it counts, we've got it covered



The Minister of Finance, the Hon. Tonio Fenech, presented his 2012 Budget Speech on 14 November 2011. This Tax Update highlights the key fiscal measures & latest economic statistics on the Maltese economy.

Economic Performance

The Maltese economy is expected to grow by 2.3% in 2012. In the context of the surrounding economic turmoil and uncertainty, particularly in the Eurozone, this is considered to be a creditable achievement that is testimony to the strong work ethic of the Maltese people.

Inflation has increased to 2.7% during the last 12 months but is expected to fall to 2.1% by the end of this year.

Unemployment has continued to fall and currently stands at 6.6%, well below the EU average.

Economic Priorities

The key economic priorities set out in the Budget Speech include safeguarding employment, incentivising investment, developing the Maltese economy, investing strongly in education, keeping taxation low, fighting inflation, reducing bureaucracy, strengthening pensions and social benefits, supporting those in need and continuing to develop health services.

Government Finances

The total estimated Government revenue for 2011 is expected to reach €2,696 million, whilst total

expenditure is expected to be €2,891 million. After taking into account positive General Government Adjustments of €14 million, the deficit for 2011 is thus estimated to be €182 million which represents 2.8% of Gross Domestic Product. For 2012 the Government has targeted a budget deficit of 2.3% of GDP. Government debt is expected to be 68.9% of GDP in 2012. During the last 12 months, tax revenue, particularly from indirect taxes, has increased at a faster rate than Government expenditure.

Cost Of Living Adjustment

The cost of living adjustment (COLA) for 2012 will be €4.66 per week compared to €1.16 last year. As in previous years' this adjustment has been computed on the basis of the increase in the Retail Price Index according to a methodology agreed upon by the social partners. The COLA increase will be given in full to pensioners.

Extension of Tax Incentives to Key or Highly Qualified Personnel

Incentives recently announced in the financial services and i-gaming industries will be extended to include the manufacturing industry and will also be open to Maltese citizens returning to Malta from overseas. Whilst precise details have yet to be announced, it is anticipated that this will result in a low income tax rate of 15% for the individuals concerned, subject to certain criteria being met. Within the i-gaming sector, the current incentive will be extended to include game directors and game designers.

Extension of Intellectual Property Exemption to Royalty Income

The Government announced that income derived from intellectual property and copyrights will be exempt from income tax in Malta. Guidelines are to be published on this matter in due course. Potentially this could enhance Malta's proposition as a competitive tax jurisdiction in cross-border structures.

VAT

No changes in the rates of VAT were announced.

VAT on private nursing and home help offered to the elderly will be abolished on 1 January 2012.

An amnesty scheme to enable VAT-registered persons to regularise their position with respect to arrears of VAT will be introduced for a limited time period, details of which will be announced in a separate legal notice to be published later.

Personal Income Tax

The Government announced that in the current international economic climate, an earlier electoral pledge to reduce overall income tax levels cannot be granted at the present time. However the Government announced that by means of a 'parent computation' mechanism an incentive would be granted to parents of children aged under 18 (or 21 if they are still in tertiary education) that could potentially benefit parents by up to €840 per annum in tax savings if both parents work and both earn over €21,200 each:

	Single computation €	Joint computation €	Parental computation (new) €
0%	0-8,500	0-11,900	0-9,300
15%	8,501-14,500	11,901-21,200	9,301-15,800
25%	14,501-19,500	21,201-28,700	15,801-21,200
35%	19,501+	28,701+	21,201+
Annual income tax saving relative to single computation			€420

Tax allowances given to parents who send their children to private fee-paying schools will increase by €100 to €1,300 for children in day care, reception and kindergarten classes, by €400 to €1,600 for children in primary schools, and by €700 to €2,300 for children in secondary schools. In addition, parents whose children attend accredited courses at cultural and creative teaching institutions will benefit from a €100 reduction in their taxable income.

Maternity Leave

Maternity leave entitlement has been extended by 2 weeks in 2012 to 16 weeks and will increase by a further 2 weeks in 2013. Employers will be compensated accordingly by €160 per week.

Consolidation of Fiscal Authorities

The Government announced the implementation of a previous decision to merge the Inland Revenue Department and the VAT Department under a single authority, and to encourage the widest use of online filings.

Changes in Excise Duties and Registration Fees

An increase in the rates of some excise duties has been announced. The excise duty on cigarettes will increase by 5.8% whilst the duty on tobacco will increase by 8.5%. Excise tax on mobile telephony will be retained

whilst the basis of computation will be changed from a tariff rate to a volume rate. Excise tax on cement will increase by €3 per tonne. Excise duty on bunkering fuel sold in international waters will increase by €5 per tonne.

Registration taxes on vehicles will be amended on 1 January 2012 to increase for older, polluting vehicles (in Euro Emissions categories 1 to 3) whilst for other vehicles they will remain unchanged.

A new car scrappage scheme was launched, resulting in a rebate of 15.25% of the value of the new car replacing the older scrapped vehicle, capped at €2,000. The replacement car must be new and with a Euro 5 engine (or better) and its length must not exceed 4.46m.

Social Security

No changes in social security contributions were announced.

The children's allowance paid out to parents will increase by €100 to €350 per child.

Property Taxes & Incentives – Scheduled Properties

Various incentives were introduced aimed at the restoration and conservation of scheduled properties (grades I and II) and properties in urban conservation



areas. These include a stamp duty exemption for heirs of such property until 31 December 2013 and a 20% rebate on restoration works, capped at €5,000 together with a final withholding tax of 10% on rental income from residential uses, and 15% in the case of rental income for commercial uses. Furthermore, a final withholding tax of 10% (instead of 12%) in the case of a sale of such a property, or of 30% on the gain (instead of 35%), was introduced. A tax credit of 20% on qualifying restoration expenditure on commercial properties, increasing to 30% in the case of grade I and II scheduled properties, was also introduced.

Disclaimer: The above tax update reflects high level announcements made in the Budget Speech on 14 November 2011, which are typically implemented through detailed legislative amendments and tax guidelines that have yet to be subsequently published. Clients are advised to seek appropriate professional advice following the publication of such detailed amendments or guidelines and prior to implementing any actions based on the information given in this tax update.

For more information please contact:

Nick Captur

Leader Clients & Markets
Tel + 356 23432000
ncaptur@deloitte.com.mt

Malcolm Booker

Leader Tax Services
Tel + 356 23432000
mbooker@deloitte.com.mt

Deloitte Services Limited
Deloitte Place
Mriehel Bypass
Mriehel BKR3000
Malta

Tel: +356 2343 2000
Fax: +356 2131 8196
www.deloitte.com/mt

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