

MALTA BUDGET 2015 - GENERAL OVERVIEW

In the Budget speech for 2015, Finance Minister Prof. Edward Scicluna announced various fiscal measures. The final stage of the reduction in the personal income tax rates and an overhaul of the income tax regime for the transfer of immovable property were among the principal income tax measures presented. In terms of VAT and indirect tax, a reduction in VAT on e-books from 18% to 5% and the re-introduction of the registration requirement for persons whose turnover does not exceed €7,000 were also announced. Other social measures to be introduced target the employment of disabled persons and the education sector.

INCOME TAX

- Reduction in the income tax rate for individuals

The tax rate for individuals of 29% applicable to those who earn € 60,000 or less will be reduced to 25%. This has in effect widened the 25% tax bracket in such a way to extend up to € 60,000. As a result the following tax rates shall now be applicable for individuals:

Tax Rate	Single Computation (€)	Joint Computation (€)	Parental Computation (€)
0%	0 – 8,500	0 – 11,900	0 – 9,800
15%	8,501 – 14,500	11,901 – 21,200	9,801 – 15,800
25%	14,501 – 60,000	21,201 – 60,000	15,801 – 60,000
35%	Over 60,000	Over 60,000	Over 60,000

- Reform of the tax on transfers of immovable property in Malta

The budget speech also announced an overhaul of the current regime applicable for the transfer of immovable property in Malta.

- In terms of the proposed amendments, the default rate for the tax on property transfers of immovable property acquired after 1 January 2004 will be reduced from 12% to 8% with effect from 1 January 2015;

- A transfer of immovable property which was acquired before 1 January 2004 will be subject to a final tax at the rate of 10%;
 - However in the case of a transfer of immovable property that is made within 5 years from the acquisition by a person who does not trade or negotiate in immovable property by way of business the final tax charged shall be that of 5%;
 - By virtue of such amendments, the capital gains regime (whereby the gain derived on the transfer of immovable property was taxed at 35%) will cease to apply;
 - The proposed changes will be effective from 1 January 2015 however the current rules will continue to apply in the event of a transfer of immovable property on or after 1 January 2015 where the relevant promise of sale ('konvenju') was notified to the Commissioner for Revenue by the 17 November 2014;
 - Current exemptions will continue to apply on transfers of immovable property between group companies and transfers of immovable property occupied as the sole ordinary residence of the transferor for at least 3 years, transfers imposed by court orders and transfers consequent to a court order. However rules will be published by virtue of which individuals will indicate their sole ordinary residence clearly in order to avoid any abuse of this exemption.
- **Income tax credits, exemptions, deductions and other income tax measures to be introduced**
 - *Seed investment tax credit programme* – new rules will be introduced to provide for the grant of a tax credit to small start-up companies – with such credit equivalent to the amount of capital invested in such companies by way of share capital;
 - *Donations to Malta Community Chest Fund available as a deduction* – companies making a donation of not less than €2,000 to the *Malta Community Chest Fund* will be allowed to deduct the equivalent of 50% of such amount being donated as aforesaid, provided that a certificate duly signed by the Secretary of the *Malta Community Chest Fund* has been issued and annexed to the tax declaration;
 - *Income tax rebate for professional footballers extended to water polo players* – the reduced income tax rate will now be extended to water polo players;
 - *Tax credits for parents to use school or scheduled transport* - parents whose children attend private schools will be eligible for a tax credit on part of transport charges, up to a maximum of €150 if they use school or scheduled transport;
 - *Tax credit and exemption from social security contributions for disabled persons that are employed* - an employer who employs a disabled person will be exempt from

paying social security contributions for such employee, and he can also be eligible to claim a tax deduction on profits equivalent to the disabled person's wage. The maximum credit cannot exceed €4,500 for each disabled employee.

- **Fiscal Incentives for Trusts and Foundations set up to Help Disabled Persons**
 - *A number of fiscal incentives for Trusts and Foundations will be introduced, with the aim of helping disabled persons.*

Some of these incentives will include exemption of capital gains taxes well as the elimination of stamp duty on documents and transfer of residential property which is the residence of the parents and is transferred to the Trust or Foundation initially for disabled children, and which is then inherited by siblings or heirs on the decease of the disabled person.

DUTY ON DOCUMENTS AND TRANSFERS

- **Extension of one-time exemption from payment of duty on first €150,000 of the value of immovable property being acquired by first time buyers** – this one time exemption (currently applicable until 31 December 2014) will be extended in such a way to apply even for contracts executed up to 30 June 2015;
- **The exemption from payment of duty on partitions will now be extended to deeds of partitions of immovable property where the value of the share of the property that was acquired is equal to the share of property that was held before such partition;**
- **Increase of €1 per every €100 of the agreed yearly premium of insurance policies** (the minimum duty charge shall be that of €13);
- **Exemption from Capital Gains tax and stamp duty on property**, whose transfer of title occurred from one of the owners to the other, and was acquired by two individuals with the aim of residing in it or building their main residence thereon.

VAT AND OTHER INDIRECT TAXATION MEASURES

- **VAT registration of persons established in Malta and whose turnover does not exceed € 7,000.** Such persons (currently exempt from registration under the VAT Act) will now be obliged to register under the VAT Act;
- **Reduction in VAT payable on digital books and on material published on electronic means** (e.g. CDs, DVDs, USB, SD Cards) – **with the VAT rate on such goods to be reduced from the present rate of 18% to the rate of 5%;**

- **Excise tax and other measures:**
 - Licences of certain motor vehicles will be increased slightly in order to incentivise the purchase of environmentally friendly vehicles;
 - Scheme for scrapping old and polluting cars will continue to apply;
 - The rate of excise tax on cigarettes and tobacco, fuel and cement will be revised upwards. There will also be a revision of excise tax on mobile phone lines and an excise tax on wine. The Government will replace the eco-contribution on tyres, ammunition and petroleum oils with excise tax.

For further information contact:

David Farrugia
Director – Legal & Tax Advisory
E: david.farrugia@dfkmalta.com

Joseph Farrugia
Senior Manager
E: joseph.farrugia@dfkmalta.com

**This update summarises the measures announced during the Budget Speech on 17 November 2014. As such many of these measures are still to be clarified by the publication of the relevant legislation and/or guidelines. Readers should seek professional advice by contacting directly any one of the professional advisors indicated above before acting upon any of these measures for any business transaction or for any action that may be affected by such measures announced in the Budget Speech.*