



# **Budget 2010**

November 2009

## **Fiscal Measure**

In this year's Budget Speech, the Finance Minister announced a number of fiscal measures, including initiatives that promote research and development, investment and environmental protection. Of particular significance is the unveiling of a process of consolidation of the Maltese revenue authorities, the tightening of anti-abuse provisions and the ban of income tax and VAT refunds to taxpayers who are not compliant with their return filing obligations.

### **Income tax rates and bands**

The existing income tax rates and bands were left unchanged for this budget.

### **Tax evasion curbing measures**

In an effort to curtail tax evasion, optimise the use of information and resources, improve fiscal law enforcement and enhance taxpayer service, Government disclosed its intention to consolidate the three revenue departments: the VAT, Inland Revenue and Customs Departments. As from 1 June 2010, these measures will be accompanied by a prohibition from the issue of income tax and VAT refunds to taxpayers who fail to submit both their VAT and income tax returns. It was further announced, without delving into the details of the measures, that anti-abuse provisions will be introduced in order to mitigate aggressive tax planning. Rights and obligations of taxpayers will be made clearer in a Taxpayer's Charter to be laid down in 2010.

### **Small businesses and the self-employed**

Fiscal benefits will be offered to encourage small businesses and the self-employed to invest, expand and increase their efficiency.

A 40% tax credit, limited to €25,000, will be granted to self-employed persons and small businesses employing up to a maximum of ten persons, and sole traders, making an investment in the coming two years, and who:

- Arrange their shop or facility
- Invest in machinery, technology, apparatus or instruments enhancing their operations, such as systems helping to save energy or producing alternative energy
- Invest in order to comply with health, safety, environment and physical access regulations
- Create new jobs or recruit apprentices after 10 November 2009.

The said tax credits are increased to 60% for those who carry out these investments in Gozo.

Furthermore an incentive will be offered to those incurring expenses to increase workplace accessibility to new employees suffering from a disability.

## **Research and development incentives**

### *Deductions of donations*

As a measure to encourage research at the University of Malta and its application in the commercial and industrial fields, Government will be granting a deduction from the chargeable income of persons who make donations to the University for such cause, subject to a minimum of €150 and a maximum of €50,000.

### *Tax exemption on royalty income*

Royalties and similar income accruing from patents on inventions to persons undertaking research leading to the development of such patents will be exempt from income tax. The exemption is conditional on a maximum that has to be established by Government and on criteria that are laid down in line with the Government's economic and industrial policy.

## **Investment incentives**

Malta Enterprise Corporation is to offer the following new incentives to encourage foreign direct investment towards Malta:

An incentive for foreign investors already operating in Malta to increase the scope of their existing operations to such areas as legal, financial, back office, logistical, research and development, marketing and sales, and prototyping services

An incentive to attract new foreign companies to set up shared services centres in areas such as call centre, software development, digital gaming, human resources, accounts and finance management, market research and internet publication.

## **Real estate measures**

### *Extension of Article 5A*

Amid attempts to induce the recoverability of the real estate market, for years 2010 and 2011, the current time window of five years during which taxpayers may opt to have profits or gains from the sale of real estate taxed at 35% rather than by way of the final withholding tax of 12% of market value will be extended by two years to seven years.

## **Incentives towards a creative economy**

In order to incentivise creative areas such as ICT, films, arts and design, performing arts and others, Government is to provide:

- Fiscal benefits for qualifying costs to support eligible Maltese authors to publish their literary works
- Tax credits for qualifying costs spent on computer animation, special effects, films and television programmes, as well as production services
- Fiscal benefits for qualifying costs spent on interactive digital media products and qualifying costs spent on sound recording houses, including costs incurred to bring productions to Malta.

Students of recognized tertiary education institutions in Malta or abroad will also be eligible to fiscal incentives, provided they do not receive any other form of assistance for their studies from a government department, other entity or from the private sector.

## **VAT Refunds**

The Government has announced that VAT refunds will be granted on the following expenses:

- expenses on research projects that are approved by the Ministry of Finance and the Maltese Council for Science and Technology
- expenses incurred on restoration of historical buildings or scheduled Grade 1 properties
- expenses related to new constructions needed in Church schools in order to implement the reform concerning the transition from primary to secondary education.

## **Vehicle registration tax and licensing**

The registration tax and licensing fees for commercial vehicles will be revised with a view to reward the least polluting vehicles.

The new regime applicable to commercial vehicles will take into consideration the “vehicle euro-standard” which is the benchmark applied by the EU in relation to emissions.

### *Registration tax*

Euro 5 and Euro 4 commercial vehicles, as the least polluting vehicles, will not attract registration tax. Registration tax on lower-standard vehicles will be levied on the basis of weight and not value. The Government has also announced a possible two-year transitional period during which imported commercial vehicles will continue to be sold under the existing regime.

### *Licensing fees*

Licensing fees for Euro 4 and Euro 5 commercial vehicles will be reduced in the first nine years while licensing fees for lower-standard vehicles will be increased. The Government has announced a four-year transitional period for commercial vehicles that are registered by the end of this year after which the new licence rates will become effective.

## **Environmentally friendly benefits**

### *Eco-contributions*

The Government has declared that it is prepared to grant refunds or exemptions from eco-contribution to producers concerned with packaging wasted in a bid to ensure that their business expenses do not increase as a result of fulfilling their environmental obligations. New measures are expected to be introduced with a view to granting refunds for the recycling of material carried out between 2005 and 2008 to producers concerned with packaging waste for drinks. Exemptions from paying eco-contributions will be granted for a six month period from July to December 2009.

## **Family related provisions**

### *Extension of alimony payment deduction*

Subject to the approval of the commissioner of Inland Revenue, alimony payments made by an individual to his estranged spouse as determined by the Courts shall be allowable as a deduction against his chargeable income, irrespective of the jurisdiction of the Court. This is an extension of the current deduction which is limited to payments made under the authority of Maltese Courts.

### *Childcare facilities*

As from 2010, employers will benefit from incentives upon the provision of childcare facilities to their employees at work. Details of these incentives were not presented.

## **Power boat registration tax and licensing**

The Government has proposed the reduction of tariffs for the registration and licensing of power boats.

### **Excise duty**

Excise duty on cigarettes will be increased by €0.15 per packet. Tax on other tobacco products will be increased along the same lines.

### **Duty on credit cards**

The Government has announced that it will waive the €16.31 duty on credit cards.

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