

# Budget 2016

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**Avanzia**  
Tax and

## Budget highlights:

Reduction in the income tax brackets.

Introduction of fiscal consolidation.

Wear and tear allowances on office buildings.

Extension of the 15% final tax concept.

Tax deductions and tax credits to companies and start ups.

Shift from direct taxation to indirect taxation.

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## Introduction

On 12 October 2015, the Honourable Minister for Finance, Edward Scicluna, presented the Budget for 2016. Malta's economy is performing relatively well. The national deficit is set to decrease from 3.7% to 1.6% by the end of the current year whilst in 2016 the deficit is projected to decrease further to 1.1% of GDP. The national debt will be 65% of GDP.

The economic growth during the second quarter of this year reached 5.3% in real terms and 7.3% in nominal terms. This year's economic growth will average at 4.2% in real terms whilst the growth for next year is projected to be 3.6% in real terms. The unemployment rate is expected to decrease from 5.8% in 2015 to 5.6% in 2016 whilst at the same, the labour force will continue to increase even further.

The Budget identifies and lists a number of priorities for the coming year, including, healthier public finances, less direct taxes and social security contributions, attracting more foreign direct investment, enhancing the availability of social benefits, a better environment, a more equitable distribution of wealth, more infrastructural investment and improvement in the Government's efficiency and reduce the bureaucracy.

## Cost of Living Adjustment (COLA)

The COLA for 2016 will be an increase of €1.75 per week to all employees and pensioners. As a result, the minimum weekly wage will be €168.01. Students will get a pro-rata increase in their stipend.

## Income Tax

Individuals earning the minimum wage and the statutory bonuses will not be subject to any income tax. The progressive income tax rates will be revised such that the burden of income tax will be lower at all levels.

Rate	Separate Computation €	Joint Computation €	Parent Computation €
0%	0 to 9,100	0 to 12,700	0 to 10,500
15%	9,101 to 14,500	12,701 to 21,200	10,501 to 15,800
25%	14,501 to 60,000	21,201 to 60,000	15,801 to 60,000
35%	Over 60,000	Over 60,000	Over 60,000

The reduced income tax rate of 7.5% applicable to footballers and water polo players will be extended to coaches and players of any sport. Income from extra duty earned by the police will be subject to income tax at the rate of 15%.

The option of 15% final withholding tax on rental income from residential property will be extended so that it will also be applicable to commercial property although there will be exclusions with respect to rental income within a group.

The 'group concept' or 'fiscal consolidation' is being introduced for income tax purposes.

The final capital gains tax on immovable property in urban conservation areas will be reduced from 8% to 5%.





The wear and tear allowance on capital expenditure will be extended to offices (and not just on industrial buildings or structures and hotels).

Income tax deduction of 150% of donations with respect to arts.

Full deduction to companies giving a donation to the Community Chest Fund in excess of €2,000.

Assistance will be given to invest in clean energy, research and innovation with a tax credit of up to €10,000 per employee if the enterprise employs an individual who has a doctorate in science, ICT or engineering or is pursuing such studies and is retained in employment for more than 12 months.

Tax credits of up to €10,000 on relocation costs as well as tax credits or grants on knowledge transfer.

A tax credit of up to €50,000 under the Micro Invest Scheme to women in self-employment or businesses that are majority owned by women.

Refund of 20% up to a maximum of €5,000 of the wage or salary paid to Gozitan employer

Tax incentives in the film industry and more funds allocated to market and promote Malta as a film location.

**Value Added Tax**

The VAT rate will be reduced from the standard rate of 18% to 7% on sports, gym membership, fitness centres and football nurseries.

The ex gratia VAT refund on car registrations will be extended to cars registered during calendar year 2005.

Extension of the VAT refund equivalent to 15.25% of the price up to a maximum of €250 on bicycles and electric bicycles.

**Duty on Documents**

First time buyers will continue to enjoy an exemption from stamp duty until the end of 2016. The benefit will be of up to €5,000 on preliminary agreements entered into after 1 July 2015.

Stamp duty on immovable property in urban conservation areas will be reduced from 5% to 2.5%.

**Excise Duty**

Although the excise duty on petrol and diesel will increase, the prices of petrol and diesel will, with effect from 1 January 2016, decrease by €0.03 and €0.04 respectively.

The excise duty on cement will increase by €5 per ton whereas that on tobacco will increase by €0.30 per packet of cigarettes.

The excise duty on beer is being increased by €0.20 per hectolitre per degree Plato whilst excise duty on alcohol and other alcoholic beverages is being increased at rates between 1.33% and 2.5% depending on the type of product.

### **Environment related taxes and measures**

With effect from 1 April 2016, tourists over 18 years will have to pay a contribution towards the environment equivalent to €0.50 per night up to a max of €5 per stay.

Following the removal of the eco contribution on electrical and electronic goods it is felt necessary to introduce an excise duty on products which are harmful to the environment such as chewing gum and plastic bags.

Families who do not have access to roofs to install photovoltaic panels will be able to benefit from incentives if they invest in solar farms. A total of €58 million of EU funds will be allocated to this measure.

Hybrid and electric cars will not be subject to the CVA upon entering Valletta and are also entitled to a deduction of up to 50% of the capital expenditure during the first year.

A grant of €7,000 will be given to car owners where the car is older than 10 years and is replaced by an electric vehicle. The grant will be reduced to €2,000 in the case of an electric quadricycle.

No registration tax on electric motor cycles and a flat rate registration fee of €10 on motor cycles with an engine of less than 125cc.

The refunds under the vehicle scrappage scheme will continue.

Penalties will be imposed if commercial property is not kept in a good state.

### **Social measures**

No increase in retirement age and pensions to increase to 60% of the average income.

For individuals born after 1968, the basis of the contributions taken into account will increase from 40 years to 41 years.

A maximum social benefit of €1,000 per child for families with both spouses in employment and a number of in work benefits are made available to low income earners.

More 'free child care centres' will be made available to assist working parents.

A pilot fund which will be used to subsidise up to 50% of the wage of a qualified live-in carer.

Increase in the penalty from €800 to €1,600 if employers employing more than 20 individuals do not employ the minimum number of disabled individuals as is required by law.

Certain measures to incentivise or regularise the employment of illegal immigrants.

### **Education**

The Minister of Finance announced a number of measures in the educational sector such as stipends to mature students following a course at MCAST or the University, implementation of 'one tablet per child' and further investments in state schools, MCAST and the University.

A grant of €300 to Gozitan students who pursue their studies in Malta.

### **Tourism**

Grants and other financial assistance will be given upon presentation of white certificates presented by hotels.

An investment of €56 million in a new Institute of Tourism Studies (ITS) in Smart City.

A grant of €233 to ITS students towards educational expenses.



### Other measures

Reduction in the registration fee payable to the Registry of Companies from €250 to €100 for companies whose share capital is below €1,500 and submit an electronic registration.

Financial assistance by the Malta Enterprise to start-ups of €200,000 which may even increase to €500,000 to buy new equipment in the case of innovative enterprises producing or providing high level products and / or services.

The requirement of a performance guarantee will be reduced from 10% to 4% if tender is less than €500,000.

Following the study conducted by the MFSA, recommendations will be put forward to the Malta Competition and Consumer Affairs Authority (MCCAA) with respect to bank charges and other costs so as not to increase the financial burden on enterprises.

Social Development Fund will put forward proposals on how to utilise and invest the 70% of the €75 million collected from the Individual Investor Programme.

### **Taxand's Take**

The Budget for 2016 contains a number of direct and indirect tax incentives as well as other fiscal measures aimed at both individuals as well as companies. Whilst individuals will benefit from a reduction in the income tax rates, companies are offered a number of tax deductions and tax credits primarily aimed to incentivise investment and employment.

Individuals will surely note the continuous shift from direct taxation to indirect taxation. Individuals in gainful employment as well as high earners will continue to enjoy reductions in the income tax rates with no increases in the social security contributions.

Companies are being encouraged to make investments, give donations and employ individuals and be entitled to claim rather generous tax deductions, obtain tax credits, grants etc. However, the measures which are expected to have a positive impact on the economy are the extension of the 15% final withholding tax, the widening of property on which business may claim wear and tear allowances and the introduction of the fiscal consolidation. These measures are likely to have a positive impact even on foreign owned enterprises and may therefore serve as added benefits in continuing to attract foreign direct investment.



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