

# Budget 2010

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Taxand

## Budget highlights:

Increase in the election period with respect to the property transfers tax

Assistance to small enterprises in financial difficulties

Incentives targeting companies investing in research projects

IRD, VAT & Customs will be integrated to combat tax evasion

No refunds to defaulting taxpayers

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## Introduction

The Minister of Finance presented the Budget for calendar year 2010 focusing on the Government's strategy to respond to the challenges presented by the global economic crisis. The aim of this budget is to strengthen the fiscal and economic stability and market competition, invest in health, social welfare, education and training, infrastructure, environment, roads, historical and cultural heritage, viable economic sectors as well as incentivise productive investment and implement the Government's vision for Gozo as an ecological island.

## Cost of Living Adjustment

The cost of living adjustment for 2010 amounts to €5.82 per week so that the minimum weekly wage for the year will be €152.30.

As in previous years, the cost of living increase is also granted in full to pensioners.

## Fiscal Measures

- With effect from 1st January 2010, the levy on credit cards, amounting to €16.31 per year, will be removed.
- Following the introduction of the property transfers tax, upon disposal of immovable property, the seller has the option to be taxed at either 12% on the transfer value or at the applicable income tax rates on the gain as computed in accordance with Capital Gains Rules. The option is available if the immovable property is sold within five years from date of purchase. The period of choice has been extended from five to seven years for the years 2010 and 2011.
- A tax exemption is being introduced on royalties and similar income for persons and entities undertaking research activities leading to patents which qualify under the parameters established in the context of the Government's economic and industrial policy. The maximum exempt amount is still to be established.
- Persons donating a minimum of €150 to the Malta University Research, Innovation and Development Trust Fund will benefit from an income tax deduction of the same amount (up to a maximum of €50,000).

## Aid to Small Enterprises

- A micro-credit not exceeding €25,000 per applicant will be available to small and medium-sized enterprises and self-employed persons facing liquidity problems. This credit shall not require any collateral and will bear advantageous interest rates.
- Self-employed individuals and enterprises employing up to a maximum of ten persons who:
  - arrange their shop or facility;
  - invest in machinery, technology, apparatus or instruments which enhance operations, including systems which help saving energy or produce alternative energy;
  - make an investment in order to become compliant with health, safety, environment and physical access regulations;
  - create new jobs or recruit apprentices,

within the next two years are entitled to a 40% tax credit up to a maximum of €25,000. If the above investments take place in Gozo, the tax credit will increase to 60%.



## Incentives to Businesses

The Malta Enterprise will launch three new incentives to encourage foreign investment. The incentives will focus on:

- Companies who wish to transfer legal, financial, back office, corporate, logistical, research and development, marketing and sales and prototyping services to Malta;
- New companies who wish to set up shared service centres such as call centres, software development, digital gaming, human resources, accounting and finance management, marketing research and internet publication;
- Companies who wish to reinvest their profits. The Reinvestment Tax Credit (Income Tax) Rules will be extended to current applicants and new applicants alike.

Funds will also be allocated to the Malta Enterprise to provide schemes to promote international competitiveness, research and innovation as well as e-business.

Other allocation of funds include the Research and Innovation Fund, National Strategy for the Development of the Digital Gaming Industry as well as other funds to the University of Malta to encourage research and application for commercial and industrial purposes. Furthermore, a refund of 15.2% on expenses on which tax has been paid will be given on approved research projects.



## Measures addressing fiscal evasion

The Inland Revenue Department, the VAT Department and Customs will join forces and be integrated into one unit. This will facilitate the gathering of information to be used by the different sections, improve service and help in the enforcement of fiscal laws in Malta. This will also allow for the introduction of a system of set-offs in the financial system.

As from 1<sup>st</sup> June 2010, no VAT or income tax refunds will be paid unless all income tax returns and VAT returns are submitted.

The Government aims to decrease uncertainties in the application and interpretation of fiscal laws in order to help fight against aggressive tax planning that is resulting in tax leakage.

In addition to the legal protection given to taxpayers, the Department will adopt a Taxpayer's Charter to assist the public in identifying their rights as well as obligations.

These measures should enhance more transparency, accountability and trust between the Department and other stakeholders.



## Creative Economy



Creativity is the engine of global economy. It creates high-value added work and support to other sectors of the economy.

Proposed initiatives in this area include fiscal benefits or tax credits with respect to qualifying costs to publish literary works, computer animations, special effects and film productions, digital media products and sound recording houses.

This will also include fiscal benefits for those individuals pursuing studies in a recognised tertiary institution who are not receiving any other form of assistance.

### Reduction in registration tax and licences

After last year's reform to the non commercial vehicles, the Government is proposing a reform in the registration of commercial vehicles. This reform is intended to reward those who pollute the least and will be benchmarked against European Union standards.

Registration and licensing of power boats will be revised downwards depending on the length and power of the vessel.

## Other Issues

### *Alimony Payments*

As from 1<sup>st</sup> January 2010, alimony payments established by foreign courts in respect of children will be exempt in the hands of the recipient and a tax deduction will be given to the payer of the alimony payments when these are not related to children.

### *Alternative source of energy*

A scheme offering grants on photovoltaic systems and solar water heaters will be introduced. Eligible applicants may receive up to 50% (limited to €3,000) and 40% (limited to €560) of their capital expenditure in respect of photovoltaic systems and solar water heaters respectively.





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