Budget 2015: Highlights and Opportunities

In this year's budget speech, the Finance Minister announced a number of tax measures, including the further reduction in the personal rates of income tax; the extension of the exemption from stamp duty on the first EUR150,000 of the property's value for first time buyers up to 30th June 2015; the abolition of the option of income tax on capital gains at the normal income tax rates up to 35% upon transfers of immovable property and the reduction of the final property transfer tax to 5%, 8% or 10% depending on various criteria.

Key Economic Indicators for 2014 and targets for 2015

2014 Economic Indicators

- Real GDP growth of 3.2% achieved
- 6,000 new jobs created of which 4,000 are full-time positions
- Unemployment rate reduced to 5.8%
- Inflation rate of 0.6%
- Budget deficit of 2.7% for 2013 achieved and on track for budget deficit target of 2.1% for 2014
- Government income for 2014 of EUR3.35 billion

2015 Economic Indicators

- Real GDP growth target for 2015 of 3.5%; nominal GDP growth of 4.8%
- Unemployment rate forecast to be maintained at around the 5.9% mark
- Budget deficit target of 1.6% for 2015
- Government income for 2015 expected to reach EUR3.55 billion

Income Tax Measures

Income tax rates and bands

- The top tax band for income up to €60,000 per annum will be reduced from the current 29% to 25% across all computations – resulting in a maximum saving of €1,620 under the single computation, €1,252 under the married computation and €1,552 under the parental computation;
- Dividend income falling within the new 25% tax band shall, however, remain taxable at the rate of 35%.

The COLA for 2015 has been announced at €0.58 per week. Persons on the minimum wage who receive the COLA will be exempt from paying tax on the increase. Such exemption from paying tax on the COLA increase will apply equally to pensioners whose pension does not exceed the minimum wage and is their only income. A one-time additional annual bonus of €35 will be given to all income tax payers working full-time and not benefitting from the 2015 income tax reductions.

Rates	Single Computation	Married Computation	Parent Computation
	Tax Bands	Tax Bands	Tax Bands
0%	up to €8,500	up to €11,900	up to €9,800
15%	€8,501 - €14,500	€11,901 - €21,200	€9,801 - €15,800
25%	€14,501 - €19,500	€21,201 - €28,700	€15,801 - €21,200
25%[1]	€19,501 - €60,000	€28,701 - €60,000	€21,201 - €60,000
35%	over €60,000	over €60,000	over €60,000

[1]Not applicable to dividend income which remains taxable at 35%.

Introduction of a special tax status to attract top talent to retire in Malta

- A new retirement scheme, analogous to the Malta Retirement Programme, is to be launched shortly with a view to attracting top talent in the form of persons previously engaged in international organisations such as the United Nations to relocate to and retire in Malta.

Introduction of new deductions from chargeable income

- In order to incentivize the employment of disabled persons an allowable tax deduction equivalent to that employee's wage is to be introduced. This deduction shall be subject to a capping of €4,500 for each disabled employee.
- Companies donating not less than €2,000 to the Malta Community Chest Fund will be eligible to benefit from deduction from chargeable income equivalent to 50% of the amount donated during year of assessment 2015.
- Parents of children attending private or church schools and making use of school transport therefor, will be eligible to claim a deduction from chargeable income for the cost of such transport up to a maximum of €150.

Reduced rate of tax extended to part-time water polo players

- Part-time water polo players shall be eligible for a reduced rate of tax of 7.5% as per the incentive promulgated last year in respect of part-time footballers.

Changes affecting immovable property

Income tax on capital gains / property transfer tax upon a transfer of immovable property to be reformed as follows:

With effect from 1st January 2015, a tax payer may no longer opt to be taxed at 35% on the capital gain. A final withholding tax of 8% (previously 12%) of the property's value will apply on all transfers of immovable property subject to two exceptions and a transitional measure as follows:

- A final withholding tax of 10% of the property's value will be applicable on transfers of property which was acquired prior to 1st January 2004;
- A final withholding tax of 5% of the property's value will be applicable on transfers of property which is transferred not later than five years from the date of acquisition where the transferor is an individual who does not habitually trade in property;
- As a transition measure, the current system will continue to apply to any transfers of property which occur following the entry into force of this new system where the Commissioner for Revenue was notified of the prospective transfer by 17th November 2014 by way of registration of the promise of sale or notification of the transfer.

Extension of exemption from stamp duty

- An exemption from the charge of duty at a rate of 3.5% on the first EUR150,000 of the transfer value of immovable property purchased by first-time buyers, which is to serve as their sole ordinary residence, has been extended to deeds of purchase of immovable property which are concluded up to 30th June 2015. This exemptions results in a maximum saving by first-time buyers of up to EUR5,250.

Exemption from stamp duty upon division of property between co-owners

- Upon a contract of division of immovable property where the owner acquires a share which has the same value as when it was undivided, no stamp duty will be payable.

Indirect Tax Measures

VAT

- During 2015 the government aims to introduce a programme whereby non-EU tourists would be able to claim a refund of the Maltese VAT charged upon purchases of goods prior to leaving the country.
- As of 1st January 2015 the rate of VAT on digital and audio books shall be reduced to 5% from 18%.

Motor vehicles

- From 1st January 2015 motor vehicle annual licence fees shall increase by an amount which is calculated according to the type of fuel consumed and the CO^2 emissions. Licence fees of vehicles registered on or after the beginning of 2009 and whose CO^2 emissions do not exceed 100g/km shall not increase.
- First registration tax on quad bikes and other all-terrain vehicles (ATVs) will be nearly halved in a drive to incentivize the use of smaller, less polluting vehicles.
- As of 1st January 2015, the registration of motorcycles classified as vintage and whose engine capacity is less than 250cc shall be exempt from registration tax.

Eco-Contribution

- The eco-contribution on tyres, ammunition and petroleum shall be removed and replaced with excise duty as set-out hereunder.
- Moreover, the government has announced the intention to reform the eco-contribution such that it will in the first instance look to economic operators to comply with environmental regulation relating to the collection of waste generated by such products and where this is complied with had committed to remove the eco-contribution upon Waste Electrical and Electronic Equipment (WEEE) goods as from the 1st September 2015. The process is expected to continue

in 2016 and will see eco-contribution removed on various other items.

Excise duty

- Excise duty will either be introduced on, or an increased rate will apply, as regards the products listed below. The increased rates applicable to cigarettes and tobacco products shall apply immediately. In all other cases the revised rates of excise duty will come into effect as of 1st January 2015. The products effected are as follows:
    - Excise duty will be introduced on the feed used in fish farms at the rate of €0.10c per kg;
    - Excise duty will be introduced upon wine at the rate of €0.20c per litre;
    - Excise duty on cigarettes and other tobacco products will increase marginally depending on the characteristics of the tabacco product;
    - Excise duty on cement will increase by €8 per tonne to €35 per tonne;
    - Excise duty on fuels will increase marginally depending on the type of fuel in question;
    - Excise duty on telecommunication services will increase by 1% to 4%.

Other fiscal measures

- Introduction of fiscal incentives to facilitate and promote third pillar pensions.
- The introduction of rules aimed at incentivizing investment into enterprises which are still in start-up phase by offering investors a tax credit equivalent to the amount of capital invested by way of share capital up to a limit of EUR250,000 per annum.
- Government has announced the intention to introduce a range of incentives to facilitate access to finance to small and medium sized enterprises including incentives aimed at the creation of venture capital funding with special focus on the local market. However no further details where forthcoming.
- The Family Business Act is to be introduced next year to facilitate the succession of a family business between generations.
- An exemption from income tax on capital gains and duty on the transfer of property and other assets into a Trust or Foundation by way of transfer causa mortis which is set up for the benefit of the deceased's disabled children.
- Duty on policies of insurance (excluding life insurance) will be revised upwards by 1% to 11% of either the agreed yearly premium, or, if a compounded premium is agreed upon as a lump sum payment, or if a once only premium is otherwise payable, then of that agreed consideration, subject to a minimum duty of EUR 13.

Measures to combat tax evasion

- Government has reconfirmed its commitment to combat tax evasion and announced the assistance of the IMF's Fiscal department's specialists with the ongoing merger of the tax departments.
- Government has announced the intention to create a clear system for the election of a property as one's primary residence for the purposes of the principal residence exemption from capital gains with an aim to reducing abuse of this tax exemption.
- The VAT registration exemption threshold of €7,000 is to be abolished, such that all persons carrying on a commercial activity shall be obliged to register for VAT purposes, regardless of the value of the annual turnover they generate. Under this revision, persons who do not exceed a certain level of sales per year will not be obliged to submit a return to the VAT department, though the issuance of fiscal receipts is expected to be obligatory for all persons engaged in an economic activity.
- A special enforcement unit on the same lines as that of the Border Agency in the UK or the Guardia di Finanza in Italy will be introduced to ensure fair competition and a level playing field.

Other measures

- This budget saw the introduction of measures to contribute towards the growing gaming industry including the creation of the Gaming Academy which is expected to start operating during the first quarter of 2015, and the introduction of Gaming Malta a foundation which will be tasked with the role of a champion of the industry.
- Operators in the tourism sector in Gozo who employ new employees on a full time basis or who engage existing part time employees on a full time basis stand to benefit from a partial refund of national insurance contributions capped at €1,000 per annum per additional full time employee.
- As of 1st January 2015, a permit fee for the parking of construction equipment on the road shall be levied. Tower cranes of up to $10m^2$ will be charged €10 per day while larger tower cranes will be charged €15 per day.
- As of 1st January 2015, swimming pool licenses will increase by 15% to €4.60 per m^3 (domestic) and €6.90 per m^3 (commercial).
- Government announced that it aims to promote measures in the coming year to foster and further develop a favorable environment within which Islamic banking and finance may continue to grow in Malta.
- Employers who employ disabled persons will be exempt from paying social security contributions in respect of qualifying employees.
- Government announced its intention to enforce the existing rule that companies which employ over 20 persons ensure that at least 2% of the persons they employ are persons with a disability. An alternative contribution may be opted for by companies which do not / cannot fulfil this legal requirement, such that they will be required to contribute €2,400 per annum for each employee with a disability which they should have employed but have not, capped at €10,000 per annum per company. This alternative contribution mechanism will be introduced in stages over a three year period commencing in 2015.
- Employers who engage disadvantaged persons and/or provide on the job training will be entitled to access funding from the European Social Fund.

- Maternity leave will no longer be funded directly by the employers, rather a special fund is to be set-up into which all private enterprises will be asked to contribute in proportion to the total number of employees which they employ. Paid maternity leave will thereafter be financed through this special purpose fund.
- Women in self-employment will have their maternity benefit rate increased to the minimum wage rate for the duration of the 14 weeks statutory maternity leave.
- Similarly, women in employment benefit from the maternity leave benefit for 4 weeks of the maternity leave being weeks 15 to 18 of their maternity leave. As from the 1st of January 2015 onwards, the rate of this benefit will be increased and paid at a rate equivalent to the national minimum wage for this period.
- Government has confirmed that the reduction in electricity consumption rates by 25% and water consumption rates by 5%, previously applicable only to domestic tenements, shall be extended to commercial tenements too as from March 2015.
- To encourage the use of alternative means of transport, from 2015 persons who purchase a bicycle or pedelec bicycles will be entitled to a grant of 15.25% on their purchase price.
- Government has stressed that an increase in the volume of goods and persons entering or passing through Malta by air and by sea is of paramount importance and outlined a plan to achieve such focusing on increasing efficiencies, streamlining and minimizing bureaucracy and improving technologies utilized in this sector.
- Incentives to encourage investment into renewable energy have been extended:
    - persons who have already installed PV panels and who received a grant of up to 50% of the purchase price will be entitled to the feed-in tariff of €0.22c on any additional PV panels installed by 30th April 2015;
    - the deadline for industry and business in the process of implementing a PV installation where they had obtained EU funding to do so have had the deadline within which to apply for the feed-in tariff extended to 30th April 2015; and
    - an increase in the maximum capacity to which the feed-in tariff applies from 4 megawatts to 10 megawatts is being extended.

Contact us

André Zarb
Head of Tax
T: + 356 2563 1134
E: andrezarb@kpmg.com.mt

Anthony Pace
Partner, Tax
T: + 356 2563 1134
E: anthonypace@kpmg.com.mt

Pierre Portelli
Partner, Tax
T: + 356 2563 1134
E: pierreportelli@kpmg.com.mt

Juanita Brockdorff
Partner, Tax
T: + 356 2563 1134
E: juanitabrockdorff@kpmg.com.mt

Doreen Fenech
Director, Tax
T: + 356 2563 1134
E: doreenfenech@kpmg.com.mt

www.kpmg.com.mt

Printed in Malta.

November 2014