

Budget 2012 - Fiscal Highlights



In this year's Budget Speech, Finance Minister, the Hon. Tonio Fenech, announced a number of tax measures. Although Government envisages to collect €2.5 billion in tax revenue, this budget saw the extension of a number of tax incentives, the introduction of new benefits, as well as a new tax band applicable to parents.

Income tax measures

Income tax rates and bands

The existing income tax rates and bands were left unchanged, however, a new band (the "parental computation") was introduced for working parents supporting children up to 18 years old who are not gainfully employed (or 21 year-olds where they continue their studies to tertiary education). The new bands and rates are as follows:

Income	Tax Rate
up to €9,300	0%
€9,301 – €15,800	15%
€15,801 – €21,200	25%
over €21,200	35%

These bands and rates may be availed of where the parents do not declare their income jointly.

Woman Returning to Work

The tax credit applicable to women who return to employment will remain in force during 2012.

Cost of Living Adjustment

The cost of living adjustment (COLA) for 2012 amounts to €4.66 per week.

Schooling

Parents whose children attend cultural and creative courses at teaching institutions may benefit from a €100 reduction in their taxable income.

Furthermore, the maximum tax deduction available to parents who pay private school fees was again increased, as follows:

- from €1,200 to €1,300 in respect of each child who attends a daycare, reception or kindergarten;
- from €1,200 to €1,600 in respect of each child who attends a primary school; and
- from €1,600 to €2,300 in respect of each child who attends a secondary school.

Pensioners

The maximum deduction allowable to individuals paying for fees for their relatives' residence in private homes for the elderly will be increased from €2,000 to €2,500.

Persons falling within the tax free bracket who are subject to a 15% withholding tax will be eligible to receive refunds of tax paid without the need to file a tax return.

Part-time work

Three amendments will be introduced with respect to the part-time work rules:

1. The discrimination against pensioners working part-time with the Government will be removed, thus allowing for all pensioners working part-time to benefit from the 15% rate.
2. The Government and all public authorities will no longer be deemed 'same employer' for the purposes of the part-time work rules. Thus employees in the public sector may benefit from the 15% rate when they work part-time with a public entity other than their full time employer.
3. The deadline for the payment of the 15% tax will be extended to the 30th June.

Housing

In order to promote the regeneration of urban zones, a number of incentives are being introduced with respect to the acquisition, restoration and conservation of scheduled buildings in grades 1 and 2 and properties in Urban Conservation Areas:

1. Property transferred between heirs is exempt from duty on documents on transfers until 31st December 2013;
2. A 20% rebate of costs of restoration (up to a maximum of €5,000) to individuals who restore their property;
3. Individuals or companies investing in the restoration of their properties for the purpose of sale or rent may benefit from the following concessions:
 - i. Income from rent for residential purposes: subject to a 10% final withholding tax;
 - ii. Income from rent for commercial purposes: subject to a 15% final withholding tax; and
 - iii. Income from the sale: subject to a 10% (instead of 12%) final withholding tax on the sales proceeds or 30% (instead of 35%) on the gain.
4. Companies incurring expenses for the restoration of property for commercial purposes may benefit from a 20% tax credit on their expenditure (30% in the case of grade 1 and 2 scheduled properties).

A preferential 10% final withholding tax on income derived from the rental of property to families qualifying for the rental subsidy may be benefitted from by home-owners that register their property with the Housing Authority and satisfy any conditions laid down by the Authority.

Incentives for industry

Highly Skilled Persons

The 15% flat rate of tax which is currently applicable to highly qualified expatriates working in the financial services and i-gaming industry is to be extended to:

1. Returned migrants who have established a prestigious career abroad, and return to Malta to work in important industrial sectors;

2. Highly skilled and qualified expatriates who are required for certain industrial sectors;
3. Individuals who carry out research or market an invention or technology in Malta; and
4. Digital gaming professionals, such as game directors and game designers.

Extension of MicroINVEST and Create Schemes

Small businesses employing up to ten people and creating new investment opportunities and new jobs will continue to benefit from a 40% tax credit capped at €25,000.

The Create Scheme, which provides for a tax credit of up to €25,000, will be extended to investment in Valletta.

Extension of tax exemption on royalty income

The exemption from income tax on royalty income derived from patents on inventions will be extended to royalties derived from copyright protected books, film scripts, music and art.

Other incentives

New companies operating in the cultural and creative sector will benefit from an exemption from registration fees due to the Registry of Companies for a period of three years.

Fiscal incentives in the amount of €3,000,000 over a period of three years will be introduced for industries which consume over 2Gwh a year and which invest in energy-saving measures and in systems which produce energy from clean sources.

Maltese companies wishing to commission educational or promotional digital games will be eligible to a tax credit on the expenditure incurred on the development of the game up to a maximum of €15,000.

Value Added Tax (VAT) measures

Settlement of VAT arrears

The Minister announced the launching of a scheme whereby those having VAT payments in arrears will be given the opportunity to regularise their position. Returns which ought to have been filed by 15th October 2011 must be filed with the Department by 15th January 2012. Any arrears must be settled by 15th January 2013, with a reduction in the amount of fines and interest. The Minister made it clear that this scheme would only be applicable to arrears accumulated up to 14th November 2011. Any returns due for filing as from 15th November 2011 should be made on time; these are to be duly accompanied with any VAT due. Otherwise the scheme could not be availed of. A Legal Notice will be published in due course outlining details of the scheme.

Exemptions

With effect from 1st January 2012, services consisting of private nursing and home help offered by the private sector to the elderly in their private homes will be exempt from VAT (without the right to claim input tax refund).

VAT rebates

VAT rebates will be introduced on:

- the purchase of fitness equipment for residential use;
- investment on roof insulation and double glazing (up to a maximum of €1,000).

The car scrappage scheme will be extended for the first 3,000 cars. Eligible persons will benefit from a VAT refund (up to €2,000) on the purchase of a new car satisfying certain criteria provided the old car is duly scrapped.

Registration tax for private cars will start being calculated on the Euro standard. With effect from 1st January 2012, the registration tax for vehicles falling within the Euro 1 up to Euro 3 classification will increase. The registration tax applicable to cars falling within Euro 4 and Euro 5 classification will remain the same.

Excise duty measures

Fuel

Excise duty on fuel used for bunkering purposes will increase to €5 per tonne.

Cement

Excise duty on cement will increase by €3 per tonne.

Tobacco

Excise duty on cigarettes will increase by 5.8% on each packet of twenty cigarettes.

Excise duty on other tobacco products will increase by 8.5%.

Mobile telephony

The calculation of excise duty on mobile telephony will change from a tariff to a volume rate.

Contact us

André Zarb

Partner, Head of Tax

T: + 356 2563 1134

E: andrezarb@kpmg.com.mt

Anthony Pace

Partner, Tax

T: + 356 2563 1134

E: anthonypace@kpmg.com.mt

Pierre Portelli

Partner, Tax

T: + 356 2563 1134

E: pierreportelli@kpmg.com.mt

Juanita Brockdorff

Partner, Tax

T: + 356 2563 1134

E: juanitabrockdorff@kpmg.com.mt

Doreen Fenech

Director, Tax

T: + 356 2563 1134

E: doreenfenech@kpmg.com.mt

www.kpmg.com.mt

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

© 2011 KPMG, a Maltese Civil Partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

The KPMG name, logo and 'cutting through complexity' are registered trademarks or trademarks of KPMG International Cooperative (KPMG International).

Printed in Malta.

November 2011