

# Budget 2010 Highlights

The Minister of Finance, the Economy and Investments, Tonio Fenech, presented the 2010 Budget yesterday evening. As is customary, together with the Budget Speech, the Ministry of Finance also published the Economic Survey for 2009 and the detailed estimates of the projected government revenue and expenditure.

The 2010 Budget has six main aims:

1. Increase economic and financial stability, increase price stability and increase competition in the local market;
2. Incentivise productive investment to create prosperity and work;
3. Continue investing in health and social security;
4. Continue investing in education;
5. Continue investing in infrastructure, the environment, roads and cultural heritage;
6. Implement the vision for Gozo as an ecological island.

Apart from an increase in the excise duty on cigarettes and an increase in the registration tax of commercial vehicles, no new taxes were introduced. On the other hand there are wide ranging initiatives which will mean significant government expenditure, with the evident objective of creating jobs and economic well being.

The following table presents the highlights of the performance of the Maltese economy.

Highlights of the Maltese Economy 2009	
Growth in Gross Domestic Product at market prices	-0.20%
Growth in Gross domestic product in real terms	-2.60%
Inflation	3.46%
Unemployment rate	4.80%
Current Account Balance as % of gdp	1.10%
Fiscal deficit as % of gdp	-3.79%

## The Budget 2010 Initiatives

- Government is aiming to maintain its policy of fiscal consolidation by:
  1. Maintaining administrative expenditure at present levels and where possible even reducing it
  2. Adopting an aggressive policy of reducing the headcount in the Public Service by recruiting less people than the number of persons retiring. This policy is expected to generate a saving of 10 million euros
  3. Making government controlled entities financially self sufficient wherever possible
  4. Combating benefit fraud and tax evasion

Government aims to have a fiscal deficit as a percentage of the gross domestic product at 3.9% in 2010, 3.2% in 2011, and 2.9% in 2012.

- In summary government is planning to spend:
  1. 80 million euros on job creation and economic development initiatives
  2. 228 million euros on the physical infrastructure
  3. 1.3 billion euros on health, education and social protection

Further incentives will be provided to the business sector to improve its competitiveness including 3 million euros for innovation and 2 million euros on international competitiveness

- 16 million euros are expected to be spent on the upgrading of existing industrial zones and to launch two new micro enterprise parks in partnership with the private sector
- 2.5 million euros are being allocated to a Reserve Fund for Assisting Enterprises to assist when temporary difficulties arise in enterprises having a viable future and which are ready to invest in their future
- 1.7 million euros are being spent on research and innovation initiatives to fulfil government's strategy in this area
- 10 million euros are being spent to extend micro credit not exceeding 25,000 euros to small and medium sized enterprises and the self employed
- 31 million euros are being allocated to the Malta Tourism Authority including a special package which provides an increase from 2 million euros to 5 million euros to address the drop in tourist arrivals caused by the international economic crisis.
- In order to support job seekers to integrate themselves in the labour market, 3.3 million euros are being allocated to the Employment and Training Corporation to launch a number of employment schemes
- The fight against tax evasion is to be strengthened and as part of this initiative Government is working towards joining the Inland Revenue Department, the VAT Department and the Customs Department, with the objective of sharing information and creating effective synergies between these three entities
- A National Investment Fund is being set up to create new sources of revenue for government in order to decrease dependence on direct and indirect tax revenue. The intention is for the Fund to work in three main areas:
  1. The management and direction of government commercial property;
  2. To hold investments in stocks and shares, both local and foreign, and with no controlling interest;
  3. To invest in national projects or projects of a strategic nature for the country.
- A new authority, the Maltese Fair Trade Authority is being set up to strengthen consumer protection and to remove any inflexibility that may exist in the local market that may contribute to price increases.
- The very strong investment in the physical infrastructure is evident through the allocation of 57 million euros for the construction and maintenance of roads
- Moreover 80 million euros are being allocated for the restoration of bastions, the embellishment of the Sliema and Qawra coastlines, and the construction of a new promenade in St Paul's Bay promenades, a garden and heritage trail in Pembroke and a tourist attraction in Qawra. In addition 9.7 million euros are being allocated for the restoration of historic and cultural heritage sites and a further 5.2 million euros are being allocated for other embellishment works

- Investment in ICT will continue with an allocation of 60 million euros
- The development of Gozo as an ecological island is expected to cost around 25 million euros till 2012, of which 5 million euros are being allocated for 2010
- Total expenditure on education is expected to reach 270 million euros, a 6% increase over 2009.
- Social cohesion plays a significant role also in the year's Budget. The total expenditure on welfare is expected to reach 1.19 billion euros, of which 811 million euros will be spent on pensions and social security
- The Budget Speech also made mention of energy prices. Government is committed to continue providing a cushion to needy families with 7 million euros being allocated in the form of Energy Benefit. Moreover subsidies will be provided to families depending on the size of the household. The subsidy is limited to families not consuming more than 10,000 units of electricity in a year, which covers 97% of families
- In addition 8 million euros have been allocated for subsidies to families that install photovoltaic systems and solar water heaters
- The allocation for waste management is 16 million euros
- Local Councils are being allocated a total of 31.5 million euros

## Fiscal and Financial Highlights

- A weekly wage increase of €5.82 to compensate for the increase in the cost of living.
- Removal of levy (currently at €16.31) on credit cards.
- Initial registration fees and annual licenses for boats to be revised as follows:

Category	Registration fee (€)	Annual license fee (€)
Boats without engine <3.6m	-	-
Boats without engine >3.6m	-	10 (over 5 yrs)
Boats <10 HP	50	10 (over 5 yrs)
Boats 10 HP < 25 HP	50	20
Boats 25 HP < 50 HP	50	30
Boats 50 HP < 75 HP	50	80
Boats 75 HP < 150 HP	50	100
Boats over 150 HP	50	140

- Increase excise duty on cigarettes by €0.15.
- Increase Malta Enterprise's incentive allowance from 6 million euros to 9 million euros to launch three initiatives in the attraction of foreign investment namely:
  - Foreign investors already present in Malta would be encouraged to expand further activities ancillary to the current operations such as legal, financial, back office, corporate, logistical, research and development, marketing and sales, and prototyping services.

- New foreign investors to set up shared services centres such as call centres, software development, digital gaming, human resources, accounts and finance management, market research and internet publication.
  - Extending the Reinvestment Tax Credit (Income Tax) scheme to enterprises already benefiting and to new enterprises which could benefit there from. This scheme entitles an enterprise to tax credits on re-invested profits.
- 40% tax credit (maximum €25,000) to self-employed persons and enterprises employing up to 10 persons, on investment in the coming 2 years. The investment is wide and includes embellishment of retail outlet facilities, new machinery especially those which promote alternative energy resources, health and safety compliance as well as creation of new jobs.
- Refund of 15.2% on expenses relating to research projects approved by the Ministry of Finance and the Maltese Council for Science and Technology.
- Donations of not less than €150 but not exceeding €50,000 to the Malta University Research, Innovation and Development Trust Fund (to be set up) by commercial entities would entitle them to deduct the same amount of donation against taxable income.
- Tax exemption from royalties and similar revenue, up to a maximum amount (to be established), resulting from patents on inventions which fall within Government's economic and industrial policy.
- No registration tax on commercial vehicles of standard Euro 5 and Euro 4. Commercial vehicles of standard Euro 3 and less will be levied with registration tax related to weight. A 2-year transition allowance from the old system would be allowed.
- Licenses for Euro 5 and Euro 4 commercial vehicles will be reduced in the first 9 years whereas those of lower standard will increase with a 4-year transition allowance for commercial vehicles registered to date.
- The "opt-out option" of property transfers at final and withholding of 12% increased from 5 years to 7 years from the date of purchase of property up to the date of sale. The "opt-out option" allows tax to be charged at 35% on the transfer profit rather than 12% on the transfer value.
- Refund of 15.2% of the total expenditure incurred on the restoration of historical buildings or scheduled Grade 1 properties.
- Fiscal benefits and tax credits for qualifying costs on Maltese authors' publications and broad media activities including digital media, TV programmes and sound recordings.
- Reduction in tariff on satellite communications for industrial purposes.
- Foster Parents' benefit to increase from €40 per week to €70 per week with age assistance increasing up to 21 years.
- Fiscal incentives (to be announced) for employers who incur costs to offer childcare services provided to employees' children.
- Recognition of alimony payments for tax purposes when these are established by foreign courts.
- Grant of up to 50% (with a maximum of €3,000) on costs to install photovoltaic systems.

- Grant of 40% (with a maximum of €560) on costs to install solar water heaters. This scheme is however limited to families entitled for the energy benefit, Gozitan residents, certain first-time property buyers and low-income families.
- Introduction of “tax setting-off system” between the main tax departments namely the Inland Revenue Department, the VAT Department and the Customs Department.
- As from 1st June 2010, refunds on VAT or income tax will be paid only if the person has up-to-date compliance both with the VAT and Inland Revenue Department.
- Increase in anti-abuse provisions in fiscal laws to drastically reduce aggressive tax planning while at the same time decrease uncertainties in the application and interpretation of fiscal laws.
- Introduction of Taxpayers’ Charter to safeguard the tax payers’ rights and obligations.

## Disclaimer

The above information is being provided as a general guide only and should not be considered as a substitute for professional advice.