

9<sup>th</sup> November 2009

## BUDGET 2010

MALTA

The Minister of Finance has this evening delivered the budget speech for 2010. The budgeted expenditure is €2,913,737,000 and the estimated revenue is €2,674,937,000. This leaves a deficit of 3.9% of GDP, while public debt at the end of 2010 will be an estimated 68.7% of GDP.

The proposed expenditure includes €80 million in incentives that promote the creation of jobs and economic development, €228 million in physical infrastructure and €1.3 billion in health education and social protection.

There will be no increases or reductions in direct taxation, but incentives for industries will be improved. Other fiscal measures include an increase in the excise tax on cigarettes and tobacco and a revision of boat license fees and commercial vehicles licence and registration fees. Steps will be taken to tighten control over tax evasion.

### ECONOMIC INDICATORS

The Maltese economy, which shrank by 2% in 2009, is expected to grow by about 1.1% in 2010. Inflation last September stood at 3.5%. It is expected to be about 2% for 2010

The number of gainfully employed persons in June was 144,743. The number of unemployed last September stood at 7,521.

The cost of living adjustment for 2010 will be €5.82 per week.

### TAX & FISCAL MEASURES

The period within which a person who transfers property will be able to opt out of the 12% flat rate tax and taxed on the gain will be extended from 5 years to 7 years.

The €16.31 levy on credit cards will be removed as from 1 January 2010.

Excise duty on cigarettes will be increased by €0.15c and duty on other tobacco products will be increased along the same lines.

There will be a downward revision of boat registration fees. Commercial vehicles registration tax and registration fees will also

be revised and will provide for an exemption from tax for Euro-4 and Euro-5 compliant vehicles.

The government has considered the possibility of a reduction in the VAT rate on restaurant services. However, taking into account the results of a study on the likely implications of such a move, it decided against any reduction.

The Inland Revenue Department, VAT Department and Department of Customs will combine their resources on information exchange for the purpose of combating tax evasion and improving fiscal law enforcement and administration.

Refunds for overpayments of VAT and income tax will be subject to the condition that the taxpayer will be up-to-date in the submission of his tax returns (as from June 2010).

Other tax initiatives include:

- The introduction of a Taxpayers' Charter
- Legislative amendments to clarify the interpretation of certain provisions in fiscal laws.

## **INCENTIVES TO INDUSTRIES**

### **Inward investment**

The government will launch a 3-pronged initiative to encourage inward investment –

- Incentives to encourage existing foreign-owned businesses to bring to Malta vertical activities to their existing operations, including their legal, financial, back office, corporative, logistical, R&D, marketing and sales and prototyping services
- Incentives to encourage new foreign owned companies to set up shared services centres in areas such as call-centres, software development, digital gaming, human resources, accounts and finance, management, market research and Internet publication
- Extension of the reinvestment tax credits

### **Creative industries**

Other incentives are targeted at the creative industries including ICT, films & audiovisual industry, arts and design, performing arts and others. These include -

- New fiscal benefits for authors who publish literary works
- Tax credits for costs incurred on computer animation, special effects, films and television programmes, as well as production services
- Fiscal benefits for costs spent on interactive digital media products
- Fiscal benefits for direct and indirect costs spent on sound recording houses

### **VAT refunds on research & R&D incentives**

Further incentives will be introduced to encourage research and development, including:

- A refund of VAT incurred on expenses in approved research projects
- A tax exemption on royalties and similar revenue derived from patents arising from approved research
- Injection of further funds to the R&D Fund

### **Other VAT refunds**

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

- expenses incurred on restoration of historical buildings or scheduled Grade 1 properties
- expenses on certain constructions needed in Church schools

## **Support for SMEs and the self-employed**

The government will set up a fund of €10 million to provide credit to SMEs and the self-employed at favourable terms. The European Investment Bank will top up this fund with another €10 million if this becomes necessary. Fiscal benefits for SMEs and the self-employed will also be improved. The new measures will include a tax credit of 40%, capped at €25,000, of the cost of taking on new employees or making other approved investments.

A fund of €200,000 will be set up to help the Trades and Crafts Enterprises. Other measures will be designed to simplify procedures and ensure a better service by government departments and local councils for SMEs.

## **SOCIAL MEASURES**

The income tax exemption and deduction in respect of alimony payments will be extended to cover alimony payments determined by foreign courts.

The income tax deduction in respect of childcare fees will also be extended to apply to children over 5 years and to childcare fees incurred during summer months.

Fiscal incentives will be introduced for employers who provide child caring facilities.

The child care benefit will be increased from €40 per week to €70 per week, and the eligible age for assistance in the case of students will be increased to 21 years.

## **OTHER MEASURES**

The budget lists a number of other measures and projects including –

- The setting up of a National Investment Fund
- The further development of industrial areas
- New national strategy for the development of the Digital Gaming Industry
- Increase in expenditure on education and further investment in the University
- Measures to strengthen life-long learning
- Grants on photovoltaic systems (capped at 50% of the capital expenditure) and solar water heaters (capped at 40% of the capital expenditure)
- A call for tenders for the installation and operation of systems which generate electricity through photovoltaic panels
- Improvement of the road infrastructure including the SmartCity road network. This project will involve a call for tenders and private investment.