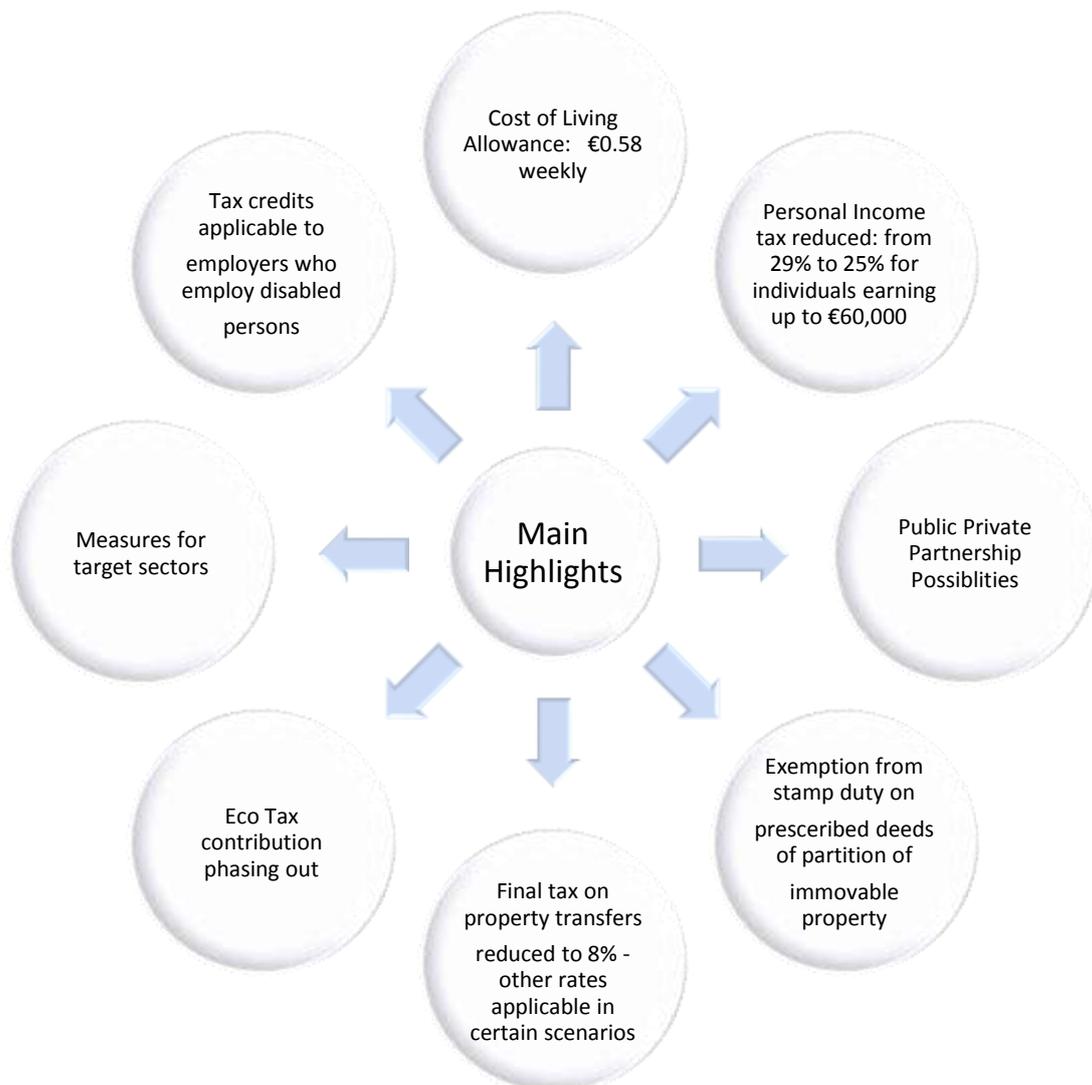


Malta Budget Highlights 2015



Economic Review and Outlook

Economic growth is projected to reach 3.0% in 2014 and accelerate further to 3.5 % in 2015.

The Maltese economy is expected to continue growing over the 2016-2017 period, rising by 3.4 % in 2016, and slowly converge to its potential and reach 2.9% in 2017.

Employment growth is expected to maintain a strong momentum and rise by an average of 2.0% in 2014 and 2015.

Inflation should remain relatively low during this year at an average of 0.7% but is expected to increase moderately to 1.5% in 2015.

Maltese economy continued to grow by an average rate of 3.2% in real terms in the first half of 2014.

The **fiscal deficit** in 2013 was brought down from 3.7% in 2012 to 2.7% of GDP, well beyond the headline target recommended by the European Council of 3.4%.

During 2015, the general **Government deficit** is projected to decline by a further 0.5 percentage points of GDP from 2.1% to 1.6%.

In 2015, the **debt-to-GDP ratio** is expected to fall by 1.1 percentage points of GDP mainly on account of a positive primary surplus.

Tax Related Measures

Income Tax

Personal Income Tax: Reduced

The rate of personal income tax of 29% applicable to those who earn €60,000 or less will be reduced to 25%. This will apply to every computation: single, married and parent. Income from dividends received by individuals will remain taxable at the same rate.

Tax rate	Separate computation (€)	Joint computation (€)	Parent rates (€)
0%	0 - 8,500	0 - 11,900	0 - 9,800
15%	8,501 – 14,500	11,901 - 21,200	9,801 -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

Income Tax on Capital Gains and Property Transfer Tax Reform

With effect from 1st January 2015, a tax payer will no longer be able to choose 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. Primarily, 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. Secondly, 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.

By way of a transition measure, the present system will be retained in relation 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 17 November 2014 by way of registration of the promise of sale or notification of the transfer.

Income Tax Rebate Extended from Football Players to Water Polo Players

Following the measure announced in the Budget for 2014 of giving a tax rebate to professional football players, this scheme is being extended to include water polo players.

Relief from Income Tax on Minimum Wage and for Pensioners

The present tax ceiling will be raised to take COLA into consideration. Pensioners whose pension does not exceed the minimum wage will also be exempted from paying income tax.

Tax Credit for Children that use School or Scheduled Transport

The Government wants to incentivise the use of school and scheduled transport by parents whose children attend private schools. These parents will be eligible for a tax credit on part of the transport charges, up to a maximum of €150, if they use school or scheduled transport.

Deduction for Donations made to Malta Community Chest Fund

Companies donating not less than €2,000 to Malta Community Chest Fund, will get 50% of the amount of donation deducted from their 2015 taxable income.

Disabled Individuals in the Labour Market

An employer who employs a disabled person will be exempt from paying social security contributions for such employee and can also be eligible to a tax deduction in respect of the disabled person's wage, up to a maximum of €4,500 for each disabled employee.

Social Security Contributions in Relation to Pension Entitlement

Those persons who are still in employment and who have not paid enough social security contributions to entitle them to a pension will be given the opportunity to pay a maximum of five years from their missing contributions so that they become eligible to receive a pension.

Moreover, persons who have retired without a pension because they have not paid sufficient social security contributions will be entitled to an annual bonus of €100, if they have paid social security contributions for one to five years and an annual bonus of €200 if they have paid social security contributions for a period in excess of five years. Persons who are aged between 62 and 74 will be eligible to receive this annual bonus.

Venture Capital Funds

In terms of the Venture Capital Fund (Tax Credit) Regulations, tax credits are currently available in relation to qualifying investments in Designated Venture Capital Funds. As a measure to further promote investments in this field, this Legal Notice will be revised for the better implementation thereof, and for such incentives to be available to a wider range of Venture Capital Funds operators.

Seed Investment Programme

Income tax law will be amended to provide tax credits equivalent to investment made in start-ups, up to a maximum of €250,000 per year.

Choice of Main Residence for Tax Purposes

The Government will continue to simplify and strengthen the tax system in order to reduce abuse of the tax exemption in the context of the sale of property which was one's main residence for more than 3 years. To this end, a system will be introduced where individuals would be required to state their main residence according to transparent rules and conditions.

Third Pillar Pensions

The Government intends to introduce certain fiscal incentives in respect of Third Pillar Pensions and the individual savings account scheme.

Fiscal Incentives for Trusts and Foundations set up to help Disabled Persons

An exemption from capital gains taxes, as well as the elimination of stamp duty, shall be introduced on the transfer of residential property which is the residence of the parents and which is transferred to the trust or foundation initially for disabled children and which is subsequently inherited by siblings or heirs on the decease of the disabled person.

Duty

Insurance Contracts

Stamp duty on insurance policies will be increased from €0.10 to €0.11 for every euro or part thereof of the agreed yearly premium, with a minimum duty charge of €13 (from the current minimum of €11.65). Stamp duty on life insurance policies will remain unchanged.

Duty Exemption on Purchase of First Property

The one-time exemption from the payment of duty on the first €150,000 of the value of immovable property granted to first time buyers acquiring immovable property in 2014 will be extended for contracts executed up to 30th June 2015.

Tax Exemption on Property Divided between Co-Owners

In cases of contracts for the division of immovable property where the owner acquires a share which has the same value as when it was undivided, no tax will be payable.

Exemption on Property Transfers between Co-Owners

The Budget will introduce a tax exemption on capital gains and stamp duty on property, whose transfer of title occurred from one of the owners to the other, and was acquired by two individuals with the aim of residing in it or building their main residence thereon.

VAT

Tax Refunds for Non-EU Residents

A number of countries operate various schemes whereby visitors, coming from countries outside of the European Union (EU) can obtain a refund on VAT before leaving the country. During the next year, this Administration will be introducing analogous schemes in Malta.

Reduction in VAT when Buying Digital Books

This Government will be introducing a reduced VAT rate on e-books. As of 1st January 2015 the rate of VAT on digital and audio books shall be reduced to 5% from 18%.

Changes in VAT Registration Rules

As from next year, whoever carries out any type of economic activity has to be registered with the VAT Department, irrespective of the amount of sales per year. Therefore, the VAT registration exemption threshold of €7,000 is to be abolished. Those who do not exceed a certain amount of sales per year will not be obliged to submit a return to the Department but will still be obliged to register. The issuance of fiscal receipts is expected to be obligatory for all persons engaged in an economic activity.

Others

Phasing out of Eco-Contribution Regime

The eco-contribution mechanism will be reformed so that local businesses compete on a level playing field with foreign ones. The first phase of the reform will entail eliminating eco-contribution on electronic and white goods classified as WEEE items, by September 2015.

Environmental Taxes

The amount of feed used in fish farms has a negative environmental impact. Based on a polluter pays principle, a tax will be applied on these products.

Ex-Gratia Payment on Registration Tax

As from 2015, those who registered a vehicle for personal use between the 1st May and the 31st December 2004 will receive a refund. In this way, by next year, those who had registered a vehicle in 2004 would be reimbursed in full.

Elimination of Registration Tax on Vintage Motorcycles

The Government will be eliminating the existing anomaly whereby no registration tax is paid on new motorcycles with a cylinder capacity of 250cc or less, while a registration tax of 11% is payable on motorcycles considered 'old'. Therefore, the registration tax on motorcycles classified as 'vintage' shall be removed.

Reduction in Registration Tax on Quad Bikes

In order to promote the use of vehicles with small engines that pollute less, the registration tax on ATVs or quad bikes will be reduced.

Incentives on the Purchase of Pedelec Bicycles

The Government will continue promoting the use of alternative transport. Another means of transport is the use of mechanised bicycles, better known as pedelec bicycles. Government will grant a sum equivalent to 15.25% of the cost of this category of bicycles during 2015.

Excise Duty

From 18th November 2014, excise duty on cigarettes and tobacco products is being increased by 6% to 12% depending on the type of product.

From 1st January 2015, the following changes to the Excise Duty Act are being proposed:

- ✓ Introduction of excise duty of €0.20 per litre on all wines;
- ✓ Excise duty on cement is being increased by €8 to €35 per 1000kg;
- ✓ Introduction of excise duty on feed destined for use by fish farms;
- ✓ Excise duty on mobile telephony services is being increased from 3% to 4%.

Annual Licences on Swimming Pools

Annual licences on swimming pools will be subject to a 15% increase, up to €4.60/m³ in the case of domestic pools, and €6.90/m³ in the case of commercial pools.

Family, Social and Education Measures

COLA and One time Additional Bonus

The COLA for 2015 will amount to €0.58 per week. The Government will give a one-time additional annual bonus of €35 to all persons in receipt of social security benefits, all low income earners and all those income tax payers working full-time not benefitting from the 2015 income tax reductions. It will also be given on a pro-rata basis to students and part-time workers.

In-Work Benefit

This benefit will be paid to those low-to-medium income families where both spouses are in employment and have dependent children up to 23 years of age. This benefit will also apply to single parents in employment. Parents who are gainfully occupied and whose combined annual income is between €10,000 and €20,400 will therefore be entitled to an annual in-work benefit ranging between €200 and €1,000 for every child who has not reached the age of 23. Moreover, a single parent who is gainfully occupied and earns between €6,600 and €15,000 per year will be entitled to an annual in-work benefit ranging between €120 and €1,200 per child.

Tapering of Benefits for Single Parents

Single parents on social assistance can at present retain their benefits if they are earning less than €56.94 a week. As from the 1st January 2015, this clause will be replaced with tapering of benefits. Single parents who become employed will retain 65% of social assistance for the first year, 45% for the second year and 25% on the third year. Their employers will also benefit from 25% of the benefit for the first three years. This means that single parents will be able to substantially improve their income if they enter employment.

Tapering of Social Benefits after Marriage

From the start of next year, a person who is receiving social benefits and gets married, or forms a civil union, with a person in employment will no longer lose entitlement to social benefits immediately after the union. Instead, the social assistance will be reduced gradually over a period of three years.

Increase in Stipends Related to Cost of Living

The Government is committed to upgrade stipends with the cost of living. Therefore, in 2015 stipends will increase by the pro-rata amount of COLA and for the first time, these will be topped up by a one-time additional pro-rata bonus per week in view of the fact that students are solely dependent on COLA as the main source of increase to their student income.

Upgrading the Stipends and Grant Systems

The Government will continue improving the student grant system, including the one-time grant at the beginning of the school year, stipends every four weeks, and the supplementary grant to students coming from low income families. In order to maximise the aid to each student, all student maintenance grant income will be tax exempt.

Revision of the Method of Funding Maternity Leave

A special fund will be set up, to which all private enterprises will contribute according to the number of employees. This fund will finance maternity leave. By doing so, maternity leave in the private sector will not be paid directly by their respective employers but instead will be paid through this fund.

Raising the Maternity Leave Benefit Rate

At present, women in employment benefit from the maternity leave benefit, which covers from the 15th to the 18th week of their maternity leave. As from the 1st January 2015, the rate of this benefit will be increased and paid at a rate equivalent to the National Minimum Wage.

Raising the Maternity Leave for Self-Employed

Women in self-employment will have their maternity benefit rate increased to the minimum wage for their 14 weeks of maternity leave.

Child Supplement

To address poverty and social exclusion, the Government will be introducing a child supplement of €400 for every child until the second child, and €200 from the third child onwards, to families whose household income is less than €11,900. The supplement will be tied to school attendance, regular medical check-ups and the child's participation in sport and cultural activities, with the aim of improving the children's education and psychosocial health.

Lower Prices for Gas, Petrol and Diesel

Price of gas will remain stable at €18 until April 2015. Price of unleaded petrol will go down by €0.02 and that of diesel will go down by €0.01 as from 1st January 2015.

Programme for Garages in Housing Estates

The Housing Authority will give tenants of Government-owned garages the opportunity to purchase the garage or garage space they are already occupying.

Extension of Free Childcare Service

The introduction of free childcare centres succeeded in improving the work-family balance, leading to an increase in female participation in the labour force. Given the success of this initiative, the Government is committed to maintain and expand this service.

Benefits for those who provide Employment and offer Training to their Employees

The European Social Fund will be re-launched. Through this scheme, employers will be able to access the fund when they employ disadvantaged persons or provide training for their employees.

Youth Guarantee

Government remains committed to ensure that all young people between 16 and 23 years of age enter employment, education, or training. New claimants for social assistance benefits, under the age of 23, will be placed on Youth Guarantee. Existing claimants, under the age of 23 years, will be given a time window of four months to enter Youth Guarantee. Single parents will be exempted until their youngest child is one year old.

Work Programme

Government will be introducing the concept of Work Programme. The private sector together with the Employment and Training Corporation (ETC) will be working together to help persons who have been unemployed or inactive for long periods to re-enter the labour market. The programme should support employers in recruitment, the provision of training (through EU funding) as well as reimburse part of the employees' wages, up to a maximum of €2,750 per employee over a three-year period.

Social Enterprise

The Government will offer the possibility for those on the Community Work Scheme to participate in a social enterprise. This enterprise will be managed independently and will be giving services to schools and local councils.

Target Sectors

Reduction in Utility Rates for Industry

Utility rates for the industry will be reduced. The reduction in water and electricity bills of 5% and 25% respectively which was previously introduced will continue to apply for residential users. Furthermore, commercial users will also benefit from such reductions with effect from March 2015.

Implementation of the Family Business Act

The Family Business Act will be introduced next year. The Act will provide a clear definition of what constitutes a family business and will facilitate and incentivise the transfer of business between members of the same family. A set of incentives linked to this Act will be launched.

Retirement Programme for United Nations Pensioners

The Government will launch a United Nations Pension Programme, which is a scheme designed to attract foreign pensioners retiring from international organisations, like the United Nations, to reside in Malta.

Public-Private Initiatives

In 2014 the Government set up the company Projects Malta and since it started operating in July, the company has been working on identifying a number of public-private initiatives. In the coming months, Project Malta will be launching a number of projects across various sectors, including health, commerce, tourism, and sports.

Incentive for Cruise Liners Overnight Stays

Government will be launching a scheme whereby cruise liners can remain in Malta overnight and will be able to open their casinos after obtaining approval from the Lotteries and Gaming Authority upon the payment of a fee. To safeguard Maltese casinos, these cruise liners will only be able to allow registered passengers to engage in such activities. In addition and in order to promote Gozo, cruise liners which choose to remain overnight in Gozo will be exempted from paying the fee.

Gaming Malta

The LGA, which is presently the regulatory authority, will be converted to a Malta Gaming Authority. A Gaming Academy will be set up to meet the industry's employment demands. The Authority will also continue promoting Malta as the jurisdiction of choice for the gaming industry.

Retailers

Following a process of extensive consultation carried out last year, regulations governing shops opening days and hours will be revised. A scheme for retail outlets in Valletta will be set up, which includes the opportunity for owners to apply for the title of ground rent instead of a lease.

Islamic Finance

During the coming year, the necessary legislative changes will be made to attract and facilitate financial institutions involved in Islamic Banking to start operating in Malta.

National Strategy for Electronic Payments

Electronic payment systems are more secure and efficient when compared to cheques and cash payments. To this end, a Working Group will be set-up to make recommendations to Government of how to widen electronic payments.

Film Industry Incentives

The Government will introduce a set of incentives in connection with specialised courses for the local film industry.

Yachting

Through Public Private Partnership, Project Malta has started working to join with the private sector to strengthen the sport sailing sector.

Renewable Energy

The Government will continue incentivising investment in renewable energy and efficiency improvement in the use of energy. The Malta Resources Authority will launch additional schemes for the installation of photovoltaic panels and solar water heaters, as well as initiatives to encourage efficient use of energy. In collaboration with the Planning Authority, a solar farm policy will be announced to regulate sizeable installations of solar panels with the aim of minimising any negative impact on the environment.

Foreign Conventions and Congresses

The Government will set up a foundation that promotes and encourages foreign conventions and congresses to be held in Malta.

Tourism Sector in Gozo

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.

International Arbitration

The Government will introduce amendments to the Arbitration Act, introducing procedures and rules which allow international arbitration that will be completely separate and distinct from domestic arbitration, while offering a unique alternative to the rules of the Model Law for International Commercial Arbitration.

About WDM International

WDM International offers a multidisciplinary service to local and international clients ranging from tax and legal consultancy to audit, business advisory and back office services. The firm prides itself of a wide client portfolio spread over a broad range of industries from financial services operators to entrepreneurs and high net worth individuals.

Through WDM Lex Advisory, the firm's legal services arm, the firm is at the forefront in offering consultancy in the following lines of expertise:

- International and local tax advice geared towards tax efficient business planning
- Private clients, high net worth individuals and family office structuring
- Residence and citizenship planning
- Setting up of financial services operations
- Setting up of iGaming operations and consultancy to land based operations
- Registration of aircraft
- Registration of yachts and commercial vessels

WDM Lex Advisory has also been approved as an accredited person by Identity Malta, the Agency responsible for Malta's Citizenship by Investment Programme (IIP). This enables the firm to introduce applicants to the programme who would in turn benefit from Maltese citizenship by naturalisation through a three tier investment process.

Through WDM Trustees, the firm is also licensed by the Malta Financial Services Authority to act as a trustee or co-trustee and as an administrator in the context of private foundations, in terms of the Trusts and Trustees Act.

WDM International is a member firm of Jeffreys Henry International (JHI) and International Referral.

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