

Malta Budget 2013 summary We make things clearer

The Minister of Finance, the Hon. Tonio Fenech, presented his 2013 Budget speech on 28 November 2012. This Tax Update highlights the key fiscal measures and latest economic statistics on the Maltese economy.



Economy and employment

The Maltese economy is projected to grow by 1.2% in real terms in 2012 compared to zero growth in European Union countries and a shrinking of the Eurozone economies by 0.4%.

Malta's unemployment rate in June 2012 stood at 6.5% compared to 10.5% in European Union countries and 11.4% in the Eurozone countries.

Government finances

The total estimated Government revenue for 2012 is expected to reach €2,868 million (2011 - €2,644 million) while total expenditure is expected to be €3,048 million (2011 - €2,862 million). After taking into account positive General Government Adjustments of €22 million, the deficit for 2012 is thus estimated to be €158 million (2011 – €177 million).

Gross Domestic Product (GDP) in 2012 is projected to be €6,779 million (2011 - €6,499 million). Thus, the deficit for 2012 will represent 2.3% of the year's GDP, compared to 2.7% in 2011.

Cost of living adjustment

The Cost Of Living Adjustment (COLA), based on an inflation rate which in the 12 month period to September 2012 stood at 2.3%, will amount to €4.08 per week.

All social benefits are to be increased by the COLA.

Personal income tax

The electoral pledge to reduce overall income tax levels will be implemented over the next three years through the introduction of a new 32% tax bracket in 2013, reducing further to 29% in 2014 and to 25% in 2015, as follows:

2013	Single computation €	Joint computation €	Parental computation €
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
32% (2013)			
29% (2014)	19,501 - 60,000	28,701 - 60,000	21,201 - 60,000
25% (2015)			
35%	60,001+	60,001+	60,001+

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Property

Transfers of immovable property situated in Malta are chargeable to 12% final tax on the transfer value. In certain cases, the transferor can elect not to be taxed under the 12% tax regime, and be taxed at the applicable rates (up to 35%) on the gain derived on the transfer. One of the circumstances in which such an opt-out could be made is where the property is being transferred within seven years of acquisition. This seven year window will now be extended to 12 years with effect from gains chargeable in the year of assessment 2013.

Furthermore, the system by which properties are valued for duty payment purposes will be reformed. Persons buying their residential property through a bank loan will be allowed to use the valuation made by the bank's architect as evidence of the property's market value. In addition, for properties whose market value exceeds €250,000, the buyer and seller may request the Inland Revenue Department to appoint an architect at the promise of sale stage, to determine the value of the property on which duty will be payable. The valuation will remain valid for six months from the date it is issued.

As from 1 January 2013, the stamp duty payable on the donation and inheritance of property by the parents to their children will be removed. It is unclear from the budget speech which categories of properties will fall within the scope of this exemption.

A reduced rate of stamp duty of €3.50 per €100 or part thereof is currently applied on the first €116,468.67 of the aggregate value of the consideration paid for the acquisition of immovable property for the purpose of establishing sole ordinary residence. The ceiling of

Corporate reorganisations

€116,468.67 will now be increased to €150,000. The tax authorities are now further empowered to grant an exemption from tax for group reorganisations, such as mergers and divisions, if it can be proven that such reorganisations are effected for bone fide commercial reasons and not for tax planning purposes.

Transport

- Registration tax on Euro Standard 5 vehicles to be capped at 30%.
- A €500 grant to be given to those who scrap their commercial vehicle and buy a new one of type N1.
- Registration tax on Euro Standard 4 is being increased on average by 10%.
- Registration tax on vehicles of five years and older which are imported from outside the EU and having Co2 emissions of 130g/ km is to be reduced to €1,000.
- Capping of licence fees of vehicles considered to have high Co2 emissions.
- Reduction of registration tax of type N1 commercial vehicles by 12.5%.
- Registration tax on motorcycles having an engine capacity of up to 250cc will be removed. For motor vehicles having an engine capacity of over 250cc the registration tax will be reduced by 25%.
- Registration tax on Classic, Vintage or Veteran vehicles which are over 50 years old will be removed. Furthermore, for a vehicle to be considered Classic, the 35 year threshold will be reduced to 30 years and licence fees on these vehicles will be removed and replaced by an administrative fee of €8.
- In order to incentivise the use of autogas powered vehicles, a rebate of €200 will be granted to those who convert to this source of power. In addition autogas powered vehicles will enjoy a reduction in licence fees.

Hotels

Benefits to hotels

As from 2013, through an amendment in the Incentive Guidelines, the Malta Enterprise will allow licensed hotels to benefit from an uncapped 15% tax credit calculated by reference to the capital investment made.

Incentives for boutique hotels

Further incentives would be granted to enhance and increase the number of boutique hotels in certain

regions, namely Valletta, Mdina and the Three Cities. The proposed incentives include tax deductions on investments related to the purchase and development of such sites and a reduction in MEPA and the Malta Tourism Authority fees.

Energy and the environment

Since 2006, Government has been incentivising the installation of clean energy equipment. As a result, there are now 6,200 families that have installed photovoltaic panels in their homes while another 8,300 families have installed solar water heaters or double glazing apertures. This year's budget introduces new incentives for the installation of photovoltaic (PV) panels that are not supported through other funding. The incentives take the form of attractive feed-in tariffs as follows:

- Installations of less than 1MW on rooftops:
 - 18c/kWh for 20 years
- Installations of less than 1MW on the ground:
 - 17c/kWh for 20 years
- Installations of more than 1MW on rooftops:
 - 17c/kWh for 20 years
- Installations of more than 1MW on the ground:
 - 16c/kWh for 20 years

Other incentives will be announced next year to encourage the installation of PV panels on rooftops, while a new scheme will allow families that cannot install PV panels in their own residence to invest in a shared-ownership installation and benefit according to the investment they make.

The scheme that provides for a refund of 40% of the cost of solar water heaters (maximum refund of €400) and a refund of 15.25% (maximum refund of €1,000) of the cost of double glazing apertures will be extended.

The 'High Energy User Scheme', which applied to factories that consumed more than 2GwH per year, will now be extended through a scheme specifically aimed at industries and hotels located in Gozo.

Women and employment

Maternity leave entitlement was extended by two weeks in 2012 to 16 weeks and will increase by a further two weeks in 2013.

Pensions reforms

With effect from January 2013, parents born between 1 January 1952 and 31 December 1961, who stopped working in order to bring up their children will be granted a credit on their social security contributions equal to one year for every child, or two years for a child with disability. This credit will be granted if the parent(s) stopped work to look after their children and returned to work afterwards.

A further increase of €200 is being granted to those in receipt of a service pension. The annual total exempt amount is now of €1,266.

The elderly

The €300 allowance currently given to those who are over 80 years of age is now being extended to those who are 78 years of age and over. It is intended that by 2014 this allowance would be available to all those aged 75 years and older.

Persons with disability

Parents or relatives who currently pay for the accommodation of persons with disability in respite centres are to be given a tax deduction against their income not exceeding €2,500.

Previously, the inheritance of a dwelling house by persons registered on the Register of Persons with Disability from their parents/guardians was exempt from stamp duty if the dwelling house was, at the time of the transfer, the ordinary residence of both the deceased and the heir, and provided that the inherited property was retained for at least ten years. The ten year retention period has now been removed.

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Changes in excise

- Increase in excise duty of 6% on cigarettes and of 8% on tobacco.
- Increase in petrol and diesel by 2c per litre.
- Increase in excise duty on cement by €5 per 1,000Kg.

Voluntary activities

The Government is proposing an outlay of €4 million to support those involved in voluntary activities. With effect from 1 January 2013, a stipend is to be granted to those youths aged up to 25 years (or within three years of them graduating from tertiary education) who go overseas to work for up to one year in a voluntary capacity.

Additionally, the Government is proposing to grant credits on social security contributions to those youths who wish to engage in voluntary activities, either in Malta or abroad. This credit will be given for a maximum of five years and on the condition that the person returns to Malta and works for a further minimum period of five years.

Voluntary organisations that conform with the Voluntary Organisations Act 2007, are to be exempt from tax.

Property restoration

A scheme is being launched to encourage the restoration of residential buildings in towns and villages. A refund of 25% (maximum refund of €5,000) of costs will be given in respect of the restoration of Scheduled Properties falling under Class 1 or Class 2 or situated in Urban Conservation Areas. The refund rate will increase to 30% if the property is situated in Valletta.

Recognised Non-Governmental Organisations (NGOs) will also be entitled to benefit from a refund of 25% (maximum refund of €2,500) on restoration costs incurred on non-residential properties falling under the above categories.

Finally, companies or individuals that/who buy properties outside Urban Conservation Areas with the aim of restoring and developing them, will be entitled to a reduction in the rate of duty payable on the acquisition of such property from 5% to 2%. In addition they would be entitled to a tax credit amounting to 20% (maximum tax credit of €200,000) of the restoration and development costs incurred. The Malta Environment and Planning Authority will shortly publish the conditions and parameters of this scheme.

Other investment schemes

Rebates for the production of films in Malta

Incentives available to the film industry will be enhanced through higher rebates, which are calculated as a percentage of qualifying expenditure, following an increase in the applicable percentage from 20% to 23%, and going up to 25% if Malta is featured as Malta in the film.

Extension of the MicroInvest Scheme

The MicroInvest Scheme currently grants a maximum tax credit of 40% of qualifying expenditure (60% for businesses located in Gozo) capped at €25,000, and applies to businesses employing up to nine persons. This Scheme will be extended for a further two years and moreover will now apply to Small and Medium Enterprises that do not employ more than 30 persons.

B.Start

A new scheme 'B.Start' will be launched whereby existing businesses will be able to claim a deduction from their income tax liability, up to a maximum of €30,000, where these invest in seed capital in new companies, as approved by the Malta Enterprise.

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