

# Budget 2012 - Highlights



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## Budget foreword

Finance Minister Tonio Fenech has today Monday 14 November 2011 presented to Parliament his fourth budget of the legislature.

While deficit and debt levels are low when compared to those of our partners in the European Union, our country is still in an “excessive deficit procedure” and the Minister said that Malta remains committed to lower the country’s deficit to 181.7 million euro by the end of this year, or 2.8 per cent of the Gross Domestic Product. A summary of the Consolidated Fund as presented in the budget statement is shown below in Table 1.

Public Debt for 2011 is expected to reach €4,535 million and expected to increase to €4,669 million and €4,750 million in 2012 and 2013 respectively.

The main economic indicators are:

- Inflation – 2.7% at end September 2011, an increase of 1.9 percentage points over September last year, and forecasted to be 2.1% in 2012
- Unemployment – 6.6%

Table 1: Consolidated Fund

| Consolidated Fund     | 2011            |                  | 2012 Budget<br>€'000 |
|-----------------------|-----------------|------------------|----------------------|
|                       | Budget<br>€'000 | Revised<br>€'000 |                      |
| Revenue               | 2,791,700       | 2,695,734        | 2,961,000            |
| Recurrent expenditure | 2,547,222       | 2,588,327        | 2,680,900            |
| Capital expenditure   | 440,024         | 303,005          | 425,327              |
| Structural deficit    | 195,546         | 195,598          | 145,227              |
| Deficit as a % of GDP | 2.8             | 2.8              | 2.3                  |

## Tax measures

### New computation category – Parents' Computation

An income tax cut for parents was introduced aimed at encouraging parents to start or return to work. This category will include parents supporting children up to 18 years old who are not gainfully employed and extends to those parents who are still supporting children in tertiary education until they reach 21 years of age.

### Women returning to work

Furthermore, the tax credit for women returning to work after the birth of their children is being extended, enabling such women to be exempt from income tax for a year.

### Part-time work

The "same employer" definition applicable to part-time rules is to be amended so that civil servants who work part-time in different Government sectors become entitled to the reduced tax rate of 15%. Furthermore, amendments are to be introduced to regularize the anomaly whereby pensioners who are in part-time Government employment will now benefit from the reduced tax rate of 15%.

In addition, the deadline for the submission of the income tax return by part timers is being extended from 15 February to 30 June.

### VAT penalties amnesty

A scheme of reduced penalties will be introduced for those wishing to settle VAT arrears. The scheme is believed to be modelled on a recently-closed scheme on the payment of income tax arrears. It will apply to those who were in arrears up to October 15 and they are to submit their return by 15 January. All arrears are to be settled by 15 January 2013 as agreed with the Commissioner.

### Housing

Persons who register their vacant property with the Housing Authority and rent their property to tenants entitled to a rent subsidy will be taxed on the said rental income to a final tax of 10%.

### Excise taxes

Excise tax on fuel supplied to vessels outside territorial waters of Malta is to be increased to €5 per ton.

Excise tax on cement is to be increased by €3 per ton.

Excise tax on cigarettes is to be increased by 5.8% per 20 cigarette pack. Excise tax on other tobacco products to be increased by 8.5%.

#### Single persons or separate computation for married couples

| No change in tax bands | Income (€)      | Tax rate % |
|------------------------|-----------------|------------|
|                        | 0 – 8,500       | 0          |
|                        | 8,501 - 14,500  | 15         |
|                        | 14,501 – 19,500 | 25         |
|                        | 19,501+         | 35         |

#### Parent computation

| NEW tax bands | Income (€)      | Tax rate % |
|---------------|-----------------|------------|
|               | 0 - 9,300       | 0          |
|               | 9,301 - 15,800  | 15         |
|               | 15,801 – 21,200 | 25         |
|               | 21,201+         | 35         |

#### Married couple – joint computation

| No change in tax bands | Income (€)      | Tax rate % |
|------------------------|-----------------|------------|
|                        | 0 - 11,900      | 0          |
|                        | 11,901 - 21,200 | 15         |
|                        | 21,201 – 28,700 | 25         |
|                        | 28,701+         | 35         |

## Financial incentives

### Importation of knowledge

To further enhance the financial services industry, Government introduced the 15% flat tax rate on employment income of highly qualified individuals employed with MFSA licensed entities. This scheme is now to be extended to:

- Maltese national emigrants who return to Malta to work in certain industrial sectors
- Foreign nationals who take up employment in Malta in the industrial sector
- Individuals carrying out research and development activities in Malta

### MicroGuarantee scheme

Government is to set aside €20 million to guarantee bank loans to businesses employing not more than 20 persons. The scheme, which will guarantee up to 90% of the facility, is to apply to:

- a. both existing and new businesses
- b. bank loans for both capital investment or working capital
- c. loans having a maturity of between 3 months and 10 years

Furthermore €3m in fiscal incentives are being invested in industries that consume more than 2Gwh per year and that invest in clean energy processes.

### Car scrappage scheme relaunched

The car scrappage scheme is to be reopened for the scrappage of a further 3,000 old cars. As in the scheme announced last year, those who scrap their old car and buy a new one with low emissions will be entitled to a subsidy of up to €2,000.

The government also announced a scheme to settle arrears in vehicle licence fees and a reclassification of the tax scheme on vehicles in order to comply with the Euro Standard. At the same time, there will be higher registration fees on the importation of old cars of between Euro I-III to discourage importation of old second hand cars.

### Restoration and renovation of Scheduled Properties and properties situated in Urban Conservation Areas

Government proposed a number of measures to kick-start renovation of such properties, namely:

- an exemption from duty on transfers resulting in the consolidation of ownership. This concession will lapse on 31 December 2013
- a subsidy of 20% (limited to €5,000) for the rehabilitation of the property
- rent receivable from residential letting to be taxed at 10% (as final withholding tax); increased to 15% on commercial rents
- where the property is sold, proceeds of sale are taxed at the flat rate of 10% (final withholding) or up to 30% of the gains, whichever is applicable
- a tax credit of up to 20% of costs of restoration carried out by a company on its property – the tax credit is increased to 30% in the case of Grade 1 or 2 Scheduled Properties

### Roof and apertures insulation

A refund of 15.25%, subject to a maximum of €1000, will be granted to those persons who invest in roof and apertures insulation.



## Education, culture & arts

### Copyright exemption

The Minister for Finance announced that the current tax exemption on royalty income from patents will be extended to include royalty income from works protected by copyright, including books, film scripts, music and art.

### Cultural and creativity benefits

Parents whose children are attending cultural and creativity courses/activities with licensed schools and/or licensed teachers will benefit from a €100 tax deduction per child.

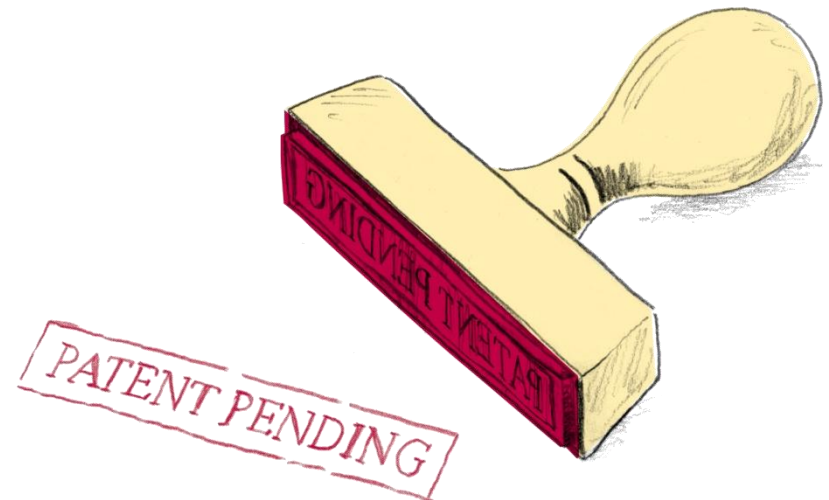
Furthermore, it was also announced that newly registered companies operating in these sectors will be exempt from the initial company registration fee and the first three years' annual registration fee due to the Registrar of Companies.

### Digital gaming incentive

The Government will introduce various measures to boost investment in digital games. €150,000 will be allocated for a Malta Games Fund for promotion of this sector.

Tax credits will be offered to local companies which commission educational digital games.

Foreign professionals attracted to Malta for work in this area will also benefit from a flat rate of taxation of 15% when they work as game directors or game designers. This scheme will also be available for academics and researchers.



## Cost of living and social benefits

### Cost of living

The cost of living increase effective from 1 January 2012 is €4.66 weekly. The weekly minimum wage will as from 1 January 2011 amount to €158.11.

### Longer Maternity Leave

As from next year maternity leave is to be extended by two weeks and a further two weeks in 2013, with the cost of such leave being borne by the government for up to €160 per week.

### Private Education

Government is to contribute up to €95 per student at kindergarten level, €145 at primary level and €170 at secondary level.

Costs of learning support assistants in private schools will also be subsidized by an amount of €400,000.

Deductions from taxable income in respect of fees payable to any of the listed private independent schools are to be increased as shown in the table below:

| Allowable deductions (per child)   | From    | To      |
|------------------------------------|---------|---------|
| Kindergarten, reception or daycare | € 1,200 | € 1,300 |
| Primary schools                    | € 1,200 | € 1,600 |
| Secondary schools                  | € 1,600 | € 2,300 |

### Children's allowance

The minimum Children's Allowance is being increased from €250 to €350 per child.

### Pensions

Pensions are to be increased by the full amount of the Cost of Living Adjustment.

Persons who are entitled to a widow/er's pension and re-marry are currently entitled to receive a set amount of the said pension for the first 5 years after remarriage. The 5 year limit is to be eliminated where the widow/er remarried less than 5 years ago.

Disabled persons in receipt of a "Severe disability pension" will no longer forfeit the pension upon marriage.

Disabled persons in receipt of a "Severe Disability Pension" will no longer forfeit the pension upon employment provided that employment income does not exceed the minimum wage.

### Pensioners

Pensioners aged 80 and over will now receive €300 annually if living on their own at home or with a member of their family.

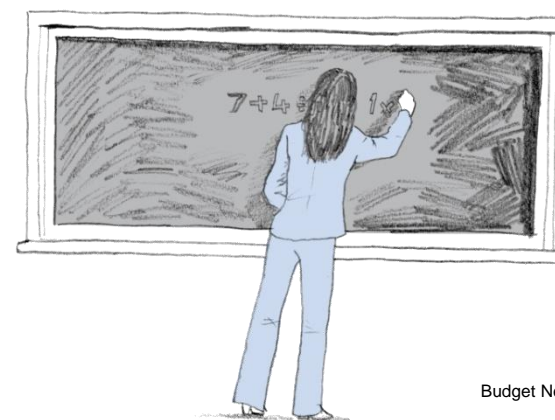
As from 1 January 2012, VAT on services of 'private nursing' and 'home help' offered by the private sector is being removed.

The tax deduction on payments to homes for the elderly will be increased from € 2,000 to € 2,500 per annum.

Persons who are not taxable will now receive a refund of the tax withheld on interest income without any obligation of submitting any forms.

### Television licenses

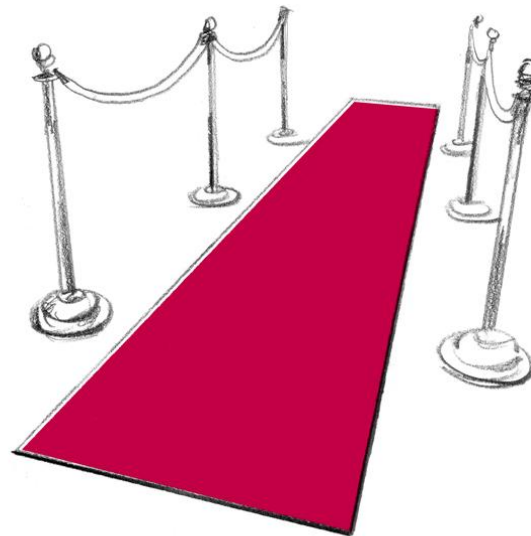
Television licenses are to be removed as from next year. However, any arrears have to be settled and in this regard a scheme is to be launched in the coming days.



## Contact

**Austin Demajo**  
Tax partner  
T: +356 9943 7892  
E: austin.demajo@mt.gt.com

**Wayne Pisani**  
Director – head corporate & financial services  
T: +356 9942 3253  
E: wayne.pisani@mt.gt.com



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