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On the 9th November 2009, the Minister of Finance, Tonio Fenech started off his presentation of the Budget for 2010 by commemorating the 20th anniversary of the fall of the Berlin Wall. He noted that facing a scenario of international turmoil, the Budget looks forward and faces these challenges with courage, prudence and responsibility. Nevertheless economic uncertainty prevails throughout this struggle for economic growth. The 2010 Budget has 6 aims:

- 1 Increase economic, fiscal and price stability to increase competition
- 2 Create prosperity & work by incentivizing productive investment
- 3 Investing in health & social security
- 4 Investing in education, training & building talents
- 5 Investing in infrastructure, environment, historical & cultural heritage
- 6 Promoting Gozo as an ecological island

Principal Budget Measures

- ◆ The Cost of Living Allowance for 2010 has been set at €5.82
- ◆ €16.41 levy remover from credit cards
- ◆ Excise duty on cigarettes to rise by €0.15
- ◆ A Taxpayers' Charter to be drawn up indicating taxpayer rights & obligations
- ◆ Extension of period to opt out of 12% to 7 years
- ◆ Grants to families not consuming more than 10,000 units of water & electricity
- ◆ Grants on photovoltaic systems & solar water heaters
- ◆ Child-in-care benefit to rise to €70/week up to age of 21 years
- ◆ Reduction of waiting lists to acceptable levels over next 3 years
- ◆ Full cost of living increase to pensioners
- ◆ Reform of public transport system as well as Park & Ride facilities
- ◆ Investment in the infrastructure of arterial & residential roads
- ◆ No VAT & income tax refund to be paid unless both VAT and income tax returns have been filed
- ◆ Anti-abuse provisions to be introduced in order to curb aggressive tax planning
- ◆ Merging of tax institutions to pool information, strengthen enforcement & allow for set-offs
- ◆ Various schemes introduced to promote work, training and to encourage women to return to work

These notes are designed to keep clients abreast with financial and tax developments. They are not intended to be comprehensive and clients are therefore advised to seek further advice before acting upon any matter arising from this newsletter,

Economic highlights

For the year 2009, it is anticipated that the government deficit will arrive at €217.6 million or 3.79% of Gross Domestic Product [a decrease of 2% from September 2008]. Notwithstanding the European Commission's warning, in 2010, the projections indicate a higher deficit of €233.8 million or 3.93% of Gross Domestic Product. Nevertheless the deficit projection is still much lower than that of other countries in the euro zone. What contributed mostly to these results was the 26.2% decrease in investment which in turn resulted in a fall in domestic demand. Whereas government expenditure increased, there was a decline in private consumption. The trade balance also deteriorated since the decline in exports outweighed the fall in imports.

Consolidated Fund	2010 Projected € '000	2009 Revised € '000
Tax revenue	2,331,254	2,225,653
Non-tax revenue	343,683	240,995
Total recurrent revenue	2,674,937	2,466,648
Operational and other expenditure	(2,280,521)	(2,226,152)
Interest payments	(195,621)	(195,340)
Total recurrent expenditure	(2,484,142)	(2,421,492)
Recurrent surplus	190,795	45,156
Capital expenditure	(429,595)	(303,156)
Consolidated Fund (Deficit)	(238,800)	(258,000)
Financing		
Direct loan repayments	(191,242)	(251,179)
Contributions to sinking funds (foreign & local)	(16,200)	(17,065)
Equity acquisition	(100)	(642)
Local loans	435,224	412,110
	227,682	143,224
Consolidated Fund Balance as at 31 December	(11,118)	(114,776)
Consolidated Fund (Deficit)	(238,800)	(258,000)
General Government adjustments	5,000	40,414
General Government (Deficit)	(233,800)	(217,586)
Gross Domestic Product	5,945,080	5,744,040
Government deficit as a % of GDP	3.93%	3.79%

“Cost of Living Allowance (COLA) for 2010 has been set at €5.82”

The Labour Market

The international recession has also had an impact on the labour market. As at June 2009 the number of people registering for work stood at 7,273, whereas the total number of gainfully occupied persons was 114,743 resulting in a decrease of 1,179 when compared to the corresponding period in the prior year.

The Cost of Living Allowance (COLA) for 2010 has been set at €5.82, an increase which shall also be granted in full to pensioners.

When compared to the corresponding period in the prior year, there was a reduction of about 2 percentage points in the rate of inflation, resulting in a rate of 3.5% as at September 2009.

Tourism & Manufacturing sector

During the first nine months of 2009 tourist arrivals decreased by 10.4% to 936,342 when compared to the same period last year. Cruise liner passenger arrivals for the same period totaled 294,795, a decrease of 27.7%.



As a consequence, overall gross earnings from this industry up to June 2009 decreased by €26.1 million

(10.3%) to €227.8 million. This trend was reflected in the level of full-time employment in the industry which registered a decrease of 462 jobs over the comparable period of 2008, falling to 9,918 jobs.

With respect to the manufacturing sector, the drop in nominal sales to €878 million of 21.6%, reflected the fact that the decrease in exports of 27.6% was only marginally offset by the 1% increase in local sales

Family related incentives

Water & electricity

The inevitable fluctuations in oil prices have led to the consequent increases in the rates. These increases have been reflected in the rate of inflation as well as the COLA.

A further adjustment to water and electricity rates is envisaged as from January 2010. Besides the Energy Benefit which will be adjusted to aid 28,000 families, in this respect Government will be offering direct financial assistance to families which do not consume more than 10,000 units of electricity [97% of families] .

Family size	Compensation (€)
1	55
2	80
3	105
4	130
5	155
6	180
7	205

Childcare services

Further assistance to support working mothers are also being put in place. New childcare centers are to be opened in Siggiewi, Pembroke, Santa Venera, Floriana, Msida and Zejtun.

Smartkids centers have already been opened in Cottonera, Birkirkara and Qawra and it is envisaged to open other similar institutions, one of which in Cospicua.

Training will also be provided to those offering childcare services in their homes in conformity with standards issued by the Government in 2006.

The after-school hours service is to be extended to two other schools and the €1,000 tax deduction is being extended to cover also those children who are over three years old and who attend registered centers in the summer months.

Furthermore, an incentive will also be given to employers who incur costs in order to provide childcare services for their employees' children.

Tax deductions will be allowed with respect to alimony payments even when established by foreign courts.

“Direct financial assistance in relation to the increase in water and electricity rates”

Further investment in the family

As from the coming year, families bringing up foster children will be benefiting from an increase in the Child in Care Benefit of €30 per week, bringing the financial assistance up to €70 per week. This assistance will also be extended further to children up to the age of 21 if they are still studying or following an ETC approved training program.

Single parents will be given the necessary training, assistance and incentives by ETC in order to be integrated in the employment market as soon as possible.

Tax deductions will be allowed with respect to alimony payments even when established by foreign courts.

Mothers returning to work can benefit from tax incentives which have also been extended to self-employed women up to a maximum of €5,000



Fiscal framework

Measures to curb tax evasion

In 2010, the Government intends to take a number of measures to strengthen fiscal law enforcement. Consequently as from June 2010, VAT and income tax refunds will not be issued to any tax payer who fails to submit both their VAT and income tax returns. Furthermore to avoid tax leakage, anti-abuse provisions are going to be introduced to address, among

other things, aggressive tax planning and lack of clarity of fiscal law. It is also the Government's objective to consolidate and amalgamate the VAT Department, Inland Revenue Department and Customs Department which will allow for pooling of information and possibly a system of set-offs.

Investment incentives

Foreign direct investment in Malta is being encouraged also though the fiscal incentive of the Reinvestment Tax Credit which is being renewed and extended to further categories of enterprises.

To incentivize persons to undertake research leading to patents which qualify under criteria to be established, a tax exemption from royalties and similar income is to be given up to a specified maximum amount.

With respect to small businesses and the self-employed, a 40% tax credit (up to a maximum of €25,000) is being given to enterprises employing up to 10 persons. This shall also apply where investment is made within the next two years with respect to structural improvement or the creation of jobs after 10th November 2009.

Persons donating at least €150 to the Malta University Research, Innovation and Development Trust Fund shall be entitled to deduct this donation up to a maximum of €50,000.

"40% tax credit to small businesses employing up to 20 persons (maximum of €25,000)"

Commercial vehicle registration

A reform is being proposed with respect to registration tax and licensing in order to reward whoever pollutes less.

Licenses will also abide by the euro-standard with Euro 4 and Euro 5 licenses being reduced in the first 9 years. Lower standard vehicles will attract higher license charges.

Euro 5 and Euro 4 vehicles, which are deemed to pollute least, will attract no registration tax

For commercial vehicles registered by the end of 2009, the new license rates will not be applicable for four years in order to give businesses a chance to renew their vehicles.

With respect to Euro 3 and lower standard vehicles, the registration tax attracted will be levied on the basis of weight not value.

Other fiscal developments

With respect to the transfer of immovable property, currently it is possible to opt out of the 12% FWT if the property is transferred within 5 years. This period shall be extended to 7 years.

products has increased by €0.15.

The registration and licensing fees of power boats is to be reduced on the basis of engine size.

A Taxpayers' Charter is being developed in order to help the tax payer understand his rights and obligations

Excise duty on cigarettes and other tobacco

The Government Levy on credit cards of €16.31 is to be waived with effect from January 2010.



The creative economy

In line with Vision 2015 a number of initiatives are being proposed in the creative areas of the economy including ICT, films, art and design as well as the performing arts.

A working group is to be created with the aim of drafting the regulatory and fiscal framework for the sector of the economy.

A number of fiscal incentives are to be introduced to facilitate the publishing of literary works by Maltese authors, the production of television programs and computer animation as well as the development of interactive digital media products including sound recording and the attraction of productions to Malta.

Fiscal incentives shall also cover students who further their studies in the arts whether locally or abroad, in so far as no other assistance is being received in this respect.

2010 will see the launching of the Award for Creativity and Innovation which will also include recognition for the Young Creative Entrepreneur.

Works will also be initiated on the construction of a sound stage in order to further strengthen the infrastructure to accommodate the film industry.

Training courses will be set up by the Malta Film Commission in order to have the necessary framework for talented persons to develop film production techniques to further strengthen this industry.

The tariff for the holding license for satellite communications for industrial purposes is being reduced.

A Scholarship for the Arts Studies program is being introduced dedicated to the visual arts.

A sustainable environment

By 2020 10% of our energy must come from clean sources utilizing alternative energy technologies such as from waste. An educational campaign is also to be undertaken in relation to clean energy technologies.

A grant of up to 50% (maximum of €3,000) is being offered to everyone with respect to the installation of photovoltaic systems.

The grant of up to 40% (maximum of €560) is being offered to:

- ◆ Families entitled to the energy benefit
- ◆ Those who receive supplementary assistance
- ◆ Families with income lower than €23,293 having a fixed children's allowance
- ◆ All Gozo residents
- ◆ Low income families
- ◆ First-time property buyers, whose property value is less than €120,000

Producers who are willing to participate in schemes aimed at recovering and recycling

packaging waste will be granted refunds of eco-contribution or outright exempted, so long as this process does not negatively affect the enterprise or the consumer.

A Working Group is to be established to determine the actual environmental state in Malta and draw up strategies for its development.

Smart meters are to be introduced shortly in homes and businesses. In this way the consumer has greater control of the use of energy and can consequently reduce the carbon footprint.

Further to a process of consultation, a large number of proposals are being put forward for the reform of Local Councils. An allocation of €31.5 million is being made in order to support various initiatives in this respect.

Other initiatives for improvement include the building of a new Fish Market in Marsa, the improvement of the infrastructure of *Tal-Pitkalija* and the central abattoir at Marsa as well as the Marsaxlokk breakwater.

“Grants are being offered for the installation of photovoltaic systems and solar water heaters”

Enterprise incentives

Foreign investment

Foreign direct investment in Malta is being encouraged through the launching of new incentives by Malta Enterprise Corporation which are respectively aimed at:

- 1 Encouraging foreign investors already in Malta to increase the scope of their operations especially in relation to support services such as legal, financial, back office and marketing operations among others.

- 2 Attracting new foreign companies to set up shared service centers such as call centers, software development, digital gaming, human resources, accounts and finance management and market research.



Small businesses & the self-employed

In this respect a fund is being set up to provide SMEs with micro-credit up to a maximum of €25,000 having a lower collateral requirement than that requested by banks and more favourable interest rates.

A Reserve Fund is also going to be set up in order to help viable enterprises as well as

Trades and Crafts Enterprises to get out of any temporary financial difficulties.

Investment is also being made in the various Industrial Parks in partnership with the private sector, with two new micro-parks being set up in Mellieha and Xewkija, Gozo..

Research & innovation

In line with the Government's objectives of Vision 2015, research & innovation is strongly being encouraged. €1.7 million is being invested:

- ◆ To double the Research & Innovation Fund
- ◆ To devise a National Strategy for the Development of the Digital Gaming Industry
- ◆ To set up a databank regarding the *Genome Uman*
- ◆ To grant an allowance to the University of Malta & set up a Research, Development & Innovation Trust Fund to encourage commercial and industrial utilization of University research.
- ◆ To grant a 15.2% refund on research expenses with respect to which tax has been paid
- ◆ Integrate some Government Laboratories with the National Laboratory to eventually form part of the Biotechnology Park in San Gwann

Gozo

Project Eco-Gozo involves 80 action points which are to be implemented within the next three years.

A Waste Transfer Station is to be constructed in order to treat and recycle solid waste.

The land known as Zwieqa in Mgarr is to be transformed into a sea-side promenade.

The Gardens of Villa Rundle in the centre of Victoria shall undertake rehabilitation.



The purchase of new equipment, 2 new ambulances and other refurbishment works are to be taken under way at Gozo General Hospital. Furthermore a Radiology Unit is to be established.

“SMEs and sole traders to be provided with micro-credit up to €25,000”

Job creation

€3.3 million is being allocated to ETC in order to launch a number of initiatives:

- ◆ The Work Trial Scheme seeks to provide work experiences by employing persons for 12 weeks with the aim of reaching 500 persons in 2010
- ◆ A new youth employment center is to be set up in Birkirkara
- ◆ Assisting mothers wanting to join training schemes with payment of childcare services
- ◆ Improving advisory services
- ◆ Assisting employers who upgrade the workplace to employ severely disabled persons
- ◆ Introduce a new project of full-time training of youths who are not gainfully occupied or training, earning them an EU recognized qualification and being supplemented by a stipend
- ◆ Community work scheme to be extended

The consumer

In order to keep inflation under control, the Consumer and Competition Division is undertaking reform and the Malta Fair Trade Authority is being established in an effort to remove market inflexibility.

An entity for consumer protection is also to be established together with a College of Regulators.



The voluntary mechanism with respect to medicines did not have the desired outcome and consequently a more effective and efficient mechanism is being sought.

Infrastructure

Investment in road infrastructure, both in terms of arterial and residential roads is projected to reach €57.3 million in 2010.

A reform is to be undertaken with respect to the public transport system. The aim is to encourage commercial viability in order to reduce the necessary subsidisation.

The current Park & Ride is to be extended, whereas two new others are to be developed in Marsa and Pembroke.

Further investment is also envisaged with respect to the reparation of ports and yacht berthing spaces.

Restoration projects are also to be undertaken in the coming year including Auberge De Castille, the Presidential Palace, Collacchio area in Vittoriosa and Wignacourt fountain in Saqqajja Hill.

Works are due to commence on the extension

of the Dellimara power station to utilize contemporaneous technology. Furthermore work is to be commenced to connect to the European power grid.

By 2010 all wastewater generated will be treated. Studies are being undertaken in an effort to exploit this resource.

A National Investment Fund is to be established as a means for long term investment by managing Government property with the aim of maximising revenue therefrom, investing both locally and abroad with no controlling interest and investing in strategic national projects such as City Gate and the Maltese Parliament.



“Investment in the road infrastructure expected to reach €57.3 million in 2010”

Education

In order to further strengthen the future employment market further investment of €3.1 million is being made in this sector.

Reforms are currently under way with respect to the national curriculum, the transition to secondary school, the school leaving certificate, the basic skills policy, the science strategy, kindergarten and special schools.



As a result of projects obtained by the University of Malta, a new ICT faculty and Information Technology department have been developed.

Works on the campus of MCAST are being carried out with respect to new laboratories and workshops.

A number of initiatives are also being developed in the context of Life Long Learning.

Furthermore the Foundation for Tomorrow's Schools has invested an additional €13 million in the construction and maintenance of schools.

In line with these developments certain Church schools will require construction works. They will be eligible to a refund of 15.2% if qualifying expenditure in this respect.

A system of networking between schools is also being developed to further enhance the information technology facilities of the schools.

Many more youths are participating in EU programs and the coming weeks will witness the launch of a Youth Agency with the aim of fulfilling the aspirations of our youth in line with National Youth Policy, which is being updated. The Youth Empowerment Program is also being re-structured.

It is envisaged that sporting facilities will be increased and the current ones improved with a new complex being built in Qawra and another planned in Marsa.

“Process of qualification for social benefits being revised to reduce abuse and increase transparency”

Health

Malta's ageing population has resulted in an increase in pressure on the waiting lists. In the next three year priority is going to be on reducing the waiting lists to an acceptable level.

Government is aiming to reduce creditors with respect to medicines in 2010 while also reducing credit days to 120 days.

A further €3 million is being invested in the introduction of new medicines in the Government's formulary.

Within the next 5 years it is planned to construct a cancer center at Mater Dei hospital, to refurbish Boffa hospital and to open a center for breast screening. The services of Zammit Clapp hospital will be transferred to Karen Grech hospital whose infrastructure is being changed in view of the construction of the rehabilitation center.

The process of qualification for services and

social benefits is being revised in order for it to be more transparent, easy to understand and to reduce abuse.

During 2009 the project of John Paul II Block at St Vincent De Paule was concluded and will accommodate 144 patients. Extensions are planned to extend homes in Mtarfa and Msida.

The pilot project of Shared Supporting Housing for the elderly with mental health problems shall continue with the intention of building further flatlets in Mtarfa in this respect.

The services provided by Commcare are to be consolidated with new day centers being envisaged in Mellieha and Siggiewi.

A pilot project for Night Shelters has been launched offering accommodation overnight for the elderly who live alone. Furthermore, a new project Outreach Team is in the pipeline with which various professionals can provide support to the elderly.