

MALTA BUDGET 2016 - GENERAL OVERVIEW



INTRODUCTION

In his introduction to the Budget speech for 2016, Finance Minister Prof. Edward Scicluna reviewed the Maltese economy's performance for the current year. The key figures analysed included the following:

- **Deficit to GDP Ratio:** This is expected to decrease to **1.6%** (2.1% in 2014) whereas the Government aims to decrease this further to 1.1% for 2016;
- **Unemployment:** Malta's unemployment rate for 2015 is estimated to have decreased by 0.1% to **5.8%** (expected to continue to decrease to 5.6% in 2016);
- **Debt to GDP Ratio:** This is estimated to have decreased to **66.6%** in 2015 (from 68.3% in 2014). It is projected to continue decreasing to 65.2% in 2016;
- **Weekly Cost of Living adjustment:** **The minimum weekly wage** will increase to **€168.01** in 2016 (from €166.26 in 2015) resulting in a cost of living increase equivalent to €1.75 per week. This will also be granted to pensioners and any persons in receipt of social benefits.

INCOME TAX

Reduction in the income tax rate for individuals

A reduction in personal tax across all the different tax rates was announced. This will be implemented by a widening of the tax free bracket as follows:

- **Single Tax Rates:** €0 - €9,100 (from €0 - €8,500 in 2015) – resulting in a potential tax saving of up to €90 per annum per individual earning up to €19,500 per annum;
- **Married Tax rates:** €0 – €12,700 (from €0 - €11,900 in 2015). This may result in a tax saving of up to €120 per couple earning up to €28,700 per annum and opting for this computation;
- **Parent Tax Rates:** €0 – €10,500 (from €0 - €9,800 in 2015). Parents who earn up to €21,200 per annum and that apply these tax rates may save up to €105 per parent per annum.

As a result the following tax rates shall now be applicable for individuals:

Tax Rate	Single Tax Rates (€)	Married Tax Rates (€)	Parent Tax Rates (€)
0%	0 – 9,100	0 – 12,700	0 – 10,500
15%	9,101 – 14,500	12,701 – 21,200	10,501 – 15,800
25%	14,501 – 19,500	21,201 – 28,700	15,801 – 21,200
25%	19,501 – 60,000	28,701 – 60,000	21,201 – 60,000
35%	Over 60,000	Over 60,000	Over 60,000

Fiscal consolidation for companies

Companies forming part of a group and under common ownership will become eligible to submit a single consolidated income tax return (instead of a separate tax return for each and every company).

Fiscal measures in connection with immovable property

- The current option to have income derived from the rental of residential properties charged to a final tax of 15% will now be extended to cover income derived from the rental of commercial property. Intra-group rents derived by companies will be excluded from this option.

- The **final tax rate** charged on transfers of immovable property will be reduced **from 8% to 5%** for properties situated in an Urban Conservation Area (“UCA”) that are **regenerated and transferred in 2016**.
- The Wear and Tear allowances (**Capital Allowances**) which are currently only available for industrial buildings, hotels and car parks will **now be extended to cover office buildings used by companies**.

Measures addressed to the social and environmental needs

- The **optional flat income tax rate of 7.5%** for professional footballers and water polo players will now be extended to **players and coaches of other sports**;
- Any income derived by **police officers** from “**Extra duties**” carried out when working for organisations, individuals and companies will constitute separate income and will be subject to tax at **the rate of 15%**;
- Companies making a **donation of not less than €2,000 to the Malta Community Chest Fund during 2015** will be entitled to claim a **deduction from tax equivalent to the full amount donated** as aforesaid;
- **Donations to the arts** will entitle the donor to a **deduction for income tax purposes equivalent to 150%** of the amount donated;
- **Tax deduction for businesses that purchase hybrid or electric vehicles:** such businesses may **deduct a wear and tear allowance equivalent to 50% of the cost** of such vehicle in the year of its acquisition;
- **Maximum capping applicable for rebates** of 15.25% on the price of **bicycles and pedelec bicycles** shall be extended to **€250**;
- **Employers** may be eligible for **grants** equivalent to **50% of the costs** incurred to provide **bicycle racks** for their employees. The amount of **€150,000** has been allocated for such purpose.

Fiscal incentives to industry

- **Assistance for research and innovation:** enterprises that employ **individuals with a doctorate** (or currently pursuing their studies and reading for a doctorate) in science,

ICT or engineering will be **entitled to claim a tax credit (up to a maximum of €10,000)** if such individuals are employed for a period of at least 12 months;

- **Increase in Micro Invest Tax Credit for self-employed women and companies** where the majority of control is exercised by women. The **maximum amount** that may be claimed in such cases will be increased to **€50,000**.

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 (previously applicable until 30 June 2014) will be extended in such a way to apply retrospectively - even for contracts executed **from 1 July 2015 and will continue to apply until the end of 2016**;
- **Rate of Duty will be decreased to 2.5% (from 5%) for properties situated in a UCA that are transferred in 2016.**

VAT, OTHER INDIRECT TAXES AND OTHER MEASURES

VAT

- **Rate of VAT applicable for certain sports activities will be reduced from 18% to 7%.** These include gym membership fees, fitness centres and football nurseries.

Environmental Contribution to be paid by tourists

- **As from 1 April 2016 a new environmental contribution (at the rate of €0.50 per night) will be charged on every tourist of over 18 years of age.** The **maximum amount** of contribution to be paid by each tourist per visit shall be **€5**.

Excise Duty

- **Excise Duty on cement has been increased to €40 per 1,000 kg (from €35 per 1,000 kg);**
- **Other increases ranging between 6% and 7% in Excise duty will be applied for cigarettes and tobacco products whereas Excise duty on beer and other alcoholic beverages will also increase;**

- Eco-contribution will no longer be charged on certain products – with such products being charged to Excise duty instead. These include chewing gum, plastic bags, bottles and cans of non-alcoholic beverages.

Other Measures

- Companies that are incorporated and registered with an authorised share capital that does not exceed €1,500 will benefit from a reduction in the registration fee from €250 to €100 if such registration is effected electronically;
- The in-work benefit of €150 per child (annually) will now be extended also to parents who have a child under their custody is not over 23 years of age where only one parent is gainfully occupied and such parent's income is between €6,600 and €12,700 per annum;
- Unleaded petrol and diesel prices will decrease as from 1 January 2016 – with such reductions being of €0.03 per litre for unleaded petrol and €0.04 per litre for diesel.

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**This update summarises the measures announced during the Budget Speech on 12 October 2015. 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.*