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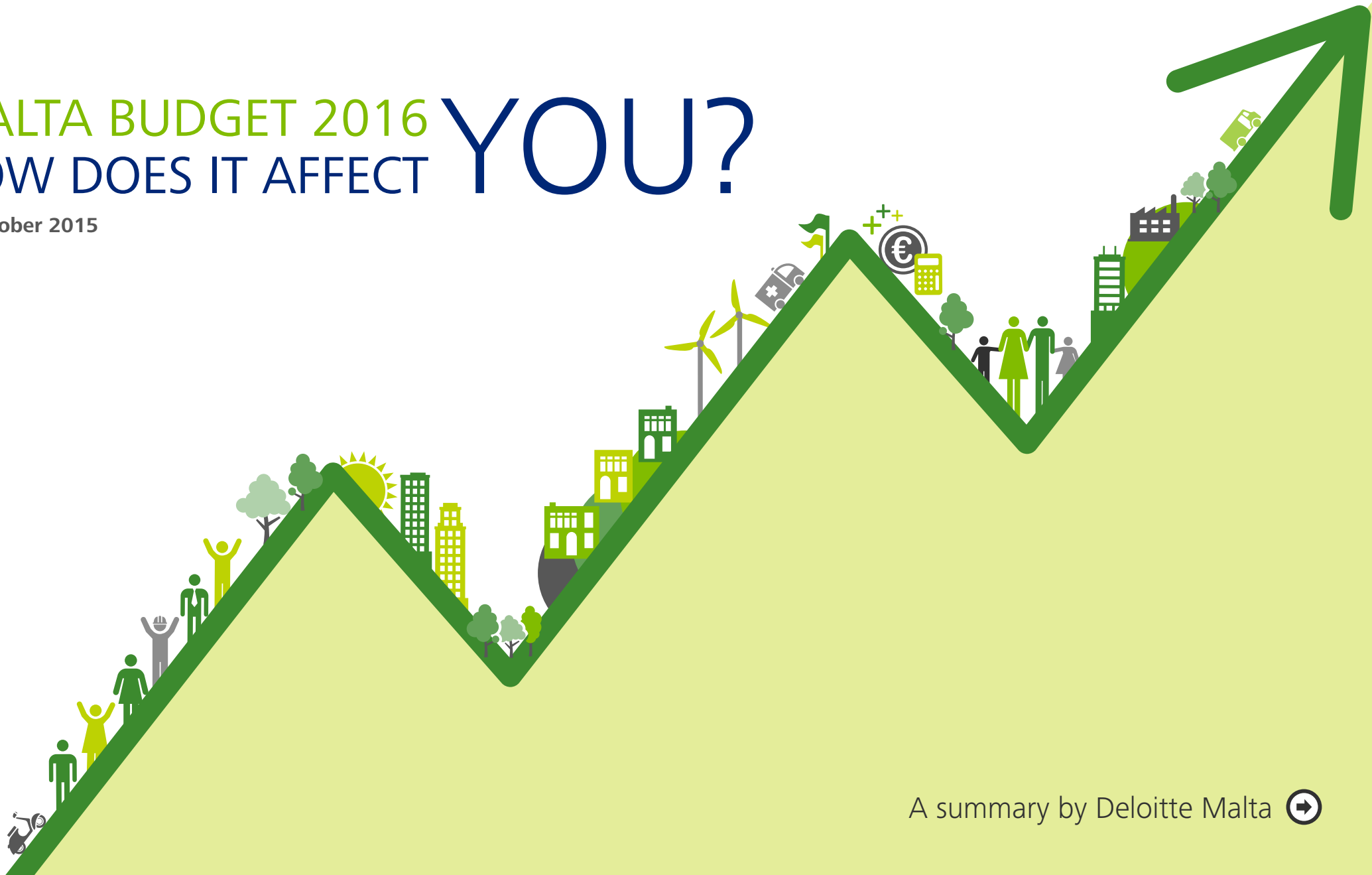
# MALTA BUDGET 2016 HOW DOES IT AFFECT YOU?

12 October 2015



A summary by Deloitte Malta

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# General overview

In his introduction to the 2016 Budget Speech, the Minister of Finance reviewed the Government's performance during the current legislature. The Minister of Finance expressed satisfaction that the measures introduced by the Government in its previous budgets, which were based on the principles of maintaining stability and of making work pay, have set Malta on a sound economic footing.

In the Budget for 2016, the Government laid out the following key priorities:

1. Continuing to strengthen government finances;
2. Reducing the fiscal burden in order to improve the standard of living;
3. Attracting (particularly) foreign investment;
4. Continuing to strengthen social services including healthcare;
5. The environment - maintaining a balance between economic development and environmental priorities;
6. Regional development with particular focus on the regions of Gozo and the south of Malta;
7. Continuing to invest in the country's infrastructure; and
8. Improving efficiency in the way the Government operates by eliminating bureaucracy.



**Disclaimer:**

This publication reflects high level announcements made in the Budget Speech on 12 October 2015, which are typically implemented through detailed legislative amendments and tax guidelines that have yet to be 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 publication.

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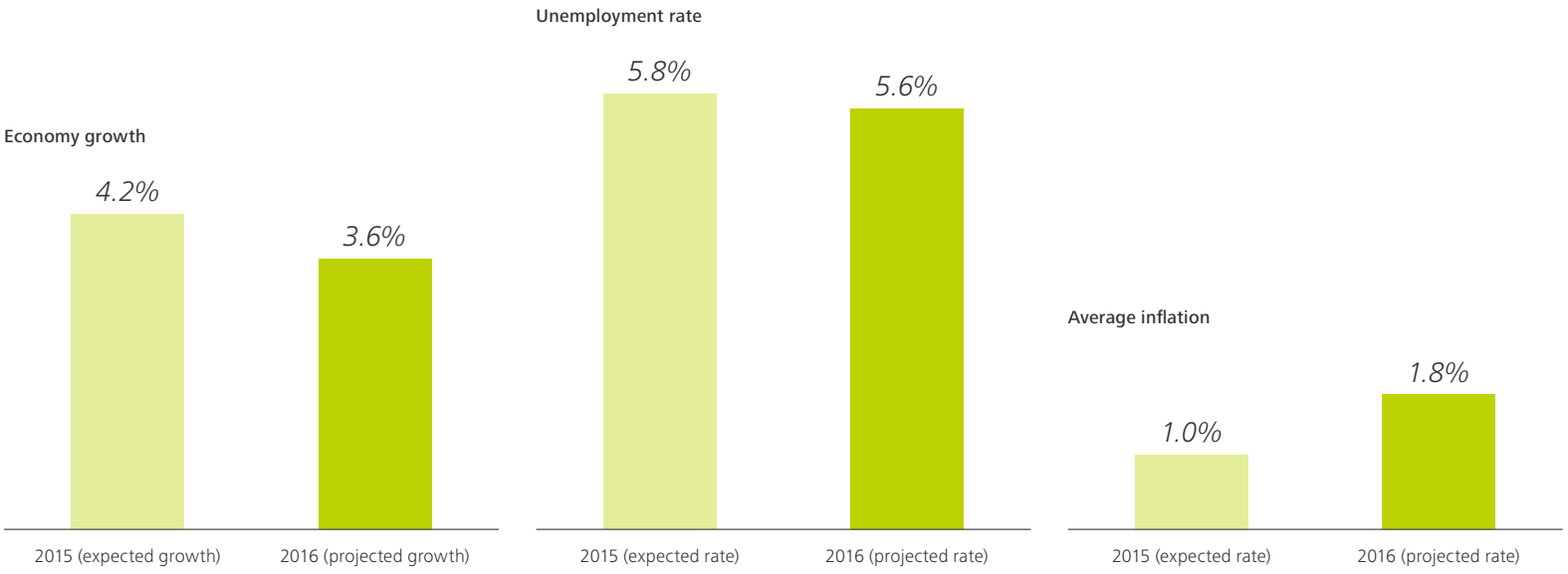
# Economy and employment

The Maltese economy is expected to grow by 4.2% in real terms during 2015, with a projected growth of 3.6% in real terms in 2016. During 2015, the unemployment rate in Malta is expected to stand at 5.8% and is projected to reduce further in 2016 to 5.6%. Over the course of the Government's legislature, nearly 13,450 full time jobs have been created, 10,900 of which in the private sector. The average inflation rate for the year is expected to be 1.0% and is forecast to increase to 1.8% in 2016.



# Government finances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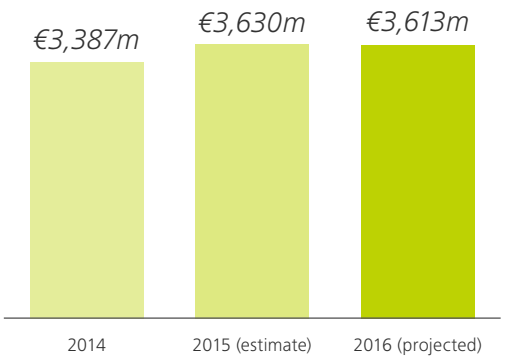
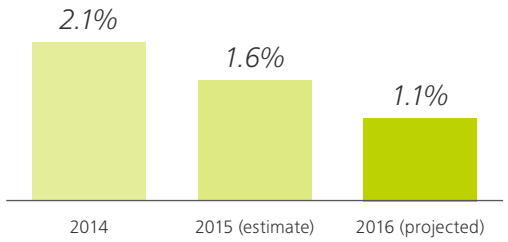
Total Government revenue for 2015 is expected to reach €3,630 million (2014 - €3,387 million) whilst total expenditure is expected to be €3,787 million (2014 - €3,508 million). The 2016 projections forecast total Government revenue of €3,613 million whilst total expenditure is forecast to reach €3,809 million. The deficit to GDP ratio is estimated at 1.6% for 2015 (2014 – 2.1%) and is projected to reduce to 1.1% during 2016. During 2015, the debt-to-GDP ratio is expected to decrease to 66.6% from a level of 68.3% in 2014. In 2016, the debt-to-GDP ratio is projected to fall to 65.2%.

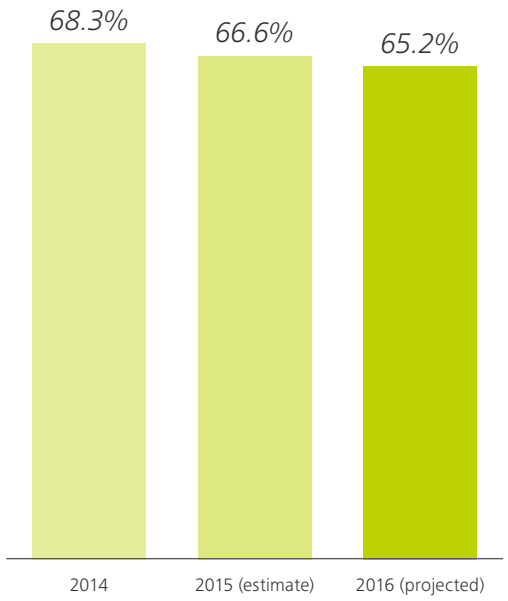
**Government revenue**



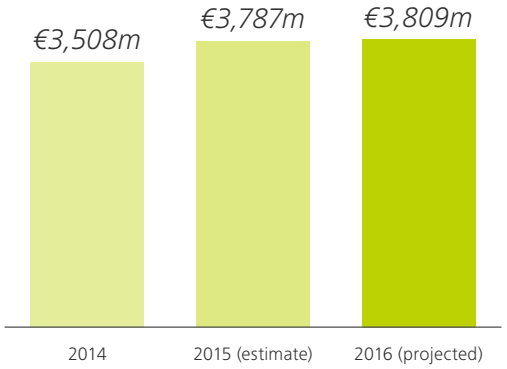

**Deficit to GDP ratio**




**Debt to GDP ratio**




**Government expenditure**



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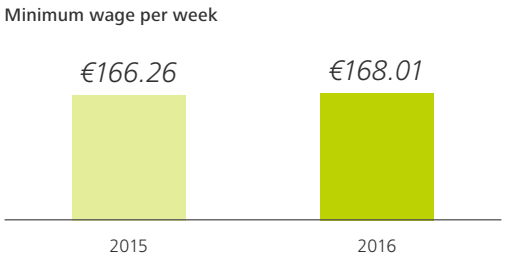
# Cost of living adjustment

The cost of living adjustment, calculated on the basis of the mechanism agreed with social partners, will be of €1.75 per week and will be received in full by pensioners and persons on social benefits. As a result, the minimum wage shall increase from €166.26 to €168.01 per week.



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# Income tax measures

| 2016 Rates | SINGLE COMPUTATION | Deduction |
|---|---|---|
| 0% | 0 - 9,100 | 0 |
| 15% | 9,101 - 14,500 | 1,365 |
| 25% | 14,501 - 19,500 | 2,815 |
| 25% | 19,501 - 60,000 | 2,725 |
| 35% | 60,001 + | 8,725 |

| 2016 Rates | JOINT COMPUTATION | Deduction |
|---|---|---|
| 0% | 0 - 12,700 | 0 |
| 15% | 12,701 - 21,200 | 1,905 |
| 25% | 21,201 - 28,700 | 4,025 |
| 25% | 28,701 - 60,000 | 3,905 |
| 35% | 60,001 + | 9,905 |

| 2016 Rates | PARENTAL COMPUTATION | Deduction |
|---|---|---|
| 0% | 0 - 10,500 | 0 |
| 15% | 10,501 - 15,800 | 1,575 |
| 25% | 15,801 - 21,200 | 3,155 |
| 25% | 21,201 - 60,000 | 3,050 |
| 35% | 60,001 + | 9,050 |

**Reduction in personal income tax rates**
The Minister has announced a reduction in personal income tax by increasing the income on which no tax is payable from €8,500 to €9,100 (single computation), from €11,900 to €12,700 (married computation) and from €9,800 to €10,500 (parental computation).

Furthermore, through a change in the way an individual's tax charge is computed, individuals with an annual income of up to €19,500 will save €90 tax per year (single computation), individuals with an annual income of up to €28,700 will save €120 tax per year (joint computation), and individuals with an annual income of up to €21,200 will save €105 tax per year (parental computation).

A couple opting for a joint declaration and who earn up to €28,700 will save €120 tax per year, while a couple opting for a separate computation will save up to €180 tax per year.

7.5% FLAT INCOME TAX RATE WILL BE EXTENDED TO PLAYERS OF OTHER SPORTS

**Income tax on sports activities**
The optional flat income tax rate of 7.5% chargeable on income derived by qualifying football or waterpolo players will be extended to players of other sports and will now also include income derived by sports coaches.

TAX CREDIT FOR ENTERPRISES WHICH EMPLOY PERSONS HOLDING A DOCTORATE OR WHO ARE STUDYING FOR A DOCTORATE IN SCIENCE, IT, OR ENGINEERING

**Incentive for research and innovation**
In order to encourage more research and innovation, enterprises that employ persons holding a doctorate or who are studying for a doctorate in science, information technology, or engineering shall be entitled to a tax credit of up to a maximum of €10,000 when the employment of such person is retained for a minimum of 12 months.

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# Income tax measures

TAX DEDUCTION FOR COMPANIES THAT DONATE TO THE COMMUNITY CHEST FUND

**Donations to the Community Chest Fund**
Companies that donate a sum of not less than €2,000 to the Community Chest Fund during 2015 will be entitled to a tax deduction equivalent to the amount donated.

POLICE OFFICERS' INCOME FROM 'EXTRA DUTIES' WILL BE SUBJECT TO A REDUCED RATE OF TAX OF 15%

**Tax on income earned by police officers**
With effect from 1 January 2016, any income earned by police officers from the carrying out of 'extra duties' for organisations, individuals, and companies will be chargeable to tax as separate income and subject to a reduced rate of tax of 15%.

50% TAX DEDUCTION FOR BUSINESSES WHICH BUY HYBRID OR ELECTRIC VEHICLES

**Tax deduction on hybrid/electric vehicles**
Businesses which buy hybrid or electric vehicles may avail themselves, in the year in which such vehicle is bought, of a tax deduction amounting to 50% of the cost of the vehicle.

TAX DEDUCTION ON DONATIONS TO THE ARTS

**Donations to the arts**
In order to encourage donations to the arts, a tax deduction equivalent to 150% of the amount donated shall be introduced.

COMPANIES UNDER COMMON OWNERSHIP WILL BE ELIGIBLE TO SUBMIT ONE CONSOLIDATED INCOME TAX RETURN

**Fiscal consolidation**
As a measure to facilitate the computation of taxable income, a fiscal consolidation regime will be introduced whereby companies under common ownership will be eligible to submit one consolidated income tax return.

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# Incentives to industry

## RELOCATION ALLOWANCE OF UP TO €10,000 PER YEAR, FOR UP TO TWO YEARS

**Incentive for small enterprises in the manufacturing sector**
Small enterprises that rent additional space for manufacturing purposes from the private sector shall be entitled to a relocation allowance of up to €10,000 per year, for up to two years. This incentive will be administered by Malta Enterprise.

## TAX CREDIT OR A FINANCIAL GRANT TO ENCOURAGE KNOWLEDGE TRANSFER

**Incentive for knowledge transfer**
Malta Enterprise will introduce a scheme intended to encourage the transfer of knowledge from existing employees to new employees as well as the acquisition by Maltese workers of new skills necessary to attract more work to Malta. The scheme will take the form of a tax credit or a financial grant.

## FINANCING FOR START-UP COMPANIES

**Start-ups**
Following the launch of the Bstart Scheme this year, which was aimed at assisting start-ups, Malta Enterprise will be launching a new scheme to continue assisting new start-up companies. Assistance will be in the form of financing of up to €200,000, repayable to Malta Enterprise over a 10 year period. This assistance can increase to a maximum of €500,000 for enterprises developing high value added innovative products, processes, or services, and can be used to finance the purchase of equipment.

Assistance may also be granted to companies that intend to raise funding through crowdfunding.

## UP TO €50,000 TAX CREDIT FOR SELF-EMPLOYED WOMEN OR BUSINESSES WHICH ARE MAJORITY CONTROLLED BY WOMEN

**Amendment to the Micro Invest Scheme**
In order to encourage entrepreneurial skills in women, the Micro Invest Scheme will be amended so as to entitle self-employed women or businesses which are majority controlled by women, a tax credit of up to €50,000.

# Eco contribution

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## REMOVAL OF ECO CONTRIBUTION ON FURTHER PRODUCTS

In last year's budget speech, the Minister of Finance announced the removal of Eco contribution on electronic and electrical equipment. In fact, Eco contribution on such products was removed with effect from 1 September 2015.

The Minister has now announced the removal of Eco contribution on other products and its replacement with a corresponding increase in excise duty.
For example, Eco contribution on wine bottles/ containers was payable at the rate of €0.12 per bottle/container. This will now be replaced with an increase in excise duty by €0.005 per litre.

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# Property related measures

## INHERITED PROPERTIES MAY BE SOLD AFTER THE LAPSE OF THREE YEARS

**Vacant properties**
Litigation between heirs in connection with inherited property is one of the principal reasons for the significant number of vacant properties. Currently, where a majority, but not all, of the heirs have agreed on an inherited property's selling price, the property can only be sold after five or ten years from the inheritance date, depending on when the inheritance took place. As a measure to reduce the number of vacant properties, such properties that have been inherited or will be inherited in the future may be sold after the lapse of three years.

## REDUCTION IN STAMP DUTY LEVIED ON TRANSFERS OF PROPERTY WITHIN AN UCA

Another measure intended to reduce the number of vacant properties will be in the form of a reduction in stamp duty, from 5% to 2.5%, levied on transfers of property within an Urban Conservation Area (UCA), if the contract is executed between 1 January and 31 December 2016. Furthermore, the rate of final withholding tax that will be levied on transfers of restored property within an UCA, effected in 2016, will be reduced from 8% to 5%.

## FIRST TIME PROPERTY BUYERS WILL BENEFIT FROM A SAVING OF UP TO €5,000

**Extension of the stamp duty exemption on first time property buyers**
Until 30 June 2015 an incentive was in place for first time property buyers consisting of an exemption from duty on the first €150,000 of a property's value. A new measure has been announced through which first time property buyers will benefit from a saving of up to €5,000. This measure applies retrospectively from 1 July 2015 and will continue to apply until the end of 2016.

## OFFICE PREMISES WILL BECOME ELIGIBLE FOR CAPITAL ALLOWANCES PURPOSES

**Capital allowances on office premises**
Buildings that are eligible for capital allowances (tax depreciation) purposes currently comprise industrial buildings or structures, hotels, and car parks. This list will now be extended to also include office premises.

## 15% FINAL TAX ON PROPERTY RENTAL

**15% Final tax on rental of immovable property**
Income derived from the rental of residential property may, at the option of the taxpayer, be chargeable to 15% final tax.

This 15% final tax regime will now be extended to cover income from the rental of commercial property, but will exclude rents between related parties.

# Value Added Tax (VAT)

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## REDUCTION IN VAT ON SPORTS ACTIVITIES

**Reduction in VAT rate on sports activities**
A reduced VAT rate of 7% shall be introduced on gym membership fees and fees charged by fitness centres, football nurseries, and similar sports activities.

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50c
*PER NIGHT*

TOURIST ENVIRONMENTAL CONTRIBUTION

**Environmental contribution by tourists**
As from 1 April 2016, all tourists aged 18 and over will be required to pay an environmental contribution of €0.50 for every night spent in Malta, capped at a maximum of €5.00 per visit.

REDUCTION ON REGISTRATION FEES FOR COMPANIES THAT ARE INCORPORATED WITH A SHARE CAPITAL OF < €1,500

**Reduction in company registration fees**
Registration fees for companies that are incorporated with an authorised share capital of €1,500 or less shall be reduced from €250 to €100.

IN-WORK BENEFIT FOR PARENTS

**In-work benefit**
Currently, where both parents are gainfully occupied and their combined annual income is between €10,000 and €20,000, they are entitled to an 'in-work benefit' amounting to a maximum of €1,000 per child per year. In the case of a single parent who earns between €6,600 and €15,000 per year, the 'in-work benefit' amounts to a maximum of €1,200 per child per year.

The 'in-work benefit' will now be extended to families with dependent children who are younger than 23 years. Where only one of the parents is employed and his/her annual income is between €6,600 and €12,700, the family will be entitled to an 'in-work benefit' of a maximum of €150 per child per year.

**Excise duty on tobacco and cement**
Excise duty on cigarettes and tobacco has been increased, resulting in an average increase of €0.30 on every packet of cigarettes.

Excise duty on cement has also been increased from €35 to €40 per 1,000 kilos.

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## BENEFITS WHEN PURCHASING ELECTRIC AND HYBRID VEHICLES

**Scrappage scheme**

The Government will introduce a scrappage scheme applicable to cars which are more than ten years old and which are scrapped and replaced with a new motor vehicle.

The benefit is in the form of a €7,000 grant, given to a person who scraps a previously owned car and buys a new electric car. When a new electric car is purchased without an old car being scrapped, the grant will amount to €4,000. A €2,000 grant will be given when a new electric quadricycle is purchased.

Also, various grants ranging from €700 to €3,000 will be granted for the purchase of a number of hybrid vehicles with low emissions.

## REDUCTION ON THE ANNUAL LICENCE FOR SMALL MOTORCYCLES

**Motorcycles' licence**

The annual licence for small motorcycles (less than 125cc) will be reduced to a nominal amount of €10. Furthermore, the tax imposed on the registration of an electric motorcycle will be removed.

## REDUCTION IN PETROL AND DIESEL PRICES

**Fuel**

With effect from 1 January 2016, unleaded petrol prices will be reduced by €0.03 per litre and diesel prices will be reduced by €0.04 per litre. Both reductions are inclusive of a €0.03 per litre increase in excise duty.

Malta Tax Firm of The Year 2015 ☑

Malta Tax Firm of The Year 2014 ☑

Malta Tax Firm of The Year 2011 ☑

Malta Tax Firm of The Year 2010 ☑

**Deloitte Malta was awarded 'Malta Tax Firm Of The Year 2015' by the International Tax Review during the European Tax Awards**

*"We are very pleased to have won this award as it reaffirms our position as Malta's leading tax practice which is internationally recognised for its excellence. This is the third time that Deloitte Malta has won this award."*

Malcolm Booker, CEO of Deloitte Malta

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