

## Tax Update Budget 2011 A Balancing Act



This Tax Update highlights the main fiscal measures introduced by the Budget for 2011 that was presented to the House of Representatives by the Hon. Tonio Fenech, Minister of Finance, the Economy and Investment on the 25 October, 2010.

## Government Finances

The total estimated Government revenue for 2010 is expected to reach €2,610.4 million, whilst total expenditure is expected to be €2,907.4 million. After taking into account positive General Government Adjustments of €59.3 million, the deficit for 2010 is thus estimated to be €237.7 million which represents 3.9% of Gross Domestic Product. The deficit in 2009 was €234 million which represented 3.8% of that year's GDP. The deficit that is being targeted for 2011 is €181.7 million, representing 2.8% of GDP. The total public debt is expected to decrease from 69.12% of GDP in 2010 to 68.8% of GDP in 2011.

## Cost of living adjustment

The cost of living adjustment (COLA) for 2011 will be €1.16 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.

## Increase in the reduced VAT rate

The reduced VAT rate on the provision of accommodation in licensed holiday premises such as hotels, hostels, holiday flats, guest houses and so on will be increased from 5% to 7% with effect from 1 January 2011. This measure will replace the introduction of a bed tax that was announced in the Budget Speech for 2009 and which was originally intended to be introduced with effect from 1 January 2010.

## Registration for VAT

In terms of current VAT rules, persons whose annual turnover is less than prescribed thresholds ranging from €14,000 to €35,000 depending on the type of activity undertaken by such persons, have the option to register with the VAT Department as a small undertaking. Such persons do not charge VAT and cannot recover VAT on their expenses but are still required to issue fiscal receipts and file an annual return with the VAT Department.

With effect from 1 January 2011 persons whose annual turnover does not exceed €7,000 will not be required to register for VAT and thus will not be obliged to issue fiscal receipts or file any returns with the VAT Department.

## Online filing of VAT returns and VAT payments

A VAT-registered person who chooses to file the VAT return and make a VAT payment electronically will benefit from a 7-day extension to the deadline for filing such return and making such payment.

## Additional tax deduction on improvement in competitiveness

Without giving any further details, the Minister of Finance announced a deduction of 150% of actual expenses incurred by anyone who invests in processes that improve the quality of his products or services, up to a maximum of €10,000.

## Utilization of trading losses for tax purposes

Current tax rules permit the indefinite carry forward of losses incurred by a person in a trade, business, profession or vocation. Such losses are deductible from profits realized in subsequent years. The Minister of Finance has announced, without giving any details, changes to these rules that will probably be aimed at restricting the utilization of such trading losses including the ability to surrender the losses to companies within the same group of companies.

## Tax deduction for school fees

The tax deduction for school fees paid in respect of children attending a primary school will be increased from the current €1,000 to €1,200 whilst the tax deduction for school fees paid in respect of children attending a secondary school will be increased from the current €1,400 to €1,600.

## Increase in excise duties

An increase in the rates of various excise duties has been announced. The excise duty on fuels will increase by €0.03 per litre and that on cigarettes will increase by 3% whilst the duty on tobacco will increase by 4%. The excise duty on beer will increase by just under €0.01 per 25cl bottle whilst that on spirits will increase by 13%. Moreover an excise duty on cement at the rate of €9 per ton has been introduced.

### **Subsidy on purchase of solar water heaters**

In line with other measures introduced in recent budgets aimed at subsidizing the purchase of environmentally friendly appliances, a subsidy of up to €400 will be granted on the purchase of a solar water heater.

### **Subsidy on purchase of environmentally friendly cars**

A subsidy of 15.25% of the value of a new car, subject to a maximum of €2,000, will be granted if the new car satisfies certain conditions with regard to emissions and size. The scheme will be launched on the 15 November 2010.

Moreover additional incentives will be granted for the purchase of electric cars, including a subsidy of up to €5,000 for the installation of grid-connected renewable energy sources, a reduction in the annual road licence from €75 to €10 and a tax deduction of 125% of actual expenses incurred by companies on electric cars.

### **Social security on part-time self employment**

The current minimum weekly social security contribution of €26.37 on self-employment is being viewed by the government as a disincentive to women wanting to participate in this sector of the economy on a part time basis. In order to address this problem, the social security contribution payable in such cases will be reduced to 15% of their income, as is already the case for employed part-timers.

### **For more information please contact:**

#### **Mark Grech**

Partner

[mgrech@deloitte.com.mt](mailto:mgrech@deloitte.com.mt)

Deloitte

Deloitte Place

Mriehel Bypass

Mriehel BKR 3000

Malta

Tel: +356 2343 2000

Fax: +356 2131 8196

[www.deloitte.com/mt](http://www.deloitte.com/mt)

## About Deloitte

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee, and its network of member firms, each of which is a legally separate and independent entity. Please see [www.deloitte.com/about](http://www.deloitte.com/about) for a detailed description of the legal structure of Deloitte Touche Tohmatsu Limited and its member firms.

This publication contains general information only, and none of Deloitte Touche Tohmatsu Limited, any of its member firms or any of the foregoing's affiliates (collectively the "Deloitte Network") are, by means of this publication, rendering accounting, business, financial, investment, legal, tax, or other professional advice or services. This publication is not a substitute for such professional advice or services, nor should it be used as a basis for any decision or action that may affect your finances or your business. Before making any decision or taking any action that may affect your finances or your business, you should consult a qualified professional adviser. No entity in the Deloitte Network shall be responsible for any loss whatsoever sustained by any person who relies on this publication.