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## Introduction

In his review of the country's economic performance during the Budget Speech, the Prime Minister and Minister of Finance announced that during 2006, the Gross Domestic Product (GDP) increased by 2.6% in real terms and inflation increased from 2.8% during 2005 to 3.42% during 2006. Government has curtailed the budget deficit from 3.9% in 2005 to 2.8% in 2006 and this will put Malta in line with the Maastricht criteria although the inflation rate is still high at 3.42%.

Foreign investment has increased substantially in the first six months of the year and the financial services sector has performed well. Malta has 18 banking institutions and more than 150 investment funds. This sector should continue to grow and contribute to the local economy especially now that Malta will soon publish legislation to implement the agreement reached with the EU Commission.

Apart from a review of the economic performance, the Minister of Finance presented the financial estimates for 2007 and a series of fiscal measures, some of which are reviewed hereunder.

## Cost of Living Increase

The cost of living increase for 2007 amounts to Lm2.25 per week. In view of rising fuel prices Government had already anticipated an additional increase of Lm0.50 per week in last year's budget, thus, the effective increase for 2007 will be Lm1.75 per week. The minimum wage for 2007 will be Lm59.63 per week.

## Revision of Income Tax Bands

The income tax bands for individuals and married couples opting for joint income tax computation have been revised as follows:

### Rate for married couples opting for joint computation:

Present		Revised	
Chargeable Income	Rate	Chargeable Income	Rate
Lm	%	Lm	%
0 - 4,300	0	0 - 4,500	0
4,301 - 6,000	15	4,501 - 8,000	15
6,001 - 7,250	20		
7,251 - 8,500	25	8,000 - 10,000	25
8,501 - 10,000	30		
over 10,000	35	over 10,000	35

### Rate for single persons or married persons opting for separate computations:

Present		Revised	
Chargeable Income	Rate	Chargeable Income	Rate
Lm	%	Lm	%
0 - 3,100	0	0 - 3,250	0
3,101 - 4,100	15	3,251 - 5,500	15
4,101 - 5,000	20		
5,001 - 6,000	25	5,501 - 6,750	25
6,001 - 6,750	30		
over 6,751	35	over 6,751	35

The revised income tax bands will reduce the tax burden for individuals or married persons opting for a separate computation by up to Lm155 per annum whilst that for married couples opting for a joint computation will be reduced by up to Lm242.50.

## Income Tax Deductions

As from 1 January 2007, persons whose children attend approved private schools may deduct up to Lm400 (previously Lm200) from their chargeable income for every child attending primary school and up to Lm600 (previously Lm300) for every child attending secondary school.

Expenses, up to Lm400, incurred by persons on licensed childcare centres will be deductible from their chargeable income. Any expenses incurred by an employer in connection with childcare services made available to its employees will be tax deductible for the company. Where an employee is given compensation for childcare services such compensation will not be treated as a fringe benefit to the employee.

## Reduced Tax Rate on Rental Income

Government has launched a scheme to encourage private property owners to rent their property to the Housing Authority for periods of not less than 10 years by applying a reduced tax rate of 5% on such rental income.

## Employees with Family Owned Businesses

Individuals working with family owned businesses will be able to register as employees of these businesses for tax purposes. Their social security contributions will be tax deductible for the business and they will benefit from all the social benefits and be entitled to a pension upon payment of appropriate contributions.

## Agreement with the European Union

Earlier this year, Government reached agreement with the European Commission which preserves Malta's full imputation system of taxation. Government is currently discussing the anti-abuse provisions in the proposed tax system with the Code of Conduct (Business Taxation) Group and shall shortly publish the legislation which will give effect to the agreement with the EU and which will be effective as from 1 January 2007.

## Duty on Documents and Transfers

Inheritance duties will be amended in certain situations. The duty due upon inheritance of property, where such property was the residence of the deceased, has been revised so that the first Lm15,000 of the value of the property are exempt from duty instead of the current exemption on the first Lm10,000.

If the person who inherits property as stated above resided with the deceased, the preferential rate of duty of 3.5% will apply on the second Lm15,000 instead of the second Lm10,000.

In cases where a person inherits the property in which he resides but which was not the residence of the deceased, the band to which the preferential rate of duty of 3.5% applies has been increased from the first Lm20,000 to the first Lm30,000 of the property's value.

## Value Added Tax

As an incentive to local cultural activities, Government announced that cultural events organised by non-profit making organisations will be exempt without credit for VAT purposes.

## Social Security Contributions

Amendments were announced to Social Security Contributions payable by part-timers and host families.

Part-timers whose part-time employment is their main employment will have the possibility of paying Social Security Contributions equivalent to 10% of their employment income instead of paying of a fixed rate per week. No thresholds

have been announced. Moreover, Government is committed to commence discussions relating to Social Security Contributions with employers who employ part-timers.

Government also announced that families hosting foreign students will be given the choice of not paying Social Security Contributions.

## Departure Tax

Government announced that with effect from 1 June 2007, the departure tax will be halved to Lm10.

## Social Measures

### *Supplementary Allowance*

With effect from 1 January 2007 the supplementary allowance for married couples will increase by at least Lm15 per annum up to a maximum of Lm20 per annum whereas the supplementary allowance for a single person will increase by at least Lm12.50 per annum up to a maximum of Lm15 per annum.

### *Disability Pensions*

Another social measure announced by the Minister of Finance is that if an individual who is in receipt of a disability pension gets married, he or she will not lose this entitlement for the first five years of marriage irrespective of the level of the spouse's income.

### *Widows'/Widowers' Pensions*

Widows/Widowers in receipt of a pension shall continue to receive such pension for the first five years following re-marriage or where their employment income exceeds the minimum wage.

## Business Enterprises in Gozo

Government announced that as from 1 January 2007, fees for any new trading licences and licence renewals for catering and accommodation establishments in Gozo will be reduced to 75% of the current rates to compensate for the seasonal fluctuations effecting these establishments in Gozo.