

## Malta's 2012 budget proposals aim to increase foreign investment

Keeping you updated



Malta's 2012 budget plan, published on 16 November 2011, contains several tax proposals designed to make Malta more attractive for local and foreign investment.

The budget focuses on incentives to bolster existing industries (including the pharmaceutical and life sciences industries), encourage the management and generation of clean energy, and attract highly skilled human resources to the country.

### Extension of royalty exemption

Since 2010 Malta has granted an income tax exemption for royalties derived from patents on inventions. Under this scheme, royalties and similar income (including amounts paid for the grant of a license to exercise rights) derived from registered patents for qualifying inventions, whether registered in Malta or elsewhere, are exempt from tax in Malta. The exemption applies regardless of where the underlying research and development is carried out.

The Ministry of Finance has announced that the royalty exemption will be expanded to cover works protected by copyright, including books, film scripts, music, and art. The proposed exemption would exempt income derived from copyrights with the aim of attracting international artists to Malta, making Malta more attractive to the film industry and creating broader economic benefits in various sectors. Guidelines on the qualifications for the exemption and the restrictions have not yet been established.

Royalties and other income derived from other intangibles would remain taxable in Malta at an effective corporate tax rate of 5%. This rate falls to zero if the Malta resident entity is not incorporated under the laws of Malta and the royalty income has a foreign source and is not physically received in Malta.

### Reduction in tax rate for expatriates

Non-Malta-domiciled individuals resident in Malta who earn qualifying employment income from activities carried out in Malta, or from any period spent outside Malta in connection with such work or duties, may opt to be taxed at a flat rate of 15%. The 15% flat rate applies to qualifying individuals working in the financial services and (as recently enacted with retroactive application to 1 January 2010) online gaming (I-gaming) industries.

It is now proposed to extend the 15% flat rate to qualifying individuals working in the manufacturing sector.

## Economic outlook

The minister of finance announced in his budget speech that Malta had positive growth figures regarding employment (2.5% increase) and the economy (2.6% increase in GDP, with 2012 growth expected to be approximately 2.3%) that compare well with growth in the rest of the eurozone.

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