



# Budget 2016: Highlights and Opportunities

## **Budget Outlook 2016**

Our summary of budget highlights

October 2015

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# Malta Budget 2016



## Economy

- GDP growth for 2015 is at 4.2% while 3.6% growth is expected in 2016
- Budget deficit of 1.6% expected for 2015, further reducing to 1.1% in 2016
- COLA set to €1.75 per week
- Inflation rate currently stands at 1.0% and is expected to increase to 1.8%
- Unemployment rate reduced to 5.8% in 2015 and is expected to decrease to 5.6% in 2016
- Government debt as a percentage of GDP is at 66.56%



## KPMG Comment

Given Malta's solid economic performance over the last year, significantly outperforming its Eurozone partners, it is no surprise that this year's budget was both upbeat and ambitious. In this year's budget, the government is targeting continued growth in both the short and long terms with a raft of measures aimed at increasing participation and inclusion in the work force e.g. attracting women into the workforce, and specifically incentivising entrepreneurship. Education also remains a key focus with significant investment being made into all levels of the country's educational system.

Social redistribution was also addressed, primarily through tweaking of the exempt personal tax bands, the upward adjustment of pensions, and the pilot project whereby the government will part finance the cost of home care for the elderly as a measure to alleviate the burden on the State's care homes.

The property sector will have taken note of the Government's announcement that it will be looking at measures to incentivize

the refurbishment and use of abandoned commercial properties, measures to address property locked in inheritance disputes, the extension of the 15% tax on gross rental receipts being extended to the rental of commercial properties, the reduction of the final withholding tax from 8% to 5% on property in Urban Conservation Areas (UCAs) and the halving of the duty on property in UCAs to 2.5%.

Finally, the need to upgrade Malta's infrastructure, particularly the transport network received due consideration as the Minister unequivocally recognized the need for significant investment into the road network, the development of a mix of alternative means of transport, improvements to the public transport system and exploring innovative solutions to maximise the efficiency of our road network e.g. through the imminent introduction of the iSmart Traffic Management System. The broad range of measures, initiatives and incentives announced in this regard is evidence in itself of the gravity with which Government views the current situation.

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## Taxation

- The duty exemption for first-time buyers will be extended retrospectively from 1st July 2015
- 15% final withholding tax on rental income will be extended to commercial properties (not between related entities)
- Corporate group income tax consolidation to be introduced
- Corporate donations in excess of €2,000 to MCCF to be allowed in full as a deduction for tax purposes, also a 150% deduction to be granted for donations to the arts
- ME grants to be made available for start-ups and the development of small manufacturing plants
- Tax credits to be made available for R&D and knowledge transfer activities
- Micro-invest to be extended with a max €50,000 tax credit to be made available for female entrepreneurs
- Entrepreneurs investing in Gozo and employing people for a minimum period of three years will be eligible to a refund of up to €5,000 per employee
- The government will provide a subsidy for the wages of disabled employees of up to €125 per week, a refund of 25% of the wage paid and cover the social security contributions of such employees
- Companies who fail to adhere to the rules on employment of disabled persons will be liable to a contribution of Eur1,600 per annum per employee
- The 7.5% tax on income earned from sports will be extended to include players and coaches of all sports
- Certain eco-contribution taxes to be substituted with excise taxes, with an aim to phasing out the eco-contribution by 1st September 2016
- Excise tax on cement, tobacco, fuel and alcohol to be increased
- Licenses for motor cycles and quad bikes fixed at €10 per annum
- Individuals buying fuel efficient motor vehicles will benefit from a cash grant depending on the type of vehicle and Co2 emissions



## Key Rates

- Reduction in VAT for sports activities e.g. gym memberships, fitness centres, football nurseries etc.. from 18% to 7%
- Reduction in duty on the transfer of property in UCAs from 5% to 2.5%
- Reduction in final withholding tax when a property is restored and sold in UCAs from 8% to 5%
- 10% initial deduction of capital expenditure and 2% annual wear and tear capital allowance to be extended to office buildings
- Increase in tax deduction allowed for companies investing in electric vehicles from 125% to 150% of cost
- An environmental contribution to be paid by tourists amounting to €0.50/night in Malta not exceeding a total of €5 per visit
- Individuals in receipt of earnings or pension equal or less than the minimum wage will continue to be exempt from income tax

### Income tax rates:

Rates	Single Tax Bands	Married Couples Tax Bands	Parent's Tax Bands
0%	Up to €9,100	Up to €12,700	Up to €10,500
15%	€9,101 - €14,500	€12,701 - €21,200	€10,501 - €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