

Main features of the Budget Measures Implementation Bill, 2014



Further to the presentation of the budget by the government, the Budget Measures Implementation Bill, 2014 (the 'Bill') has been presented before parliament. The proposed amendments include the introduction of a new tax bracket; the extension of the parental computation; the extension of tax rates applicable to Maltese resident individuals to EU/EEA individuals; amendments to combat tax evasion; the abolition of duty on the transfer of movables by auction; and a widening of the exemption from duty upon the inheritance of immovable property by disabled persons from their parents or legal guardians.

Income Tax Acts

Amendments relating to individuals

The top tax band for income up to EUR60,000 per annum will be reduced from the current 32% to 29% across all computations.

The zero-rated tax band for the parental computation will be extended from EUR9,300 to EUR9,800.

The qualifying age for children in tertiary education maintained by individuals benefitting from the parental computation is to be increased from 21 to 23 years. Reference to tertiary education establishments has been clarified to include any university, college or educational establishment.

The revised tax bands for Year of Assessment 2015 are as follows:

Single Rates Euro	%	Married Rates Euro	%	Parent Rates Euro	%
0 to 8,500	0	0 to 11,900	0	0 to 9,800	0
8,501 to 14,500	15	11,901 to 21,200	15	9,801 to 15,800	15
14,501 to 19,500	25	21,201 to 28,700	25	15,801 to 21,200	25
19,501 to 60,000	29	28,701 to 60,000	29	21,201 to 60,000	29
60,001 onwards	35	60,001 onwards	35	60,001 onwards	35

Further amendments include:

Increase in the allowable deduction for persons making use of childcare facilities provided by bona fide care centres for their children below the age of 12 years from EUR1,300 to EUR2,000.

Extension of the deduction for fees paid in respect of children's attendance at regular sports, creative or cultural activities to cover such which are organised by entities outside Malta, without requiring registration of the organising entity for this purpose.

The exemption from income tax for sums receivable by way of a commutation of pension is proposed to be limited to 30% of the sum received. Capital sums received upon retirement or as a death gratuity or consolidated compensation for death or injuries would remain exempt in their entirety.

The exemption from income tax for sums paid for the maintenance of a child by a person to his estranged spouse has been extended so as (with effect from 1st January 2014) to automatically exempt any such financial assistance determined by the courts of a European Union or a European Economic Area (hereinafter 'EU/EEA') Member State or as agreed by a public deed of personal separation made under such authority or as so ordered in a divorce judgment or decree issued by the courts of such Member States.

The allowable deduction for sums paid by way of alimony payment by a person to his estranged spouse has been extended so as (with effect from 1st January 2014) to automatically allow for a deduction in respect of any such financial assistance determined by the courts of a European Union or a European Economic Area (hereinafter 'EU/EEA') Member State or as agreed by a public deed of personal separation made under such authority or as so ordered in a divorce judgment or decree issued by the courts of such Member States. The allowable deduction will be the lesser of these amounts:

- a. the amount actually paid in accordance with the Court order or public deed; or
- b. the individual's chargeable income for the year.

Revision of the applicability of the resident / non-resident income tax rates applicable to EU/EEA nationals:

- a. An individual (who is a national of a European Union or European Economic area Member State) who proves to the satisfaction of the Commissioner for Revenue that 90% of the individual's worldwide income is derived from Malta is eligible for the application of the resident single income tax rates;
- b. An individual (who is a national of a European Union or European Economic area Member State) who proves to the satisfaction of the Commissioner for Revenue that 90% of the couple's worldwide income is derived from Malta and who satisfies the other requirements of Art. 56 (a) of the Income Tax Act ('ITA') is eligible for the application of the resident married rates even if his / her spouse is not resident in Malta.

Where either of the above exceptions are met, the provisions of the ITA that are applicable with regards to exemptions, deductions, credits and refunds shall be the same as those applicable to persons resident in Malta, and such persons shall be considered to be 'recipients' for the purpose of both the Investment Income Provisions and the Dividend Distribution Provisions (Articles 62-69 of the ITA);

Limitation of the amount of tax payable by non-resident EU/EEA nationals in terms of the non-resident rates: Where neither of the aforementioned exceptions would apply, a limitation as to the amount of tax payable in terms of the non-resident rates is being introduced in order to bring Maltese law in line with applicable EU jurisprudence. This limitation is to be calculated as follows:

$$\text{Limitation} = \frac{(\text{Chargeable income})}{\text{Worldwide income}} \times \text{Hypothetical tax charge if worldwide income brought to charge at appropriate resident rates (married / single)}$$

Payment of tax deadlines for part-time self-employment is varied such that the payment of income tax on any gains or profits made from any trade, business, profession or vocation accruing as part of a person's part time income and taxable at the rate of 15% as per Art. 90A(7)(b) of the ITA has been deferred to 30th June of the year following that in which such income is earned, which amendment is proposed to come into force retrospectively from 1 January 2013.

Amendments to Capital Gains Provisions

Transfer of intellectual property and debt claims: The scope of the capital gains charging provision is proposed to be widened such that from 1 January 2014 any gains or profits arising from the transfer of any debt claims and / or any intellectual property held as a capital asset will be taxable.

Measures directed towards combating tax evasion

A restriction has been introduced upon the deduction for expenditure of a capital nature on intellectual property rights as set out in Art. 14 (1)(m) of the ITA such that any sums receivable from any sales of such intellectual property rights and all other income receivable in respect thereof shall be included as total income for the year when receivable.

15% withholding tax on gross rental income: Persons in receipt of rental income in respect of residential tenements (as defined), not being tenements required to be licensed in terms of the Malta Travel and Tourism Services Act shall have the option to apply a flat tax rate of 15% on the total gross rental income received in the calendar year in which such election is made. The tax paid thereon is final and no set-off or refund shall be granted to any person in respect of the tax so charged, however an individual making such an election would subsequently not be required to include this income in their income tax return.

The penalties for non-declaration of the rental income either in terms of this new withholding tax or alternatively as per the general tax system, have been increased such that undeclared rental income shall be subject to tax at the rate of 35% upon the gross rental income received in addition to any interest or additional tax payable under the Income Tax Acts.

Duty on Documents and Transfers Act

Immovable property acquired by an emphyteutical or sub-emphyteutical grant: The bill proposes amendments to simplify the manner of calculation of duty on acquisition of a primary residence by a person who does not require a AIP permit by emphyteutical or sub-emphyteutical grant, such that the duty chargeable will be calculated at the rate of 3.5% on the first €150,000 and 5% thereafter on the taxable value as established in terms of Article 40.

Transfer causa-mortis to persons registered in the Register of Persons with Disability: The exemption from duty applicable upon the transfer causa mortis to persons registered in terms of the Register of Persons with Disability has been extended to the transfer of all immovable property or any real right thereon.

Removal of duty upon sale of movables by auction such that any such sale no longer attracts duty.

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