

Tax Update Budget 2010 If it counts it's covered



This Tax Update highlights the main fiscal measures introduced by the Budget for 2010 that was presented to the House of Representatives by the Hon. Tonio Fenech, Minister of Finance, the Economy and Investment on the 9th November, 2009.

Government Finances

The total estimated Government revenue for 2009 is expected to reach €2,466 million, whilst total expenditure is expected to be €2,724 million. After taking into account General Government Adjustments of €40 million, the deficit for 2009 is thus estimated to be €218 million which represents 3.79% of Gross Domestic Product. The deficit in 2008 was €265 million which represented 4.67% of that year's GDP.

The deficit that is being targeted for 2010 is €234 million, representing 3.93% of GDP.

The total public debt is expected to increase from 66.95% of GDP in 2009 to 68.74% of GDP in 2010.

Cost of living adjustment

The cost of living adjustment (COLA) for 2010 will be €5.82 per week. As in the last several 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.

Incentive schemes administered by Malta Enterprise

Government has decided to extend the *20millionforindustry* scheme that is administered by Malta Enterprise by allocating a further €7 million for International Competitiveness (€2 million), Innovation (€3 million), Research and Innovation (€1 million) and E-business (€1 million).

Malta Enterprise's incentive allowance is also being increased from €6.6 million to €9 million to enable it to launch initiatives to encourage foreign investments in Malta, in particular in the sectors of:

- Support services for companies already operating in Malta (legal, financial, back office, corporate, logistical, research and development, marketing and sales and prototyping).
- Shared service centres for new foreign companies in areas such as call centres, software development, digital gaming, human resources, accounts and finance management, market research and internet publication.

The categories of enterprises that can benefit from the Reinvestment Tax Credit scheme are also expected to be widened.

Tax exemption on royalty income

A tax exemption on royalty and similar income resulting from patents on inventions will be granted. The parameters for this exemption to apply are still to be established in the context of the Government's economic and industrial policy.

Tax incentives to self employed and small enterprises

Self employed persons and enterprises that employ a maximum of 10 persons will be allowed a tax credit of 40%, up to a maximum of €25,000, on investments in the coming two years to:

- Arrange their shop or facility.
- Invest in machinery, technology, apparatus or instruments which enhance their operations, including systems which help them save energy or to produce alternative energy.
- Make an investment in order to become compliant with health, safety, environment and physical access regulations.
- Create new jobs or recruit apprentices after 10th November 2009.

For those self employed and small enterprises that carry out their investments in Gozo, the tax credit will amount to 60% of their qualifying expenditure.

Fiscal incentives for the creative sectors of the economy

The creative sectors of the economy which include ICT, films, arts and design, as well as performing arts and others will benefit from a number of fiscal incentives, including:

- Fiscal benefits for qualifying costs to make it easier for eligible Maltese authors to publish their literary works.
- Tax credits to cover qualifying costs spent on computer animation, special effects, films and television programmes, as well as production services; and
- Fiscal benefits for qualifying costs spent on interactive digital media products and qualifying costs spent on sound recording houses, including costs incurred to bring productions to Malta.

Tax on transfers of immovable property

In November 2005, a new system of taxing transfers of immovable property was introduced. In those cases where the seller has owned the property for more than five years before selling it, tax is charged at 12% of the transfer value, defined as the higher of (1) the consideration received on the transfer and (2) the market value of the property.

Where the seller has owned the property for less than five years before selling it, the tax is charged, at the option of the seller, either at 12% of the transfer value, as above, or at his/her marginal tax rates on the realized gain.

A measure announced in the budget speech is that the period of ownership within which the seller can opt to be taxed under one or the other system has been extended to seven years, for the years 2010 and 2011 in recognition of the fact that increases in property prices have been less substantial in recent years.

Measures to curb tax evasion

The Minister of Finance has announced that a series of provisions will be implemented at committee stage in Parliament with the aim of curbing tax evasion and closing certain loopholes which are resulting in aggressive tax planning and loss of revenue to the government. No further details of such measures have been made known at this stage.

The Minister has also announced that as from the 1st June 2010, no refunds will be paid on VAT or income tax if the due returns under both systems are not filed. This measure is intended to encourage taxpayers to fulfil their tax and VAT returns filing obligations in time.

Taxpayer's charter

As from next year a Taxpayer's charter will be developed that will help the public understand its rights and obligations as a taxpayer and the service that should be expected from the tax collecting departments. This charter will be in addition to and not a replacement of the legal protection that the law offers taxpayers, such as confidentiality and data protection.

Levy on credit cards

With effect from 1st January 2010, the government levy on credit cards, amounting to €16.31 per year, will be removed. It is estimated that 120,000 persons will benefit from this measure which will cost government approximately €2 million per year.

Excise duty on cigarettes

The excise duty on cigarettes has been increased by €0.15 per packet. Duty on other tobacco products will increase on the basis of the increase in the duty on cigarettes.

Commercial vehicles registration tax

The registration tax on commercial vehicles that pollute the least, that is those vehicles that have a Euro 4 or Euro 5 standard will be removed completely. On the other hand the registration tax for commercial vehicles that have a Euro 3 standard or lower will now be levied on the vehicle's weight and not on its value.

The annual licences payable on commercial vehicles will also be based on their Euro standard and the new system will result in lower licences for the first nine years for those vehicles that have a Euro 4 or Euro 5 standard and higher licences for those that have a Euro 3 standard or lower.

Tax deduction for childcare costs

At present, a tax deduction of €1,000 is allowed in respect of childcare costs for children who are not more than three years of age and who attend registered centres except during the summer months. This measure will be extended further to also cover childcare costs with respect to children who are older than three years of age and who attend these centres during the summer months.

Tax deduction for alimony payments

The Income Tax Act provides for a tax deduction with respect to alimony payments paid by a person to his/her estranged spouse where the alimony payment is determined by the Courts of Malta or as agreed by a public deed of personal separation under the authority of the Courts of Malta. As from next year, the deduction will also be allowed when the alimony has been established by foreign courts, subject to the approval of the Commissioner of Inland Revenue.

Tax exemption on receipt of child maintenance

Under Malta's tax law, any financial assistance, as determined by the Courts of Malta or as agreed by a public deed of personal separation under the authority of the Courts of Malta, received by an individual from his/her estranged spouse in respect of the maintenance of a child is exempt from tax. As from next year the tax exemption will also apply where the financial assistance has been determined by foreign courts, subject to the approval of the Commissioner of Inland Revenue.

Compensation to families for increase in water and electricity tariffs

In view of the expected increase in the water and electricity tariffs from January 2010, the government has announced grants to families that do not consume more than 10,000 units a year. The grants will be as follows:

For families with 1 person	€ 55
For families with 2 persons	€ 80
For families with 3 persons	€ 105
For families with 4 persons	€ 130
For families with 5 persons	€ 155
For families with 6 persons	€ 180
For families with 7 persons or more	€ 205

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