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# MALTA 2012 BUDGET - TAX HIGHLIGHTS

The 2012 Budget announced in Parliament today contains a number of measures aimed creating jobs and consolidating economic growth. It also announced interesting tax measures aimed at enhancing foreign direct investment in target sectors. In 2012, the Maltese economy is expected to grow by 2.3% while inflation will hit the 2.1% mark by the end of this year. The 2012 deficit is set to drop to 2.3% of GDP while government debt is expected to be 70.14% of GDP.

## International tax measures at a glance -

- new tax exemption on royalties from copyrights and IP
- extension of 15% tax rate to certain non-resident professionals working in Malta (including game directors, designers, researchers and academics)
- new tax credits for digital game development

## Local tax measures include -

- tax and financial incentives for property renovation, rental and sale
- income tax reductions for parents
- additional personal tax deductions

### ECONOMIC INDICATORS

Public debt for 2010 was 68.9% of GDP while the 2011 ratio should be 70.14%.

The 2010 GDP stood at €6.47b while the 2012 GDP is expected to reach €6.78b.

As at June 2010, unemployment stood at 4.4% (down 0.4% from June 2009). In the first months of 2011 year, employment increased by more than 2.5% (the average growth in Euro Zone was 1%).

The Maltese financial services sector steady growth lead to the creation of 1000 jobs over the last 3 years and the creation of 800 companies every quarter in the past six years. In 2010, the financial intermediation sector contributed 7.5% of the Gross Added Value, a significant increase of more than 30% over 2009. Today, the Maltese financial services industry lineup features 39 credit and financial institutions, 52 insurance companies, 706 funds and sub-funds and 112 investment services companies.

Tax revenue to set to increase to €2.54b in 2012. The cost of living adjustment for 2012 will be €4.66 per week.

### INCOME TAX MEASURES

#### **15% tax for qualifying employment income**

The 15% tax rate available to foreign professionals employed in Malta in the financial services and internet gaming industry is being extended to –

- academics and researchers employed in Malta in target industrial sector
- highly skilled workers employed in certain industries
- researchers and innovators
- game directors and game designers (particularly relevant to the i-gaming sector)

#### **Copyright & IP royalty exemption**

The tax exemption on royalties from qualifying patents introduced in 2010 has been extended to cover royalty income from works protected by copyright and other IP including books, film scripts, music and art.

#### **Tax credit for digital games development**

A tax credit will be available to Maltese companies in respect of expenditure incurred on the development of educational and other digital games.

### PROPERTY TAX MEASURES

New tax and financial incentives are designed to encourage the renovation and exploitation of property, mainly in urban conservation areas -

- Private individuals who restore their property will benefit from a 20% rebate of qualifying renovation costs.
- Rental income from renovated property will be subject to a final tax of 10% for residential rents and 15% for commercial rents (instead of 35%).
- The sale of renovated property will be taxed at a reduced property transfer tax of 10% (instead of 12%). Where the transferor opts to be taxed on capital gains, the gain will be taxed at 30% (instead of 35%).
- A 20% tax credit on restoration expenditure incurred on property destined for commercial use. The credit is 30% in the case of Grade 1 and 2 scheduled properties.
- Exemption from 5% Stamp Duty (DDT) on certain transfers between heirs who co-own property.

<b>SOCIAL TAX MEASURES &amp; PERSONAL TAX DEDUCTIONS</b>	<b>EXCISE &amp; CUSTOMS DUTY</b>	<b>INCENTIVES TO VARIOUS INDUSTRIES</b>
<p>New deductions for parents in respect of fees paid for cultural and creative teaching for children.</p> <p>A revision of income tax brackets (no change in progressive rates of tax) for parents supporting unemployed children will result in tax savings.</p> <p>Tax deductions in respect of children's school fees will be increased to €1,300 (kindergarten), to €1,600 (primary level) and to €2,300 (secondary level).</p> <p>Income tax deductions for private nursing homes fees will increase to €2500.</p> <p>The 15th February deadline for the payment of 15% tax on part-time work will change to the 30th June.</p> <p><b>VAT</b></p> <p>VAT on private nursing and home help offered by the private sector to the elderly in their private homes will be removed as from the 1st January 2012.</p> <p>An amnesty on penalties and interest due on outstanding VAT returns and VAT payments will be introduced through subsidiary legislation. The arrears due will be payable until the 15th January 2013 and taxpayers will benefit from a reduction in the amount of penalties and interest.</p> <p>No changes in VAT rates were announced.</p>	<p>Customs Duty on bunkering fuel for use by ships outside territorial waters will increase to €5 per tonne. Duty on cement will increase by €3 per tonne.</p> <p>Excise duty on cigarettes will increase by 5.8% while excise duty on other tobacco products will increase by 8.5%.</p> <p><b>CAR REGISTRATION TAX</b></p> <p>With effect from 1 January 2012, car registration tax for Euro1, Euro2, Euro3 cars and older cars will increase. Euro4 and Euro5 type cars will continue to be subject to the current rates.</p> <p>A 15.25% 'Buy-and-Scrap' cash rebate will be introduced in December this year in respect of new cars with a Euro-5 engine or better.</p> <p><b>CONSOLIDATION OF TAX DEPARTMENTS</b></p> <p>The Budget confirmed the previously announced decision by Government to merge the Inland Revenue Department, VAT Department and Customs Department to achieve better coordination and tax enforcement.</p> <p>Government is also committed to enhancing online facilities for tax return filings and tax payments.</p>	<p>This Budget allocates €14.7 million for incentives to industry and outlines a number of measures aimed at small enterprises, start-ups and target sector operations. These include:</p> <ul style="list-style-type: none"> <li>• fiscal incentives to industries that consume more than 2Gwh per year and which invest in energy-saving measures and in systems which produce energy from clean sources</li> <li>• guarantees for loans granted to SMEs</li> <li>• continued investment in <i>BioMalta Campus</i>, an industrial park which will provide the necessary infrastructure for research and industrial innovation in the pharmaceutical and life sciences industry</li> <li>• launch of the €200m <i>Global Medi-Science Fund</i> based in Malta. This Fund will invest in projects which will establish themselves in the <i>BioMalta Campus</i> or joint projects on an international level.</li> </ul>

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**Notice**

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