EUROMOD Update

FEASIBILITY STUDY

Feasibility Study

MALTA
(TAX-BENEFIT SYSTEMS 2007-2010)

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EUROPEAN CENTRE · EUROPÄISCHES ZENTRUM · CENTRE EUROPÉEN
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About EUROMODupdate

A major EUROMOD development project is being supported by the European Commission DG Employment with the key objective to improve and extend EUROMOD's usefulness as a tool for policy-relevant research and policy monitoring. This will involve

1) updating EUROMOD to cover recent policy systems;
2) enlarging EUROMOD from 19 countries to cover all 27 Member States
3) upgrading EUROMOD to operate using EU-SILC (European Union Statistics on Income and Living Conditions) data as the input database;
4) re-building the "old" EU-15 using the most recent version of EUROMOD software; and
5) developing methods and processes that facilitate the efficient updating of EUROMOD in the future.

In doing so the project will encourage the widest use of EUROMOD in research and policy analysis at the national and international levels.

The project began in February 2009 and will last 3 years. The aim is to upgrade or newly construct in EUROMOD a selection of 9 or 10 countries each year, and to then update them in subsequent year(s).

The work is being carried out by the EUROMOD *core developer team*, based mainly in ISER, in collaboration with a group of *national teams*. The *European Centre* is responsible for establishing contacts and working relationships in the New Member States in order to explore the feasibility of bringing them into EUROMOD.

A project Steering Group has been established, under the chairmanship of *Sir Tony Atkinson.*

The main task of the *Feasibility Studies* is to lay the foundations for integration of the New Member States in EUROMOD, alongside the EU15, and therefore they all include:

1) key features of national tax-benefit systems;
2) identification of appropriate data requirements and data sources;
3) consideration of issues relevant for modelling each tax-benefit instrument (tax evasion, non take-up of benefits, etc.).

For more information, see: http://www.euro.centre.org/euromod
and http://www.iser.essex.ac.uk/research/euromod

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List of acronyms

AP – Age Pension
BLD – Pension for visually impaired
CA - Children's Allowance
CDB – Common Database
DAD – Allowance paid to residents of therapeutic community
DCA – Disabled Children Allowance
DG – Disablement Gratuity
DNIP – Decreased National Invalidity Pension
DSS – Social Security Department
ESA 95 (1995 European System of Accounts)
FCA – Fostering Care Allowance
HP – Pension for persons with disability
IB – Injury Benefit
IIP- Increased Invalidity Pension
IP – Invalidity Pension
IRD - Inland Revenue Department
IRP – Increased Retirement Pension
ISCI – International Standard Code for Industry (old version of NACE)
ISCO – International Standard Classification of Occupation
LA – Leprosy Assistance
MA – Free Medical Aid
MB – Maternity Benefit
MG – Milk Grant
MRG – Marriage Grant
NACE - Statistical Classification of Economic Activities in the European Community, Rev. 2 (NACE Rev. 2, 2007)
NMP – National Minimum Pension
NMW – National Minimum Wage
NMWP – National Minimum Widow's Pension
OA – Orphan's Allowance
PW - Carer's Pension
RP – Retirement Pension
SA – Social Assistance
SABS – ***S**istema ghall-**A**mministrazzjoni ta' **B**eneficcji **S**ocjali*, System for the Administration of Social Benefits
SB – Sickness Benefit
SHP – Severe disability pension
SILC – Survey on Income and Living Conditions
SKA - Sickness Assistance
SPA - Supplementary Allowance
SRP – Survivor's Pension
SUB – Special Unemployment Benefit
TA – Tuberculosis Assistance
UB – Unemployment Benefit
WP – Widow's / Widower's Pension

I Introduction and objectives

The purpose of this study is to examine the technical feasibility of micro-simulation model application for the analysis of impact of policy on social integration from the national as well as from the EU perspective. This is the first time that Malta's tax-benefit system has been analysed from the angle of the main elements of this system implying the policy rules that are underlying the entitlement criteria defining them. This was an opportunity for the main players in this field to work in synergy on this vital issue: the Ministry for the Family and Social Solidarity, in charge of social benefits, Ministry of Finance responsible for the fiscal policy and income tax system in particular, and the National Statistics Office tasked with income data collection based on the EU-SILC[1] methodology. This Feasibility Study describes the situation as it was in year 2007 and the major changes that have taken place in 2008 and 2009 and 2010.

Firstly, the study describes the main elements of the tax-benefit system namely: income, income tax brackets, capital resources and Social Security contributions. The second section of the study illustrates the main sources of data to be used for modelling purposes and also shows the examples of the calculation of income tax and social benefits. It has been agreed that the EU SILC 2008 data would be used, for income element since Malta has joined this system of data collection way back in 2005.

The third section of the study firstly outlines the qualities and limitations of the input data set. This section also focuses on specificities of Malta's data collection and possible difficulties regarding model application. The study points at the possible combinations of sample and population databases. Also, simulation possibilities have been specified for both systems separately. Finally, the non-take up of benefit and the issue of tax and benefit fraud illustrate the situation and the possible unknown element on both sides.

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[1] SILC – Survey on Income and Living Conditions

II Overview of the development of the Malta's tax-benefit system

1. Overview of the main elements of Malta's tax-benefit system and how they depend on each other

The main elements of the tax-benefit system in Malta can be described as: income, income-tax brackets, capital resources and Social Security contributions. These are the elements which link the two systems and whose calibration would represent the most sensitive part of this modelling exercise.

1.1 Income

Income is a cross-cutting dimension in the tax-benefit system of Malta. Where income variable features in the calculation of social benefits, it is usually perceived as a gross income of an individual or household, or part of it. Gross income for the purposes of assessment of entitlement to non-contributory benefits is usually taken net of Social Security contributions and therefore, any changes in income tax brackets generally do not impinge on the entitlement of social benefits as these are administered prior to payment of income tax (please see below for exemptions to this rule). In case of contributory benefits, the income is taken as basic wage/salary on which Social Security contributions are being paid, however income tax is paid on other earnings as well. Income tax is paid on the gross income of the individual which also includes any capital gains. It is also worth noting, that where applicable, benefits such as Children's Allowance (CA), Supplementary Allowance (SPA) or Sickness Assistance (SKA)[2] are not included in the gross income. This therefore, significantly differs from the concept of gross income as defined in the EU-SILC methodology[3]. In those instances where children are in a full-time education and are recipients of a stipend, this stipend is also excluded from the calculation of gross income for purposes of eligibility to a benefit.

Some benefits and groups of benefits also have some specific ways of including the income variable. For the calculation of Age Pension AP) which is a non-contributory benefit, incomes of other members of the household, such as children for example, are not included in capital resources for means testing. In the case of Disabled Children Allowance (DCA), only one (higher) income is taken into consideration, in cases where both spouses are earners. The policy rule is to safeguard the well being of the household where one or more children are disabled, by taking only one income for the entitlement to this benefit. In the case of SKA received by the head of the household, where a member of the household, who is not a patient or spouse, is employed, earning less than 35 per cent of the National Minimum Wage (NMW), that person for the purposes of means testing under SKA, will not be considered as employed, self-employed or self-occupied. Again, the calculation of the gross household income is being altered, underpinning the Government's policy to safeguard families where there is a health problem. The income limit for Supplementary Allowance (SPA) stands at Lm4,200 (Euro 9,783.48) net of Social Security, for a married person, and Lm3,270 (Euro

[2]For the complete list of these benefits please refer to Section 2.1.3
[3]Gross household income as per EU-SILC methodology includes children related allowances as well as sickness benefits. Also please refer to Part 4 and Annex 3 EU-SILC 2008 Income.

7,617.14) in the case of a single person, and it reflects Government's policy to support members of households whose income falls below the limits outlined by the Social Security Act. This particular income limit has been set at a low level, so as to ensure that these households would not be exposed to the risk of poverty.

Some benefits require different means testing altogether, with income brackets being changed so as to accommodate the most needy families and individuals in the society. In the case of SKA, the income limit is Lm6,000 (Euro 13,976.40) and Lm10,000 (Euro 23,294.00). This is also capital resources test for AP and Social Assistance (SA). The capital resources test for Free Medical Aid (MA) is set differently from the means tests to other benefits mentioned above, as Lm4,000 (Euro 9,317.60) for a single person and Lm7,000 (Euro 16,305.80) for a married person. It is pertinent to state that employed persons could be entitled to MA, however the income requirement is being lowered i.e. made more rigorous, allowing thus only the most needy to avail themselves of this particular type of benefit. Also, MA is such a benefit, where the entitlement to it, does not include the income tax paid under the Income Tax Act, as a part of the total income/privilege enjoyed by any member of the household other than the head of the household or his wife.

Some benefits are linked to the condition of earning NMW or part of the NMW, so that any changes in the NMW level might affect the eligibility to those benefits (i.e. earnings of persons 61/60 to 64 years of age who are in receipt of retirement pension). In year 2007, NMW has been set at Lm59.63 (Euro 138.90). The NMW is increased annually by the cost of living adjustment, which is based on inflation measures of the previous year. Also, the setting of the NMW is also closely linked to the unemployment benefits and the so called 'unemployment trap' effect. NMW plays an important part in the calculation of Widow's Pension (WP) as well. In this context, a widow is disqualified from receiving a WP, Widow's Benefit or a Survivor's Pension (SRP) in cases where her income from gainful occupation exceeds the NMW. Undoubtedly, any changes in the legally stipulated amount of NMW would impinge on the calculation of the above mentioned benefits.

Pensionable income is another important dimension in the tax-benefit system. In 2007 the maximum pensionable income stood at Lm7049 (Euro 16,420). The income earned above this level is not included in the calculation of Two-Thirds Pension, however income tax is due on the whole amount. During the period 1982-2004 the level of pensionable income remained unchanged and it stood at Lm6,750 (Euro 15,723.45), in year 2005 it was Lm6,841 (Euro 15935.42) whilst in year 2006 it was Lm6,958 (Euro 16,208). The Pension Reform introduced in year 2006 clearly calls for regular revisions of this maximum level. Annex 5 highlights the enacted changes in the pension reform as of year 2010.

1.2 Income tax brackets

The Maltese income tax system operates at progressive tax rates that reach a maximum of 35 per cent on any amount of income exceeding Lm10,000 (Euro 23,293.73) in the case of married persons and Lm6,750 (Euro 15,723.27) in the case of other persons. As taxable income includes also any capital gains, it should be noted that these together with other special provisions may be subject to different tax rates. Details on chargeable income tax rates are given in Section 2.1.2.

From a social aspect, the system is intended to aim at a fairer distribution of income, as progressive taxes reduce the tax incidence of people with smaller income and shift the incidence disproportionately to those with higher income. At the same time, it is the government's intention to minimise as much as possible any disincentive to work by way of heavy tax burdens on individuals with high income.

In recent years, the Government has established as one of its priorities the goal of attracting more women in the labour market. A number of incentives to encourage women participation have in fact been adopted in the form of income tax credits, exemptions and deductions from taxable income. One such example is the tax credit offered to women returning to work after a minimum five year absence. More detailed descriptions of similar incentives and how they actually work are discussed in Section 2.

1.3 Capital Resources

The entitlement to some benefits within the social benefit system is means tested. There are two types of means test: the Capital Resources test and the Income test. The Capital Resources test is done on the property and the income of the whole household, and not on the capital resources of the claimant only. However, in the provision of certain assistances (AP for example), working members of the family are excluded. In the case of CA, capital resources are completely excluded, only income test of the household is included. This goes in line with the Government policy to support families with children, and thus ensure that children would be given a good start, avoiding thus their exposure to risk-of-poverty.

The list below indicates the links between social benefits and income/capital resources of beneficiary/family:

1. The Capital Resources test for AP, Carer's Pension (PW), SA and Sickness Assistance (SKA) provides the limit of capital resources[4] being set at Lm6,000 (Euro 13,976.40) for a single person or a single parent, while in the case of the household with two and more persons, this capital limit is set at Lm10,000 (Euro 23,294.00).

2. In case of Free Medical Aid this limit is set at Lm4,000 (Euro 9,317.60) and Lm7,000 (Euro 16,305.80) respectively.

[4] Capital resources include:
1. value of any property belonging to the beneficiary (excluding primary residence) which could be put or invested to profitable use excluding furniture, jewellery and other personal effects.
2. Cash in the bank and in hand including any liquid assets, time deposits, bonds, stocks, shares and other securities.
3. Capital value of any urban immovable property (excluding the primary residence) which is not being put to profitable use.
4. String of other related amounts to be deducted or added according to each social benefit entitlement rule.

3. In case of Supplementary Allowance (SPA) the head of household who is in receipt of a pension, any income or any privilege or allowance derived by any member not being the head or his wife is not been taken into account.

4. Prime residence, summer residence, car and garage for personal use are excluded from the calculation of capital resources. Only 19.3 per cent of the income arising from the property belonging to other members of the household is taken, as defined by Law.

5. No account is taken of 83.4 per cent of the total net income, privilege, benefit, allowance or any pension over the National Minimum Pension, received by other members of the household.

6. In case of all Non-Contributory benefits, the means test regarding immovable property put to a profitable use, stipulates that only income from rent is taken, the property is not being capitalised. First Lm40 (Euro 93.18) from rent income is not taken into consideration for capital resources test for SA, while Lm165/Lm115 (Euro 384.35 / Euro 267.88) limit is set for married and single persons in case of AP and PW.

7. In case of unused property, at stipulated amount of such estimated amount of capital resources is ignored: Lm250 (Euro 582.35) for all non-contributory benefit. The remaining balance is converted into an annual income at 5.5 per cent per annum. In case that the owner of unused property is not the head of the household, but partner or children, only half of the value of property is taken.

8. Any social benefits such as Social Assistance, Leprosy Assistance, Tuberculosis Assistance, Milk Grant, Sickness Assistance, any pension or any sum paid out of a charitable fund amounting to below the highest level of National Minimum Pension (NMP) are not taken into account.

9. Similarly, SPA, CA/Disabled Child Allowance (DCA), Fostering Care Allowance (FCA) or MB are not taken into account in calculating income or privilege enjoyed by the beneficiary.

10. Stipends received by other members of household who are in full time education are not included in the income

11. First Lm200 (Euro 465.88) by way of earnings from knitting, lace making etc., is also excluded from the income.

12. In case of entitlement for MA income tax paid under the Income Tax Act is not taken into account in calculating means for purposes of entitlement for MA. Therefore, any changes in income tax as a result of change in fiscal policy may impinge on eligibility to entitlement to this particular benefit, keeping the income limit unchanged.

It is pertinent to note that the policy is to modify the means test so as to provide for new exigencies, when they become evident in a changing society. This policy supports the idea that the means test should be indicative of the degree of social justice that a particular piece of legislation implements.

1.4 Social Security Contributions

Social Security contributions are another main element in the calculation of benefits. It plays a significant part in the calculation of income in the means tested, non-contributory benefits, as well as for pension related benefits. From January 2000 it is set at 10per cent of the basic pay and payable only for the pensionable amount of income which in 2007 stood at Lm7,049 (Euro 16,420). The calculation of the rate of contribution paid by self-occupied persons was established to be 15per cent of the net-earnings of the previous year, whilst that of the self-employed persons is based on 15per cent of the net-income of the previous year subject to certain exemptions detailed in Section 2.4.2. Any changes in the Social Security contribution, such as the rate of the Social Security contribution or the minimum and the maximum payable rates, would affect the income, used for means testing for a variety of benefits.

In order to address the difficulties encountered by part-time workers, as from the 1st of January 2007, the social security contributions due by employees working eight hours or less shall be adjusted to 10 per cent of what they earn from such work. This pro-rata rate of social contributions gives the contributor a pro-rata entitlement to contributory benefits.

Payment of Social Security contributions is also linked to the Capital Resources test (please refer to Section 2.4.2 regarding the income test criterion) in calculation of means for the purposes of exemption from the payment of Class Two Contributions[5] where account is taken, among other [6] of:

1. Value of any property belonging to the contributor (excluding primary residence) which could be put or invested to profitable use excluding furniture, jewellery and other personal effects.
2. Cash in the bank and in hand including any liquid asset, time deposits, bonds, stocks, shares and other securities
3. Capital value of any urban immovable property (excluding the primary residence) which is not being put to profitable use.

Where the Capital Resources exceed the value of Lm4,000 (Euro 9,317.60) for single person and Lm7,000 (Euro 16,305.80) for married couple, the person is not entitled to be exempt from payment of Class Two Contributions (as stated in Section 2.4.2).

Therefore, it is evident that items which constitute the entitlement to exemption from payment of Social Security contributions ultimately form part of the income tax calculus. Their level set at Lm4,000 (Euro 9,317.49) and Lm7,000 (Euro

[5] Class Two contributions are payable by persons between age of 16 and 65 who are self-occupied and self-employed (neither employed nor 'gainfully-occupied').

[6] Please refer to the Social Security in Malta – A Synopsis, page 32 and Second Schedule on page 63.

16,305.61) requires a logical link with the income tax brackets, so as to confirm the levels of income tax payment exemption!

Given the changes that Maltese society is going through, including the need to attract more women back to work and to encourage life-long learning and continuous personal development, Government will be considering, contribution credits for parents with young children[7], as well as for students and workers who want to further their education and skills. Tax incentives linked to longer contributing periods are also being evaluated, in view of managing increased longevity.

2. Description of the main elements of the Malta's tax system

Taxes in Malta are mainly divided into direct and indirect taxes. The former refers to income tax and social security contributions, whilst the latter relates to VAT, excise duty, stamp duty on documents and motor vehicle registration tax. These are regulated by the Income Tax Act of 1949, Social Security Act of 1987, Value Added Tax Act of 1999, Excise Duty Act of 1995, Duty on Documents and Transfers Act of 1992 and Motor Vehicle Registration Tax Act of 1994 respectively. Changes in the Maltese tax legislation are ongoing and conducive with Government's policy at the time.

In general, Maltese taxes account for around 87 per cent of total recurrent revenue. Direct taxes make up around 56per cent of total tax revenue, while indirect taxes constitute around 44 per cent. Figure A1.1 in Annex 1 illustrates the structure of general government's tax revenue for six years starting from 2001. Data for the year 2006 show that the larger shares of total tax revenues were accounted for by 'income tax' and 'social security' at 32 per cent and 25 per cent respectively. The third largest share was accounted for by 'value added tax' at 22 per cent, whilst 'licenses, tax and fines' and 'customs and excise duties' amounted to 12 per cent and 9 per cent of total tax revenue, respectively. During the period under observation, the tax revenue structure has remained relatively unchanged and is expected to remain so as reflected in financial estimates[8] for 2007.

This section describes the major taxes governing the Maltese economy with special focus on 'income tax' and 'social security contribution'. Given the micro-economic nature of the I-CUE EUROMOD project, the following overview focuses on the taxation of individuals. Simulations of income tax are to be based on the EU-SILC data. Additional information relating to the tax base and revenue for each of the aforementioned taxes is provided in Table A1.2 in Annex 1.

2.1 Income Tax

The income tax is levied on income in general and on capital gains of every person, including individuals, companies and any other body of persons. Consequently, there is no separate law for the taxation of corporations.

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[7] ' Malta: Update of Convergence Programme 2006-2009', page 63

[8] See 'Financial Estimates 2007', Budget Office, Malta

2.1.1 Basis of Taxation

An individual who is ordinarily resident in Malta is subject to tax on his world-wide income and capital gains. If an individual is resident but not ordinarily resident and domiciled[9] in Malta he is subject to tax on income and capital gains arising in Malta as well as on foreign income - but not capital gains - received in Malta. Meanwhile, non-residents would still be subject to income tax for any income and capital gains arising in Malta.

Table 2.1 **Basis of taxation**

	Income arising in Malta	Capital Gains arising in Malta	Income arising Abroad	Capital Gains arising Abroad
Ordinarily resident in Malta	Y	Y	Y	Y
Resident but not ordinarily resident and domiciled in Malta	Y	Y	Y*	N
Non-Resident	Y	Y	N	N
Y: Yes (subject to tax) N: No (not subject to tax) *Received in Malta				

Although income tax is to be imposed on both income and capital gains, the computation of the respective taxable amounts is regulated by different rules. Taxable income includes:

- Gains/Profits from any business or profession;
- Gains/Profits from employment;
- Dividends, premiums, interests or discounts;
- Pension, charge or annual payment;
- Rent, royalties, and any other profits arising from property; and
- Gains/Profits not falling under any of the above.

2.1.2 Tax rates on income

Personal tax is levied on every individual at progressive rates with a maximum rate of 35 per cent, whilst the income tax rate on company profits is of 35 per cent except in the case of distributed dividends. A final withholding tax of 15 per cent also applies to certain categories of investment income.

a) Single Person

A single/unmarried person shall be taxed at the rates presented in table below. In cases where an individual is a widow or a separated spouse,

9 A person may have many places of residence, but may only have one domicile. A domicile is a permanent legal residence.

individuals shall be charged tax rates applicable to married couples as long as:

- The individual maintained under his/her custody a child who was not over sixteen years of age or, if at that age, was receiving full-time instruction at any educational establishment or was incapacitated by infirmity from maintaining himself/herself, and who was not in receipt of income in his/her own right in excess of Lm 1,000 (Euro 2,329.37);
- A children's allowance was paid in respect of that child, and was recognized as the beneficiary of the children's allowance payable in respect of that child;
- The individual was in receipt of financial assistance in respect of the maintenance of the said child from the other parent of the child; and
- The individual was not living or residing at the same house with the other parent of the said child.

Table 2.2 - **Resident single persons and resident married couples opting for separate joint computation – 2007**

Taxable income	Tax rate
Lm (EUR)	%
0 - 3,250 (Euro: 0 - 7,570.46)	0
3,251 - 5,500 (Euro: 7,572.79 - 12,811.55)	15
5,501 - 6,750 (Euro: 12,813.88 - 15,723.27)	25
6,751 + (Euro: 15,725.60 +)	35

Source: Income Tax Act

b) Married Couple

The income of a married couple living together is treated as the income of one taxpayer, but for the purpose of calculating the tax payable they may opt for a separate computation. In the later case, the earned income of each spouse is taxed as if they were derived by a single person. The unearned[10] income of both spouses is treated as the income of the spouse with the higher amount of earned income. The income of each spouse qualifies for the tax free portion applicable to single taxpayers and is taxed at the single person's rate. The respective rates of taxation for married computations are presented in the tables below.

[10] Unearned income refers to income that is not a wage. It includes interest, dividends or realized capital gains from investments, rent from land or property ownership, and any other income that does not derive from work.

Table 2.3 - **Resident married couples opting for joint computation**

Taxable income Lm (EUR)	Tax rate – 2007 %
0 - 4,500 (Euro: 0 - 10,482.18)	0
4,501 - 8,000 (Euro: 10,484.51 - 18,634.99)	15
8,001 - 10,000 (Euro: 18,637.32 - 23,293.73)	25
10,001 + (Euro: 23,296.06 +)	35

Source: Income Tax Act

c) Residence Permit Holders

An individual who is not a Maltese citizen may acquire a permit to reside permanently in Malta. The permit holder will accordingly be presumed to be resident but not domiciled in Malta and therefore taxable on income arising in Malta and foreign income (but not capital gains). Provided that the individual receives - in Malta - an amount of relief, in the case of an individual and of Euro 5,823 in the case of a married couple. If the permit holder derives earned income in Malta this would be taxed separately at the standard rates applicable to other residents without a tax free portion.

Table 2.4 **- Residence Permit Holders and Returned Migrants – 2007**

Married		Single	
Taxable Income Lm (EUR)	Tax Rate (%)	Taxable Income Lm (EUR)	Tax Rate (%)
0 - 5,823 (Euro: 0 - 13,563.94)	0	0 - 4,193 (Euro: 9,767.06)	0
Over 5,823 (Over Euro: 13,563.94)	15	Over 4,193 (Over Euro: 9,767.06	15

Source: Income Tax Act

d) Returned Migrant

In the case of a returned migrant[11] who received in Malta an amount of income of not less than Lm500 (Euro 1,164.69) arising outside Malta, the same tax rates as those for the residence permit holders shall apply. However, individuals who after emigrating have returned as residents in Malta after 1988 have the option of being taxed either at normal resident rates, or at rates for returned migrants.

[11] An individual born in Malta who was resident in Malta in the year immediately preceding the year of assessment and who proves that he has actually resided outside Malta for an aggregate period of not less than 20 years.

e) Individuals employed outside Malta

Income of individuals employed outside Malta is taxed at 15per cent, excluding any service on board a ship, aircraft or road vehicle owned, chartered or leased by a Maltese company and any service for the government of Malta.

f) Foreign Employees

Individuals who are not citizens of Malta, but are employed in Malta, will be taxed on income arising in Malta which will include their employment income, and any foreign income (but not capital gains) received in Malta. If such individuals satisfy the residence test they will be taxed at the rates applicable to other residents. Otherwise, they will be taxed at non-residents' rates.

Table 2.5 – **Non-residents – 2007**

Taxable income Lm (EUR)	**Tax rate per cent**
0 - 300 (Euro: 0 - 698.81)	0
300 – 1,300 (Euro: 698.81 - 3,028.19)	20
1,300 - 3,300 (Euro: 3,028.19 - 7,686.93)	30
Over 3,300 (Over Euro: 7,686.93)	35

Source: Income Tax Act

2.1.3 Exemptions and deductions from income

The following are exempt from tax:

- Income from private retirement fund or scheme;
- Disability pensions and pension for the visually impaired;
- Social assistance;
- Age pension;
- Financial assistance received by an individual from his estranged spouse in respect of maintenance of a child;
- Marriage grant;
- Maternity benefit;
- Children's allowance;
- Foster care allowance;
- Disable child allowance;
- Capital sums received by way of commutation of pension, retiring or death gratuity or received as compensation for death or injury;
- Income arising from a scholarship;
- Income from a collective investment scheme other than income from immovable property;
- Interest, discount, premium or royalties derived by any person not resident in Malta; and

- Profits derived by any person not resident in Malta on a disposal of any units in a collective investment scheme and such like instruments.

Furthermore, in ascertaining the total income of any person deduction will be made of:

- Expenses incurred exclusively in the production of income, such as interest upon any money borrowed, rent paid by any tenant of land or building, and also any sums expended for repairs of premises in acquiring that income (applies for self-employed);
- Alimony payments made to an estranged spouse valued as the lesser of the amount actually paid or the individual's chargeable income for the year.
- School fees valued at the lesser of the amount actually paid or Lm600 (Euro: 1,397.62) in respect of each child attending secondary school or Lm400 (Euro 931.75) in respect of each child attending primary school;
- Fees paid for the services of the facilitator in respect of a child shall be deducted against income amounting to a maximum of Lm 4,000 (Euro 9,317.49[12]; and
- Fees paid to childcare centres being valued as the lesser of the amount actually paid or Lm400 (Euro 931.75).

Details relating to exemptions and deductions from income are presented in Table A1.3 in Annex 1.

2.1.4 Special Provisions

A number of special provisions, such as, part-time work, investment income and fringe benefits, are discussed in this section.

a) Part-time work

Individuals who work part-time are taxed at a fixed rate of 15per cent as long as such income does not exceed Lm3,000 (Euro 6,988.12) per annum. Any excess should be declared with the individual's other income in the tax return. This tax rate is applicable to full-time employees, pensioners, and full-time students. An individual who has a part-time job and does not qualify under any of the aforementioned criteria does not qualify for the 15per cent tax rate. However, if an individual is married, even though that person only works on a part-time basis, he/she may benefit from the part-time rate as long as the husband/wife qualifies under any of the mentioned criteria.

b) Investment income

A payee has the option of having the payer deduct tax from a payment relating to investment income at the rate of 15 per cent of such payment. However, when the recipient receives investment income in the form of dividend, tax shall be deducted at the rate of 35 per cent. The issue relating to dividend payments is discussed further in sub-paragraph (c).

[12] Deductions relating to child school and facilitator fees contributed jointly by the parents of a child, who live separately, shall be apportioned between them in proportion of the amount of their contribution.

c) Dividends

Malta operates a full imputation system with respect to dividends. The situation is complicated by the interaction of different regimes for different types of income. Companies operating in Malta are to maintain three income accounts:

- Foreign Income Account;
- Malta Taxed Account (taxed local account); and
- Untaxed Account (untaxed local income).

Distribution of dividends out of taxed accounts (foreign income and Malta taxed account), is subject to income tax at 35 per cent. Distributions of the untaxed account[13] are subject to a 15 per cent withholding tax if paid to individual resident shareholders.

An individual shareholder may opt to report or not to report dividends received from Maltese companies in his tax return. If the dividend is not reported, he is not liable to any tax on the dividend. When a taxpayer reports a dividend paid out of the Maltese taxed account or the foreign income account in his tax return, it will be taxed together with the taxpayer's other income at his applicable rates. Under such circumstances the shareholder qualifies for a credit for the tax paid by the company on the distributed profits in accordance with the full imputation system. Similarly, a credit for withholding tax is given if a tax payer elects to report in his tax return a dividend paid out of the untaxed account. Any excess credit is refunded to the shareholder. For a graphical representation refer to Figure A1.2 in Annex 1.

d) Dividend (ITC)

A person in receipt of a dividend distributed by an international trading company shall be taxed at the rate of 27.5 per cent. However, this applies only in cases where the recipient is not an individual/company resident in Malta.

e) Fringe benefits

Employment income includes the value of any fringe benefits. The use of a company car or a car allowance, the use of company property, the provision of free or subsidized board and lodging and free non-business travel are among the fringe benefits. Share options become taxable when the option is exercised. A number of specified benefits are exempt under certain conditions, such as health insurance. A concise overview of the tax rates and exemptions in relation to fringe benefits is presented in Tables A1.4 and A1.5 in Annex 1.

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[13] The untaxed account shall consist of those profits (or losses), which represent the total distributable profits (or the total accumulated losses), less the total sum of the amounts allocated to the foreign income account and the Maltese taxed account.

f) Tax credit for women returning to employment

Women who have not attained retirement age and who return to employment after having been absent from any gainful occupation for at least five years shall benefit from a tax credit of Lm700 (Euro 1,630.56) which shall be set-off against the tax in respect of gains from employment. This provision only applies to women who have never been in receipt of a pension and had previously been employed for at least twenty-four consecutive months. A woman shall not qualify if the employer is her spouse or and ascendant/descendent in direct line, or in cases where the employer is a company in which the woman or any of the aforementioned persons is a shareholder.

g) Double Taxation Relief

Foreign income derived by Maltese residents qualifies for relief under various double tax relief provisions of Maltese law. Resident individuals may claim a credit for foreign tax suffered on income that is also subject to tax in Malta. The foreign income is grossed up with the foreign tax and taxed at the applicable Maltese rate. The foreign tax is then deducted from the Maltese tax, but the deduction cannot exceed the Maltese tax on the doubly taxed income.

2.2 Tax on capital gains

Capital gains are taxable if they are derived from:

- The transfer of immovable property, or cession of any rights of such property;
- The transfer of ownership of securities, business, goodwill, copy-right, patents, and trade marks, or cession of any rights of such property; and
- A transfer of the beneficial interest in a trust;
- Transfers of property exempt from tax include certain donations, own residence[14]; and assignment of property that was owned in common between spouses.

2.2.1 Tax rates on capital gains on immovable property

Tax on capital gains shall be chargeable under two different provisions: the ‘old system’ and the ‘new system’. Under the new system, the tax on transfer shall be chargeable at 12 per cent of the transfer value. This refers to the higher of the market value of that property and the consideration payable for the transfer. Under the old system, if a person makes a transfer, he must pay a provisional tax at the rate of 7 per cent of the transfer price. The tax is not final. The capital gains on the transfer must be reported by the transferor and will be taxed at ‘normal’ rates. The

[14] Tax shall not be charged on transfer of property that has been owned and occupied by the transferor as his own residence for a period of at least three consecutive years immediately preceding the date of transfer, and provided that the property is disposed off within twelve months of vacating the premises.

provisional tax will then be allowed as credit and any excess credit will be refundable.

Tax on the transfer of immovable property depends on how and when the property was acquired. For graphical illustration of each of the three cases discussed below refer to Figures A1.3, A1.4 and A1.5 in Annex 1.

- Purchased property: If five years have not elapsed from the date of purchase, one may choose either to have the transfer taxed under the old system or at 12 per cent. If five years from the date of purchase have already passed, the transfer will be taxed at 12 per cent on the full transfer value and the value of acquisition of the property may not be deducted.

- Inherited property: In the case of property inherited before the 25th November 1992, the tax is equal to 7 per cent of the transfer value. However, if property was inherited after the 24th November 1992, the tax is equal to 12 per cent of the difference between the transfer value and the cost of acquisition.

- Donated property: Such transfer shall be considered as a deemed sale made at market value of the property at the time of transfer, the only tax exemption arising in the case of donation made by a person to his spouse, descendants or ascendants. The tax chargeable on the transfer of donated property depends on whether such transfer occurs within five years or after five years from acquisition. If the transfer occurred within five years, the transfer or may choose to be taxed under the old system or at 12 per cent. If the transfer occurs after more than five years, tax will be equal to 12 per cent of the difference between the transfer value and the acquisition value.

The only exemption allowed under the new system is that of brokerage fees. In calculating the capital gain under the old system the following deductions are allowed:

- Price at which the property was acquired;
- Inflation;
- Ground rent paid on the property;
- A maintenance allowance at the rate 0.4 per cent for every year of ownership;
- Improvements carried out;
- Duty paid on acquisition;
- Notary's fees;
- Brokerage fees; and
- Other expenses directly related to the transfer but not exceeding 5 per cent of the selling price.

Additionally, When a person inherits property which was the residence of the transferor, the first Lm10,000 (Euro 23,293.73) of the value of the property are exempt from tax. This value was extended to Lm15,000 (Euro 34,940.60) in the Budget for 2007.

At the same time, if the person inheriting the property as mentioned above resided with the transferor, this person paid the reduced rate of 3.5 per cent, instead of 5 per cent on the value in excess of Lm10,000 ((€23,294). In the Budget for 2007, this beneficial rate of 3.5 per cent now started to apply on the value in excess of Lm15,000 (€34,941).

Another rule stipulated that when a person resides in a tenement he/she inherits, and in which the transferor does not reside, the first Lm20,000 (€46,587) of the value of the property attracts the beneficial rate of 3.5 per cent instead of 5 per cent. This Lm20,000 (€46,587) has been extended to Lm30,000 (€69,881) of the value of the property.

2.2.2 Transfer of ownership of securities, business, patents, or cession of any rights of such property

Gains or profits arising from the transfer of securities shall be valued depending on the date of their acquisition. Shares acquired:

- Before the 25th of November 1992, will be valued at the higher of the equity method and the actual purchase price;
- On the 25th of November 1992, shall be valued at the existing prices on that date; and
- After the 25th of November 1992, shall be valued on the cost of acquisition.

The transfer of:

- Government bonds and stocks; and
- Company share listed on a stock exchange recognized under the Financial Markets Act

shall be exempt from that calculation of capital gains

2.3 Income Tax Computation Examples

This section presents two tax computation examples involving various elements of the income tax system, including capital gains. It should be noted that ordinary income refers to any income from self-employment, employment, rent or pension income, whilst unearned income refers to interest and dividend income. Any other assumptions are presented as footnotes to the examples. The examples shown here are based on the tax brackets and tax rates for 2007. It is to be noted that the income tax bands are different in 2007 and 2008, while they are unchanged in 2009 and 2010. Tax brackets and tax rates for the period 2008-2010 are shown in Annex 1.

Example 1 - Tax due by a two-person household for different forms of income

In this example it is assumed that the income is of Lm6,000 (Euro 13,976.24). In case of ordinary income and declared unearned income, the household is taxed the lower 'tax amount due' resulting from single or married tax rates, labelled as 'actual tax due'. The household then faces the choice to declare or not to declare any unearned income. In the former case, unearned income would be taxed at normal rates with the household's other income, whilst in the latter case, the withholding or company tax rates apply. In this example, it pays to opt for declaration in case of both interest and dividend.

Example 1 - **Tax due by a two-person household on an income of Lm6,000 (Euro 13,976.24) earned by main breadwinner for different forms of income – 2007**

	Tax Brackets	**Tax Rate**	**Ordinary Income**	**Declared Interest**	**Unde-clared Interest**	**Declared Dividends**	**Unde-clared Dividends**	**Capital Gains**
Single Computation	0 – 3250 (Euro: 0 - 7570.46)	0%	0	0		0		
Tax Rates	3,251 - 5,500 (Euro: 7,571 - 12,812)	15%	337 (Euro: 785.00)	337 (Euro: 785.00)		337 (Euro: 785.00)		
	5,501 – 6750 (Euro: 12,813 - 15,723)	25%	125 (Euro: 291.17)	125 (Euro: 291.17)		125 (Euro: 291.17)		
	6,751 – Over (Euro: 15,724 - Over)	35%						
Married Computation	0 - 4,500 (Euro: 0 - 10,482)	0%	0	0		0		
Tax Rates	4,501 - 8,000 (Euro: 10,483 - 18,635)	15%	225 (Euro: 523.76)	225 (Euro: 523.76)		225 (Euro: 523.76)		
	8,001 - 10,000 (Euro: 18,636 - 23,294)	25%						
	10,001 – Over (Euro: 23,295 - Over)	35%						
Witholding Tax on Interest		15%			900 (Euro: 2,096.44)			
Witholding Tax on Property		12%						720 (Euro: 1,677.15)
Company Tax		35%					2,100 (Euro: 4,891.68)	
Separate Computation			462 (Euro: 1,076.17)	462 (Euro: 1,076.17)	0	462 (Euro: 1,076.17)	0	0
Joint Computation			225 (Euro: 523.76)	225 (Euro: 523.76)	0	225 (Euro: 523.76)	0	0
Other					900 (Euro: 2,096.44)	0	2,100 (Euro: 4,891.68)	720 (Euro: 1,677.15)
Actual Tax Due					900 (Euro: 2,096.44)	225 (Euro: 523.76)	2,100 (Euro: 4,891.68)	720 (Euro: 1,677.15)

An income of Lm6,000 (Euro 13,976.24) is assumed for any income source
Note: in this example the single computation will not be resorted to in any case. It is only included for illustration purposes.

It should be noted that capital gains from property are taxed at the rate of 12 per cent on the value of property amounting to Lm6,000 (Euro 13976.24) (value of a typical car garage) as the household's capital gains are assumed to be taxed under the 'new system'. For more information on the 'new system' relating to capital gains refer to section 2.2.1.

Example 2 - Total tax due by a two-person household with different sources of income

Assumptions relating to all sources of income are provided as footnotes to Example 2. The household has the option to declare the unearned income. In case of declaration of unearned income, normal tax rates would apply. In case of undeclared unearned income, a 15 per cent withholding tax on interest and the company tax on dividends would apply. The two-person household would in this case opt for married computation and declare its income as this combination gives a total tax due of Lm825 (Euro 1921.73), lower than the resulting tax liability given by any other combination.

Example 2 - **Total Tax Due by a two-person household with different sources of income – 2007**				
	Tax Brackets	**Tax Rate**	**Ordinary Income***	
			Declared Unearned Income	**Undeclared Unearned Income**
Single/Separate Computation	0 - 3,250 (Euro: 0 - 7,570)	0per cent	0	0
	3,251 - 5,500 (Euro: 7,571 - 12,812)	15per cent	337 (Euro 785.00)	337 (Euro 785.00)
	5,501 - 6750 (Euro: 12,813 - 15,723)	25per cent	312 (Euro 726.76)	125 (Euro 291.17)
	6,751 - Over (Euro: 15,724 - Over)	35per cent	87 (Euro 202.66)	
Married/Joint Computation	0 - 4,500 (Euro: 0 - 10,482)	0per cent	0	0
	4,501 - 8,000 (Euro: 10,483 - 18,635)	15per cent	375 (Euro 873.52)	225 (Euro 524.11)
	8,001 - 10,000 (Euro: 18,636 - 23,294)	25per cent		
	10,001 - Over (Euro: 23,295 - Over)	35per cent		
Witholding Tax on Undeclared Interest		15per cent		75 (Euro 174.70)
Witholding Tax on Property		12per cent		
Tax on Company Profits		35per cent		175 (Euro 407.64)
Tax on income from part-time employment		15per cent	450 (Euro 1,048.22)	450 (Euro 1,048.22)
Single/Separate Computation			1,186 (Euro 2,762.64)	1,162 (Euro 2706.73)
Married Computation			825 (Euro 1,921.73)	925 (Euro 2,154.67)
Total Tax Due			825 (Euro 1,921.73)	925 (Euro 2,154.67)
*Ordinary income of Lm10,000 (Euro 23,293.73) made up of:				
Main breadwinner earning Lm6,000 (Euro 13,976.24)				
Secondary part-time income of Lm3,000 (Euro 6,988.12)				
Interest Income of Lm500 (Euro 1,164.69)				
Dividend income of Lm500 (Euro 1,164.69)				

Example 3 - Total tax due by a two-person household with capital gains
This example is similar to example 2 but excludes interest and dividend income to simplify exposition and include income from sale of property for Lm90,000 (Euro 209,643.61) at a profit of 20 per cent (or Lm18,000 / Euro 41,928.72). Thus, capital gains tax is included as the lower of 12per cent of value of property or the applicable income tax rate on the capital gain. Assumptions relating to all sources of income are provided as footnotes to the example.

The household would in this case opt for a married computation and the old capital gains tax system. Total tax due resulting from choosing this combination would amount to Lm6,725 (Euro 15,665.04).

Example 3 **- Total tax due by a two-person household with capital gains – 2007**				
	Tax Brackets	Tax Rate	Income and Capital Gains**	
			New System Capital Gains Tax	Old System Capital Gains Tax
Single/Separate Computation	0 – 3,250 (Euro: 0 - 7,570)	0per cent	0	0
	3,251 - 5,500 (Euro: 7,571 - 12,812)	15per cent	337 (Euro 785.00)	337 (Euro 785.00)
	5,501 - 6750 (Euro: 12,813 - 15,723)	25per cent	312 (Euro 726.76)	312 (Euro 726.76)
	6,751 - Over (Euro: 15,724 - Over)	35per cent	87 (Euro 202.66)	6,388 (Euro 14,880.04)
Married/Joint Computation	0 – 4,500 (Euro: 0 - 10,482)	0per cent	0	0
	4,501 - 8,000 (Euro: 10,483 - 18,635)	15per cent	375 (Euro 873.52)	525 (Euro 1,222.92)
	8,001 - 10,000 (Euro: 18,636 - 23,294)	25per cent		500 (Euro 1,164.69)
	10,001 - Over (Euro: 23,295 - Over)	35per cent		5,250 (Euro 12,229.21)
Witholding Tax on Property		12per cent	10,800 (Euro 25,157.23)	
Tax on income from part-time employment		15per cent	450 (Euro 1,048.22)	450 (Euro 1,048.22)
Single/Separate Computation			11,986 (Euro 27,919.87	7,487 (Euro 17,440.02)
Married Computation			11,625 (Euro 27,078.97)	6,725 (Euro 15,665.04)
Tax Due			11,625 (Euro 27,078.97)	6,725 (Euro 15,665.04)
*Ordinary income of Lm10,000 (Euro 23,293.73) made up of:				
Main breadwinner earning Lm7,000 (Euro 16,305.61)				
Secondary part-time income of Lm3,000 (Euro 6,988.12) ** Capital gains on sale of Property of 20per cent on selling price of Lm90,000 (Euro 209,643.61)				

2.4 Social Security Contributions

The Contributory Scheme is a universal system of contributions whereby an employee, self-occupied or self-employed person pays a weekly contribution as laid down by the Social Security Act. The Maltese system follows a ‘pay as you go’ system, whereby a person makes contributions towards the scheme made during the period that such person is gainfully active, in order to provide for him or herself when a later contingency such as sickness, unemployment or retirement occurs.

In practice, the Social Security contributions collected by Government are used to finance the contributory and non contributory payments during that year, including pensions, disability benefits, unemployment benefits, social assistance, and child benefits. Since Social Security contributions are not strictly tied to benefits, part of the contributions received by Government may also be used, in conjunction with other tax revenue, to finance other expenditure commitments by Government in areas such as education and health. Conversely, if a deficit between contributions and payments exists, other government revenue may be used in order to finance the social security benefits.

The scheme allows for different types of contributions in order to extend coverage to all types of persons in employment. Two classes of contributions exist:

a) Class-One contributions -payable in respect of the employed persons
b) Class-Two contributions paid by self-occupied and self-employed persons.

2.4.1 Class One Contributions

Class One contributions imply that any person employed under a contract of service in Malta is considered to be in insurable employment and subject to the payment of these contributions. For each person, a tripartite contribution is payable on the basic pay:

a) Employee:	10per cent of the basic wage
b) Employer:	10per cent of the basic wage
c) State:	10per cent of the basic wage [50per cent of (a)+(b)]

The contribution is capped to a maximum wage ceiling and there is a minimum contribution payable. In 2007 this was as follows[15]:

- Minimum contribution payable: Lm5.96 (Euro 13.88) per week[16]
- Maximum contribution payable: Lm13.55 (Euro 31.56) per week

For 2007-2010 the weekly social security contribution rates for the employer and employee were as follows:

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[15] Persons under eighteen years of age (other than those falling under category ‘E’) whose basic weekly wage or the weekly equivalent of their basic monthly salary does not exceed Lm59.63) is to pay a weekly rate of contribution of Lm2.84 (payable equally by the employer and employed person)

[16] Or if the employee chooses, 10 per cent of the weekly wage. This rate of contribution entitles the contributor to pro-rata contributory benefits.

	Minimum Contribution Payable		Maximum Contribution Payable	
	Employee	Employer	Employee	Employer
2007	€13.88*	€13.88	€31.56	€31.56
2008	€14.23*	€14.23	€31.94	€31.94
2009	€14.65*	€14.65	€32.33	€32.33
2010	€15.23*	€15.23	€32.91	€32.91

* Or if the employee chooses, 10 per cent of the weekly wage. This rate of contribution entitles the contributor to pro-rata contributory benefits.

Contributions are payable by all persons of age x; where 16 ≤ x ≤ 61/60 (61 for men and 60 for women. Alternatively, the retirement age may be 65 instead.)

The following rules also apply:

- Persons over 65 years of age are not liable to pay, even if they are employed;
- Persons between 61/60 and 65, whose earnings do not exceed the minimum wage, are also exempt;
- A person who is employed in more than one insurable employment shall be deemed to be employed in that insurable employment which carries the higher or highest basic wage or salary;
- Persons who work abroad but who retain their residence in Malta may opt to pay Class One contributions rather than Class Two contributions, without their employer paying any contribution.

The following categories of employment shall not be considered as insurable employment:

- Employment of a casual nature otherwise than for the purposes of the employer's trade or business.
- Employment of a person who is not ordinarily resident in Malta if the employer of that person is not resident in Malta and has no place of business there.
- Employment by any one employer for less than eight hours in a calendar week.
- Employment as secretary or clerk of a society, club, philanthropic institution, school or other similar body or institution, where personal service is ordinarily required only occasionally and outside the ordinary hours of work, provided the hours referred to above are not exceeded.
- Employment of a person who is not ordinarily resident in Malta, if the employer of that person is paying contributions in respect of that person under a scheme of social insurance in another country.
- Employment of any of the directors in any partnership, for the purposes of that partnership, wherein such partnership has been entered into between or among persons that are related to one another, up to and including cousins of the first degree and/or their spouses, provided any such directors are themselves such partners or the spouses of such partners.
- Employment of any majority shareholder in any partnership, for the purposes of that partnership; and for this purpose any shareholder shall still be deemed to be a majority shareholder if, notwithstanding the fact that the

number of his shares do not constitute the majority, the value or powers attached to his holding exceed the aggregate total value or powers attached to the holding of the other shareholders in that partnership.

- With effect from the 6th January, 1992, employment of a person who has reached pension age, or a widow, if she so elects, who is in receipt of a pension in respect of widowhood, provided the weekly wage or salary of such person or widow does not exceed the NMW.
- With effect from the 4th July, 1988, employment of a person as a Casual Social Assistant by the Department for the Care of the Elderly of the Government of Malta.

2.4.2 Class Two Contributions

The rate of Class Two contributions is equally shared by the state and self-employed persons[17]. Weekly rates payable on net income are (See Tenth Schedule Part II and III - LN 318 of 2007[18]:

a) Self-employed/occupied: 15 per cent of annual net earnings
b) State: 15 per cent of annual net earnings

Maximum and minimum contributions also apply:

- Minimum contribution payable: Lm10.46 (Euro 24.36) per week
- Maximum contribution payable: Lm20.34 (Euro 47.34) per week

The Act distinguishes between self-employed and self-occupied. The self-employed person is that one who is not gainfully self-employed in a business or profession and mainly lives on income from investments/rents. The self-occupied person is that who derives income from an economic activity and declares net profit/loss.

The following exemptions from payment of Social Security contributions apply:

- A self-employed person whose yearly means do not exceed:

    1. Lm 630 (Euro 1,467.51) in the case of a married man who is wholly maintaining his wife and who is not herself self-occupied or in insurable employment, or
    2. Lm 430 (Euro 1,001.63) in the case of any other person

    shall be entitled to be exempted from the payment of Class Two contributions. Alternatively, that self employed person may choose to pay a lower weekly rate Lm8.66 (Euro 20.17) per week in the case of a single person, subject to the possession of a certificate of low income.

Account is also taken of:

[17] Self-employed refers to both self-occupied as defined below and the self-employed unless other wise indicated.
[18] In 2007 there is a distinction between self employed and self occupied. Additionally, self employed single persons who are not self-occupied and whose pay exceeds Lm430 but does not exceed Lm2,999 has a weekly rate of contribution of Lm8.66.

- Value of any property belonging to the contributor (excluding primary residence) which could be put or invested to profitable use excluding furniture, jewellery and other personal effects.
- Cash in the bank and in hand including any liquid asset, time deposits, bonds, stocks, shares and other securities
- Capital value of any urban immovable property (excluding the primary residence) which is not being put to profitable use.

Where the Capital Resources exceed the value of Lm4,000 (Euro 9,317.60) for single person and Lm7,000 (Euro 16,305.80) for married couple, the person is not entitled to be exempt from payment of Class Two Contributions.

- Individuals in full-time education (unless they are self-occupied);
- Self-employed (excluding self-occupied) married persons;
- Recipients of a pension (except injury pension); and
- Persons in receipt of social assistance (unless they are self-occupied).

2.4.3 Crediting of Contributions

The Social Security Act also provides that in the event of certain contingencies, credits are awarded. These credits are entitlements not to pay contributions, but this period of non payment still counts as if the contributions were made. The following contingencies entail the award of credits:

- A person who enters insurance for the first time (i.e. pre-entry credits up to a maximum of 104 contribution weeks, depending on the date of first entry in the scheme).
- A widow as long as she is not gainfully occupied.
- An ex-member of the Malta Police Force or the Armed Forces of Malta who retires from the service on a full pension from Government.
- Any citizen of Malta who goes abroad as a volunteer worker.
- An employed person who has had an exhaustion of benefit (sickness, injury, or unemployment benefit, or a pension in respect of invalidity) shall still be entitled to such credited contributions during any week in which he is still unfit for work. A self-occupied person, who is entitled to sickness benefit and at some point of time exhausts his entitlement, shall nonetheless remain entitled to credited contributions.

2.5 Other Taxes

This section gives an overview of the major revenue generating indirect taxes in Malta. These include the value added tax, the vehicle road license tax, the vehicle registration tax, excise duty and duty on documents and transfers.

2.5.1 Value Added Tax

In line with the rest of the European Union, Malta's value added tax (VAT) is imposed on imports, intra-community acquisitions and supplies of goods and services that take place in Malta. The standard VAT rate is 18 per cent, whilst a reduced rate of 5 per cent and 0 per cent exist for a number of selected goods and services. Zero-rated supplies include items such as food, pharmaceutical goods and local transport. However, certain food items under the heading of confectionery are taxed at the reduced rate of 5 per cent, together with holiday accommodation, electricity, printed matter, medical accessories and goods intended for use of disabled persons. Table A1.6 in Annex 1 provides a detailed list of items subject to reduced rates or exemptions.

2.5.2 Vehicle Road License

A vehicle road license is an authorization for the vehicle to be on the road. There are different categories and fees for road licenses catering for each type of motor vehicle. Detailed lists are presented in Tables A1.7, A1.8 and A1.9 in Annex 1.

It is also important to note that prior to March 2007, one could also apply for a Valletta entry permit (V-license) at an extra charge of Lm20 (Euro 46.59). However, a Controlled Vehicular Access System (CVA) has now been implemented and access to Valletta no longer depends on the V-license but has been replaced by a 'pay as you go' system.

2.5.3 Vehicle Registration Tax

A vehicle which is newly registered in Malta must always pay registration tax. The basis of taxation varies according to whether the vehicle is new or used, and whether it is a private or a carrying vehicle. The payable rates are presented in Tables A1.10, A1.11, A1.12 and A1.13 in Annex 1.

This section presents four distinct cases relating to the vehicle registration tax.

a) Transfer of residence from EU countries
   Since vehicles are not considered to be personal effects, registration tax should still be paid when a person transfers his/her residence to Malta.

b) Temporary importation of vehicles
   Foreign registered vehicles brought into Malta temporarily by tourists are exempt from registering tax and licensing subject to the vehicle being registered, licensed and having an insurance policy from another Member State. This exemption is valid for 185 days in a twelve month period. To qualify for this exemption the visitor must have his normal residence[19] outside Malta.

   Only students may remain in Malta for longer than 6 months without having to pay registration tax. Students staying longer than 6 months must inform the Licensing and Testing Directorate and confirm the course of study and duration of stay.

   Other vehicles that may be brought temporarily into Malta include:

[19] Normal residence means the place where a person lives for at least 185 days in each calendar year due to personal and occupation ties.

- Any motor vehicle brought into Malta by a licensed motor vehicle trader as a representative sample of a particular vehicle to be displayed or used for demonstration with a view of obtaining orders for similar vehicles;

- Goods vehicles registered in another Member State of the European Union and operated by a haulier established and licensed in that Member State, brought into Malta to carry out international carriage of goods by road; and

- Passenger motor vehicles registered in another Member State of the European Union and operated by a carrier established and licensed in that Member State brought into Malta to carry out international carriage of passengers by road.

2.5.4 Excise Duty

Excise duty is charged on alcohol and alcoholic beverages, manufactured tobacco, energy products, and mobile telephony services. The applicable rates vary with each product/service category and certain exemptions apply. A detailed list of payable rates is presented in Table A1.14 in Annex 1.

2.5.5 Duty on Documents and Transfers

Duty on documents and transfers shall be paid on life insurance policies, transfers of immovable property or securities, and on credit cards. Details of how the duty is payable in each case is given below:

- Duty shall be paid on life-insurance policies which are not renewed annually at the rate of 10 per cent, minimum Lm5 (Euro 11.65) of the yearly premium;
- Duty shall also be paid on the transfer of immovable properties at the rate of 5 per cent of the value of the transfer. However, in the case of property acquired as a first residence, the duty on the first Lm 30,000 (Euro 69,881.20) is charged at 3 per cent with the rest of the value charged at 5 per cent;
- Duty shall be paid on the transfer of marketable securities at the rate of 2 per cent of the value of the security. Such a duty shall not be paid by collective investment schemes, persons holding an investment services license, international trading companies and foreign companies registered in Malta, but operate primarily abroad; and
- An annual duty of Lm7 (Euro 16.31) is paid on credit cards.

3. Description of the main elements of the Malta's social benefit system

3.1. Development of the social benefit system in Malta through time

The provision of assistance for the needy and for certain other deserving categories of the Maltese population dates way back to the seventeenth century, from the times of the Knights of St. John. The recent history of social security has moved towards a comprehensive approach to social security regulated by the Social Security Act of 1987. Since then, various new benefits were introduced covering children, disabled persons, widows, orphans, persons with very low income etc[20]. The Commissioner of Inland Revenue became responsible for collection of social security contributions from January 1988, and to enforce their collection, from January 2005.

In order to help co-ordinate Maltese social security systems with that of other countries, Malta has signed formal treaties called Reciprocal Agreements. Malta has to date signed Reciprocal Agreements on Social Security with the United Kingdom (since 1956, revised in 1996), Australia (1991), Canada (1992) and the Netherlands (2001). Malta has also signed an agreement (not a Reciprocal Agreement though) with Libya, on the payment of contributions for the Maltese citizens working in Libya.

As from the 1st of May 2004, the Department of Social Security, through its International Relations Unit, is also responsible for the implementation of the EU social security regulations.

3.2 The system of social benefits in Malta

The system of social benefits as presented below is based on the 2006 regulations and it reflects the needs of the I-CUE Eurostat modelling exercise, by way of listing variables, data sources and examples of calculation, in order to facilitate model simulation.

As stated earlier, the main sources of data to be used in this exercise are: EU-SILC and SABS, while other databases listed in the tables below, should be considered as their complements. While SABS as well as the other databases listed in the table format below pertain to individual records, it is pertinent to stress that EU-SILC is based on a sample (for detailed description of the EU-SILC please refer to Chapter 4 and Annex 3). Although EU-SILC and SABS are of primary importance, the other listed databases could be potentially used for checking and benchmarking purposes e.g. Employment and Training Corporation (ETC) database for labour market status, the Inland Revenue Department (IRD) data on income of individuals and their spouses, Common Data Base (CDB) for demographic data, Public Registry data for marital status etc.

[20] Please refer to Annex 2 for data on total social protection expenditure in Malta as per ESPROSS methodology.

3.2.1. Contributory benefits

All benefits, pensions and allowances payable under the contributory scheme, as provided for under the Social Security Act (Cap 318), are subject to some form of a contribution test depending on the type of benefit claimed. There are two classes of contributions: the Class One contribution payable in respect of employed persons and the Class Two contribution paid by self-employed/occupied persons.

Generally speaking, contributions are payable by all persons between the age of 16 years and the age of retirement, which could be anywhere between age of 61 years (60 in the case of women) and the age of 65 years.

Additionally, in order to address the difficulties encountered by part-time workers, as from the 1st of January 2007, the social security contributions due by employees working eight hours or less shall be adjusted to 10 per cent of what they earn from such work. This pro-rata rate of social contributions gives the contributor a pro-rata entitlement to contributory benefits.

Class One Contributions are payable for every person who is considered to be in insurable employment (as already mentioned in Section 2.4.1). There are three different contributions payable by:

1) the employed person,
2) his/her employer and
3) the State.

In terms of the provisions of the Act, whenever a person is employed in Malta under a contract of service, he is said to be in insurable employment – hence a Class One contribution is due[21]. The rate of such contribution by the employee and the employer since 1st January, 2001 is equivalent to 10 per cent of the basic pay, subject to a minimum contribution of Lm5.96 (Euro 13.88) per week and to a maximum contribution of Lm13.55 (Euro 31.56) per week. The state contribution is equivalent to 50 per cent of the amount paid by the employer and that of the employee added together[22].

Persons over 65 years of age are not liable to pay a contribution, even if they are employed. However, persons between age 61 years for men, 60 for women and age 65, whose earnings, if any, do not exceed the minimum wage, are automatically exempt from the payment of any contribution.

Class Two Contributions are payable by persons between the age of 16 and 65, who are occupied in a self-employed capacity. Persons, neither employed nor 'gainfully occupied' are also considered to be self-employed persons and are therefore liable to a Class Two contribution.

The following categories of persons are statutorily exempt from the payment of a Class Two contribution:

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[21] Please refer also to Section 2.4.1.

[22] Persons under 18 years of age pay a juvenile rate of contribution of Lm2.84 (Euro 6.61) if their basic wage does not exceed the minimum wage Lm 59.63 (Euro 138.90). Where the basic salary exceeds the minimum wage, the current rate payable is that of 10per cent of their basic salary.

(a) Persons in receipt of full-time education or training.
(b) Non-gainfully occupied married persons.
(c) Persons in receipt of a pension in respect of widowhood, invalidity or retirement or persons in receipt of a Parent's Pension;
(d) Persons in receipt of non-contributory Social Assistance or a non-contributory pension.

Non-gainfully occupied single persons whose total means do not exceed Lm430 (Euro 1001.64) per annum Lm630 (Euro 1467.52) per annum in the case of married men, as well as 'gainfully occupied' self-employed persons whose earnings do not exceed Lm390 (Euro 908.47) per annum, may apply for a certificate of exemption from the payment of contributions.

There are various rates of the Class Two contribution: the full (or highest rate) and a number of lower rates depending on the total net income of the self-employed person concerned.

As its name implies, the contributory scheme links entitlement to benefit with the payment of contributions. There are two tests that need to be satisfied for contribution conditions purposes. The first test is that at least 156[23] contributions have been paid and the second test is that on average[24] not less than 20 contributions must be paid or credited. In the case of Injury Benefit (IB), Injury Grant, and Injury Pension, there are no contribution conditions.

As of year 2006, in the majority of cases, the start date taken for the calculation of the yearly average is the 1st of February 1965, and the stop date taken, is the end of the contribution year before the year in which the claim is made.

In the case of flat rate pensions, the minimum average for entitlement purposes is 20, and the maximum, which gives the highest rate of pension, is 50. The averages are banded into three groups of the full rate. Under the Two-Thirds Pension scheme, the minimum average is 15 contributions and the rate of pension is directly proportional to the average.

There are two types of contributory benefits: a) short-term and b) long-term benefits.

3.2.1.1 Short term benefits

a) Unemployment benefits

This group of benefits includes: the Unemployment Benefit (UB) and Special Unemployment Benefit (SUB).

[23] The number of required contributions varies in case of Invalidity Pension (IP), Sickness Benefit (SB) and Unemployment Benefit (UB).
[24] In principle, the yearly average is an arithmetic average resulting from the addition of all paid and credited contributions over a period of years and the resultant figure is divided by the number of years indicated.

Unemployment benefit (UB): the Social Security Act stipulates maximum entitlement to UB of 156 days (excluding Sundays). Minimum requirement for the UB is total of 20 paid or credited contributions in the last two consecutive calendar years, preceding the year during which the claim for benefit is made. Any Class Two contributions paid or credited are not taken into account.

Rates: single parent or married person maintaining a spouse who is not employed on a full-time basis receives daily Lm4.25 (Euro 9.90). Other persons receive daily Lm2.78 (Euro 6.48).

Special Unemployment Benefit (SUB) provides higher rate than the Unemployment Benefit. It is applicable to persons who would qualify for non-contributory SA and requires means testing. The Government's policy to ensure that no-one would be unduly exposed to the risk-of-poverty is evident in the provisions such as the SUB.

Rates: Single Parent or Married Person maintaining a spouse who is not employed on a full-time basis receives Lm7.13 (Euro 16.61) daily. Other persons receive Lm4.66 (Euro 10.85) daily.

Table 3.1 **A - Contributory benefits**

1. SHORT TERM BENEFITS			
NAME	DESCRIPTION AND WORKINGS	VARIABLES	MODELLING
1. Unemployment benefit (UB) Schedules: 1 (Employment), 3 (Rates SB, IB, UB, SUB), 11 (Contribution Conditions) Special Unemployment Benefit (SUB) Class One	Workings: Ex-employed persons who have paid not less than 50 contributions since first entry into insurance. Benefit Days paid is not to exceed the number of contributions paid. However, SUB is payable only to a Head of Household who would have qualified for Social Assistance were it not for his/her entitlement to Unemployment Benefit.	a) employment status b) marital status c) spouse's employment status d) children by age e) time/duration f) number of beneficiaries	Databases: SABS, IRD, CDB, ETC

Calculation: <u>Unemployment Benefit – married person - 2007</u>

Example: person who has been employed for the previous four years, and who started registering for benefits on the 8th of January 2007. He will be paid UB/SUB from 8th of January 2007 till the date of unemployment e.g. the 7th July 2007 (as long as he is registering for work regularly).

If a person is married/single parent/or separated but maintaining wife who is unemployed, he will be paid a married rate, which is Lm4.25 (Euro 9.90) for UB and Lm7.13 (Euro 16.61) for SUB, daily.

When paid, full benefit amounts to:
156 days @ Lm4.25 (Euro 9.90) = Lm663 (Euro 1,544.39) for UB, and
156 @ Lm7.13 (Euro 16.61) = Lm1,112.28 (Euro 2,590.94) for SUB.

Calculation: Unemployment Benefit – single person - 2007

If a person is single, or legally separated and not maintaining wife, he will be paid a single rate, which is Lm2.78 (Euro 6.47) for UB and Lm4.66 (Euro 10.85) for SUB daily.

When paid, full benefit amounts to:
Lm433.68 (Euro 1,010.21) for UB and
Lm726.96 (Euro 1,693.38) for SUB.

When full benefit is paid, in order to qualify for another 156 days, one should work another 13 weeks as employed (Class One). UB is issued to any person with Class One contributions, while SUB is means tested. The rates are slightly increased every year, as per cost of living rate.

b) Sickness benefit

Entitlement to SB is 156 days, but in certain cases it may be extended to 312 days. Minimum requirement: first test, minimum of 50 paid contributions during the entire working life and second test, the average of 20 paid or credited contributions in the last two consecutive calendar years preceeding the year during which the claim for benefit is made.

Rates: a single parent or a married person maintaining a spouse who is not employed on a full-time basis at Lm7.00 (Euro 16.31) daily. Other persons: Lm 4.53 (Euro 10.55) daily.

Table 3.2

NAME	DESCRIPTION AND WORKINGS	VARIABLES	MODELLING
2. Sickness benefit (SB) Schedules 3 (Rates SB, IB, UB, SUB), 11 (Contribution Conditions) Class One and Class Two	Workings: All persons who have paid not less than 50 contributions p.a. It may be extended to 312 days provided the insured person had undergone a major surgical intervention or suffered a severe injury or disease which requires a long treatment before the person concerned can resume work.	a) employment status b) marital status c) children d) time, e) number of contributions	Databases: SABS, IRD, CDB, ETC

Calculation: Sickness Benefit - 2007

To qualify for this benefit one has to pass the two tests as in UB, with the difference that Class Two contributors are eligible too.

Rates: are Lm 7.00 (Euro 16.31) for married/single parent or separated person maintaining a wife who is unemployed, while Lm4.53 (Euro 10.55) is paid for single or legally separated and not maintaining wife.

If a person is unemployed, he is immediately examined by the Medical Board and benefit will be issued according to the board opinion, but if he is employed or self employed, he will be paid up to 60 days, prior to being examined by the Medical Board. If unemployed, he will be paid SB daily, excluding Sundays. If employed or self employed, person will be paid according to his working days. A person can be paid a maximum of 468 days in two years.

Example: unemployed person who was examined by the Medical Board and awarded 4 months with effect from the 22nd of January 2007

Benefit will be paid from the 25th January, as the first three days of claim will not be paid, up to 22nd May 2007 i.e.

101 days @ Lm4.53 (Euro 10.55) = Lm457.53 (Euro 1,065.76) if a single rate, and
101 days @ Lm7.00 (Euro 16.31) = Lm707.00, (Euro 1,646.87), if married rate is applied.

c) Injury related benefits

This group of benefits includes: Injury Benefit, Injury/Disablement Pension, and Injury Gratuity.

Injury Benefit (IB) is payable for injury at work or contraction of industrial disease and entitlement is up to 12 months. It is obligatory that the person is insured and has paid at least one contribution.

Rates: In case of a single parent or a married person maintaining a spouse who is not employed on a full-time basis, IB daily rate is Lm10.51 (Euro 24.48). Other persons Lm7.91 (Euro 18.43). Payable to a person who, whilst at work, is injured or contracts an industrial disease and is incapable for work. Highest rate of injury pension is Lm24.74 (Euro 57.63) weekly. It is received only up to date of retirement or invalidity pension (if applicable).

When an injury that causes a permanent incapacity is sustained, the person concerned should be entitled to Injury Gratuity[25] and Injury Pension. To be entitled to a gratuity, one must have suffered permanent incapacity of 1per cent-19per cent.

[25] See also Lump-sum payments.

Table 3.3

NAME	DESCRIPTION AND WORKINGS	VARIABLES	MODELLING
3. Injury benefit (IB) Schedules 3 (Rates SB, IB, UB, SUB), 4 (Industrial diseases or injuries) Class One and Class Two	Workings: Class One and Class Two contributions, not subject to any specific contribution test, even one paid contribution is enough. This benefit is paid up to a period of 12 months from the date when accident occurs, even if on his first day of his employment and even if the accident occurred through a fault of his own or because of his own negligence.	a) time b) marital status	Databases: SABS, IRD, CDB
Injury/ Disablement pension Schedules: 3 (Rates SB, IB, UB, SUB), 4 (Industrial diseases or injuries)	Workings: If the permanent incapacity is more than 20per cent but not more than 89per cent, a disablement pension is given. If the incapacity is 90per cent and over, the person qualifies automatically for an invalidity pension at full rate.	a) degree of injury – medical board. b) time/duration c) marital status d) employment	Databases: SABS CDB, Medical Board records

3.2.1.2 Long term benefits

The second group of benefits are long term benefits. The most common benefits in this group are pensions. In Malta, a person may receive only one pension, that is: Retirement or Two-Thirds pension (i.e. the one which is more beneficial). Prior to 1979, the Retirement Pension together with the NMP and Increased Retirement Pension (IRP), WP and IP schemes, was the main type of retirement pension. Beneficiaries who are receiving another pension for services rendered to one or more of their former employers, are known as Service Pensioners. Service Pension can be any of the following:

- Retirement Pension
- Increased Retirement pension
- Decreased Retirement pension
- Two-Thirds Pension.

The Social Security Act ensures that a person who is in receipt of a Service Pension, is entitled to at least a full rate of Retirement Pension, according to the average contributions paid or credited by him/her, save the other statutory conditions mentioned above.

a) Retirement pension

Retirement pension is payable to persons on reaching pension age 61 in the case of males, and 60 for females. There are various rates and types of categories according to various statutory conditions. Rates vary according to different conditions. A person must have paid at least 156 contributions and an average of 20 contributions per annum (minimum) throughout his/her working life from 18/19 years till age of 61/65 years.

Rates: In the case of a person who is in receipt of a SP from the UK, he is entitled to Lm40.30 (Euro 93.87) if he is married and is maintaining a wife, and Lm31.61 (Euro 73.63) to a single person. Where a person is entitled to a Service Pension which is not payable from the UK Government, he is entitled to Lm37.84 (Euro 88.14) per week, in case of a married man maintaining a wife, and Lm30.49 (Euro 71.02) to a single person.

The law has provided for the payment of an Increased Retirement Pension, in cases where the sum total of a person's service pension together with the rate of Retirement Pension applicable in the case, are lower than the Two-Thirds of his pensionable income.

b) Two-Thirds Pension

Since 1 January 2000, an insured person is liable to pay 1/10th of his basic pay or salary as a Social Security contribution, and is entitled to two-thirds of his pensionable income if he satisfies the condition of being employed or self-occupied for at least 10 years and having an average contribution over a 30 year period of at least 15contributions per year. While the Retirement Pension was based mainly on the payment of flat rate contributions in order to obtain a flat rate pension, the Two-Thirds Pension provides for the payment of an income related contribution, to obtain an income related pension.

Table 3.4

NAME	DESCRIPTION AND WORKINGS	VARIABLES	MODELLING
2. Long term benefits			
1. Retirement pension (RP) Class One and Two Schedule 12 (Rates) Increased Retirement Pension (IRP) Class Schedule 12	To be eligible for a retirement pension, a person needs to pay flat rate contributions and is awarded a flat rate of pension according to the average of contributions paid during the insured person's life. The IRP applies where service pension, together with the RP, falls below the Two-Thirds of the pensionable income.	a) employment b) gender c) age d) income	Databases: SABS, IRD, CDB
2. Two-thirds pension	This is the predominant type of retirement pension in Malta now. Workings: The best three years wages in the last ten years for employed persons and the average of profits of the last ten years in the case of self occupied.	a) employment b) gender c) age d) income	Databases: SABS, ETC, CDB

Calculation: Two Thirds Pension - Employed person

In the case of an employed person the pensionable income is calculated by taking the average yearly salary, on which the relevant contribution had been paid, of the best three consecutive calendar years during the last 10 calendar years prior to retirement.

For example: A person retires on 1st May 1998. Last 10 years taken as 1997, 1996, 1995, 1994, 1993, 1992, 1991, 1990, 1989 and 1988.

Table 3.5

		Income
Best 3 years:	1997:	Lm3,000 (Euro 6,988.20)
	1996:	Lm3,000
	1995:	Lm3,000
		Lm9,000 (Euro 20,964.60) division by 3
	Average:	Lm3,000
The Pensionable Income is:		Lm3,000
Two-Thirds (or .66666)		Lm2,000 (Euro 4,658.80)

With regards to a person who has been defined as a self-employed or self-occupied person, the pensionable income is assessed as follows.

Calculation: Two Thirds Pension – Self-Employed person

In the case of a self employed person, the pensionable income is the average of his net income, derived from investments/rents/pensions etc, of the last 10 calendar years or part thereof, if the person had not been in self employment for the whole ten year period prior to retirement.

In the case of a self-occupied person, the pensionable income is assessed as the average net earnings declared from the person's gainful activity during the last 10 calendar years or part thereof, as for the case of a self-employed. Obviously, where a person was self-occupied and then self-employed (or vice versa) during the ten years, the calculation is made by adding up the two periods for an average of 10 or part thereof.

Example: - A self-employed/self-occupied person retires on 1st May 1998.

Table 3.6

Last 10 years to be considered:	Net Income:
1997	5,000 (Euro 11,646.87)
1996[26]	4,800 (Euro 11,180.99)
1995	4,500 (Euro 10,482.18)
1994	4,200 (Euro 9,783.37)
1993	4,000 (Euro 9,317.49)
1992	3,800 (Euro 8,851.62)
1991	3,700 (Euro 8,618.68)
1990	3,500 (Euro 8,152.81)
1989	3,500 (Euro 8,152.81)
1988	3,000 (Euro 6,988.12)

Pensionable income is calculated as:

$\frac{Lm40000}{10} = Lm4000$ (Euro 9,317.60)

Two-Thirds pension:

$Lm4000 * \frac{2}{3} = Lm2666.40$ (Euro 6,211.11) per annum

It is important to point out that the resultant average, as explained above both for employed or self-employed/self-occupied, will in no case exceed the Maximum Pensionable Income allowed of Lm7,049 (Euro 16,420) in 2007 Indeed, in calculating the pensionable income, no income/salary for each year will be considered above the Lm7,049 (Euro 16,419.75) threshold. In reality, each year's income is updated for the cost of living.

The above examples of pensionable income assessments are valid for both flat rate and Two-Thirds Pensions. In the case of a Two-Thirds Pension, the proportion of two-thirds remains valid in cases where the average of paid and credited contributions is not less than 50. In the event where the contribution average is less than 50, then the proportion of two thirds is reduced accordingly.

Calculation: Two Thirds Pension – average contributions less than 50

If the yearly average is 45 contributions, i.e. less than 50 the proportion is applied.

Therefore, $\frac{45}{50} \times \frac{2}{3} = 0.59999$

[26] Note: for the period prior to 1996, the net income considered includes both income from gainful occupation and investments/rents etc., as the definition of self-employed in this period included both gainfully employed and non-employed.

c) Invalidity pension

Invalidity pension (IP) is payable to persons deemed permanently incapable for suitable full-time or regular part-time employment.

Rates: There are various rates according to different conditions. In 2007, the rate for a married man maintaining a wife was Lm32.59 (Euro 75.91) per week, whereas a single person was entitled to Lm26.94 (Euro 62.75) per week. Where this flat rate Invalidity Pension together with the Service Pension he is receiving, do not exceed two-thirds of his pensionable income, he is entitled to an **Increased Invalidity Pension** (IIP) or such part thereof, ensuring that the two-thirds of the pensionable income are not exceeded. A married man will be entitled to a maximum of Lm47.30 (Euro 110.18) per week, whilst a single person is entitled to a maximum of Lm37.30 (Euro 86.89) per week. **Decreased National Invalidity Pension** is aimed at those who are in receipt of a very low Service Pension so as to ensure that two-thirds of pensionable income plus low Service Pension plus Decreased National Invalidity Pension would amount to the NMP. It is based on different rates (according to average Social Security Contribution and marriage status). Where person is not entitled to a Service Pension, a National Minimum Pension is payable (please see below). A married man will be entitled to a maximum of Lm47.80 (Euro 111.34) a week, whilst a single person will be entitled to a maximum of Lm39.92 (Euro 92.99).

When a person is in receipt of a Service Pension from an employer, he is entitled to receive at least flat rate Invalidity Pension. Effective from the 4th of January 1992, where a person has paid contributions after the 21st of January 1979, and was at any time entitled to an IP, the contributions credited after the 21st of January 1979, while he was entitled to IP, shall be taken into account for the assessment of a pension under the Two-Thirds Pension scheme, when he reaches retiring age. The number of credited contributions to be taken into account shall not exceed the number of contributions paid by the person after the 21st of January 1979. The beneficiary can be in receipt of First Pillar Pension from other country.

Table 3.7

NAME	DESCRIPTION AND WORKINGS	VARIABLES	MODELLING
3. Invalidity pension (IP) Class One and Two Schedule 12 Increased invalidity pension (IIP) Schedule 12 Decreased national invalidity pension (DNIP)	IP, IIP and DNIP are payable to persons deemed permanently incapable for suitable full-time or regular part-time employment. Workings: One must have paid 250 contributions and an average of at least 20 contributions from the age of 19, if born before the 4th of April 1958 and from the age of 18, if born after the 4th April 1958, till the end of the calendar year prior to his invalidity.	a) employment b) degree of injury c) income level d) number of contributions e) marital status	Databases: SABS, IRD, CDB, Medical Board records

d) National Minimum Pension

The **National Minimum Pension** (NMP) is payable to a person who is not in a receipt of a Service Pension from an employer.

Rates: 4/5ths of the National Minimum Wage, in the case of married man maintaining a wife, and two-thirds of the National Minimum Wage in case of any other person. The maximum rates paid as from the 1st of January 2007 where a pensioner has an average contribution record of 50, are Lm47.80 (Euro 111.34) per week for a man maintaining a wife, and Lm39.92 (Euro 92.99) per week for any other person. These rates are applicable when the yearly average of contributions paid or credited is not less than 50.

Table 3.8

NAME	DESCRIPTION AND WORKINGS	VARIABLES	MODELLING
4. National minimum pension (NMP) Class One and Two Schedule 12 Increased national minimum pension (INMP)	Where a beneficiary is not entitled to a Service Pension, he may be eligible to the NMP or to the INMP. This can be considered to be the minimum entitlement of a person who is not in receipt of a service pension as defined by law. Applies where the Service Pension is low. Payable up to two-thirds of the pensionable income.	a) marital status b) income c) number of contributions d) income	Databases: SABS, IRD, Public Registry

e) Widow's pension

This group of benefits includes Widow's and Widower's pension, National Minimum Widow's Pension, Survivor's Pension.

Widow/er's pension (WP) is payable to widows, irrespective of age, who are not gainfully occupied or who are carrying out gainful activities but have the care and custody of children younger than 16 years of age. Rates may vary according to the conditions outlined in the Social Security Act.

Additionally, as from the 1st of January 2007, a widow or widower entitled to a widows'/widowers' pension will remain entitled to the fixed rate of this pension when they earn more than the minimum wage and in the first five years of marriage.

The **Survivor's Pension (SRP)** came into effect in January 1979. Widows whose husbands have paid the proper rate of Social Security contributions after the 21st January 1979 are eligible to this benefit. From January 1998, widowers also became entitled to a Survivor's Pension. The computation of a Survivor's Pension depends entirely on the conditions stipulated under the Two-Thirds Pension Scheme.

Rates: In case where a widow/er has the care and custody of children under age of 16, an increase of Lm1.95 (Euro 4.54) per week for each child is also paid, if the widow remains in a gainful occupation. Where a widow/er is not gainfully occupied an increase of Lm4 (Euro 9.32) per week for each child is paid. Where a widow is not in receipt of a Service Pension from her husband's employer, she is entitled to Lm43.12 (Euro 100.44) per week, provided that the yearly average of contributions paid or credited is 50. A widow/er is disqualified from receiving a WP, Widows Benefit or a SRP in cases where her income from gainful occupation exceeds the NMW. However, where a widow/er has the custody or care of children who are still under 16 years, she can take part in a gainful occupation whatever the income earned. This exemption is extended to widow/ers caring for children under 18 if the child is still at school and not receiving any stipends for his/her studies. This goes in line with the Government's policy to support families with children and in particular one-parent families, as mentioned in Chapter 2.2 above.

If a widow/er is in a receipt of Service Pension from her partners employer any WP arrived at, shall be abated by the amount of such Service Pension, but this abatement shall in no case exceed Lm7.63 (Euro 17.77) per week.

From 1996, and due to the amendments effective since then, as the WP rate was gradually increased to the level of SRP, the rate of gratuity payable on remarriage is automatically increased.

Table 3.9

NAME	DESCRIPTION AND WORKINGS	VARIABLES	MODELLING
5. Widow/er's pension (WP) National Minimum Widow's Pension (NMWP)	Workings: Widow's pension is payable to widows, irrespective of age, who are not gainfully occupied or who are carrying out gainful activities but have the care and custody of children of less than 16 years of age. In case where a widow has the care and custody of children under 16 years of age, different rates are applicable.	a) income / contributions of the spouse b) employment status c) income d) children	Databases: SABS, ETC, IRD
Survivor's pension (SRP) Class One and Two	Workings: When the assessment of a pension is carried out and the pensionable income of the late husband, if not already estimated (if previously he was a pensioner himself) is determined. The Survivors' pension rate is then calculated at 5/9ths of this pensionable income. In other words one multiplies the amount of Pensionable Income of the late husband by .55555 which is equivalent to 5/6 of 2/3.		

f) Orphans Allowance and Parent's Pension

This group of benefits include: Orphans Allowance (OA), Orphans Supplementary Allowance, and Parent's Pension.

Rates: Weekly rate for OA is Lm15.36 (Euro 35.78), while weekly rate for Orphan's Supplementary Allowance is Lm35.00 (Euro 81.53).

Table 3.10

NAME	DESCRIPTION AND WORKINGS	VARIABLES	MODELLING
6. Orphans Allowance (OA) Schedule 3 Orphans Supplementary Allowance Parent's Pension	Weekly allowance paid to a guardian of a child or children who are under 16 years of age. Payable to a parent of an employed or self-occupied person who died as a result of industrial disease or accident at work and whom, prior to death of son or daughter, depended solely on their financial resources for livelihood.	a) no conditions a) income b) employment	Databases: SABS, IRD

3.2.1.3 Lump-sum payments

The last section of the Contributory, long-term benefits refer to the so called Lump-sum payments. This group comprises: Marriage Grant (MRG), Re-marriage Grant, and Disablement Gratuity (DG)[27] as described below.
Marriage grant (MRG) is payment payable upon marriage to persons normally resident in Malta, as well as to the EU citizens, permanently residing (as their primary residence) and working in Malta.

Re-marriage grant has been introduced in cases where a widow decides to remarry. Re-marriage Grant is a one-time payment that is equivalent to 52 weeks at the applicable rate of the Widows' Pension.

Table 3.11 **Lump-sum payments**

NAME	DESCRIPTION AND WORKINGS	VARIABLES	MODELLIN
1. Marriage grant (MRG) Class One and Two Schedule 14 Re-marriage grant	Workings: Lump sum paid by way of a Marriage Grant in terms of Section 70, equal to Lm97.54 (Euro 227.21). Payable to a widow who remarries and hence forfeits her right to a Widow's Pension.	a) citizenship b) permanent residence c) employment	Databases: SABS CDB, ETC
2. Disablement gratuity (DG) Class Schedule 14	Payable to a person following injury at work and where the degree of disability is estimated as being between 1per cent and 19per cent.	a) employment b) medical record	Databases: SABS, ETC, Medical Board

[27] See also Section 3.2.1.1 on injury related benefits.

3.2.2. Non-contributory benefits

Non-contributory benefits are paid out on the basis of means-test, in other words, one has to prove that he has no means to live on, or has no means to pay for a particular service. All pensions and assistances payable under the Non-contributory scheme are subject to a financial means test, except for Tuberculosis and Leprosy Assistance.

3.2.2.1 Pensions

a) Age Pension

Age pension (AP) is payable to citizens of Malta over 60 years of age. It is means tested i.e. capital resources should not exceed Lm6,000 (Euro 13,976.40) for a single person and Lm10,000 (Euro 23,294.00) for a married couple. Prime residence, summer residence, car and garage for personal use are excluded from the calculation of capital resources.

Rates: Highest rates of Age Pension per week, inclusive of any increases under the provisions of article 90A of the Social Security Act are shown in the table below. AP is excluded from the calculation of total income for income taxation purposes.

Table 3.12

Category of Pensioner - 2007	Highest Rate of Age Pension per week
1. A married couple where both qualify for a pension under Article 66 of this Act.	Lm47.80 (Euro 111.34)
2. A married couple where only one of the spouses qualifies for a pension under Article 66 of this Act.	Lm29.66 (Euro 69.09)
3. Widowed, single persons or a married person where a spouse is in receipt of a State Financed Residential Service in terms of Article 93 of this Act..	Lm37.22 (Euro 86.70)

Table 3.13 **B – Non-Contributory benefits**

1. PENSIONS			
NAME	DESCRIPTION AND WORKINGS	VARIABLES	MODELLING
1. Age pension (AP) Schedule 2, 6	Payable to citizens of Malta, over age of 60.	a) income b) age c) marital status d) capital assets e) type of economic activity f) receipt of any other soc. Sec. benefit g) rental tenure	Databases: SABS, Public Registry, IRD, ETC

b) Pensions for the visually impaired and persons with disability

In view of a wider social policy, the Social Security Act provides for those persons who, due to their eye-sight or disability, are not able to perform any work at the labour market.

Pension for the visually impaired (BLD) is payable to a citizen of Malta over 14 years of age, whose visual activity has been certified by an ophthalmologist to be so low, so as to render him/her unable to perform any work for which eyesight is essential.

Pension for persons with disability (HP) is payable to citizens of Malta over 16 years of age. Various types of handicaps are listed under the Social Security Act. No medical board certificate is needed if the person was in receipt of DCA. When a disabled pensioner marries, he retains separate assessment for 5 years, i.e. this person does not lose this pension during the first five years of marriage. This is in addition to an earlier Budget measure aimed at the welfare of persons with disability which states that when two persons with disability eligible for SHP decide to get married they do not lose their benefit.

Rates for BLD and HP/SHP are equal: highest rate is Lm34.58 (Euro 80.55). Both HP and BLD are exempt from the calculation of income for taxation purposes.

Table 3.14

NAME	DESCRIPTION AND WORKINGS	VARIABLES	MODELLING
1. Pension for the visually impaired (BLD) Schedule 2, 6	Paid to those persons who are rendered unable to work due to their visual impairment.	a) age b) marital status c) health condition d) rental tenure e) income	Databases: SABS, Public Registry, IRD
2. Pension for persons with disability (HP) and severe disability (SHP) Schedule 2, 6	Determined according to various types of handicaps as listed under the Social Security Act.	a) age b) health status c) weekly income d) capital assets e) rental tenure	Databases: SABS, Public Registry,

These benefits are not capital resources means tested. However, there is an income weekly test which includes interest from bank savings, from part-time employment or spouse’s income. It is only half of husband’s income that is taken.

Calculation – BLD/HP/SHP - 2007

Example 1. Income of Lm80 (Euro 186.35) a week, only Lm40 (Euro 93.17) is taken here.

$NMW Lm59.63 - Lm40.00 = Lm19.63$ (Euro 45.72)

Instead of Lm34.58 (Euro 80.55) only Lm19.63 (Euro 80.55) is awarded. In other words, no beneficiary should have more than Lm25.05 (Euro 58.35), as a difference between NMW and BLD/HP/SHP rate in order to be entitled to some benefit of this sort.

$Lm59.63 - Lm34.58 = Lm25.05$ (Euro 58.35)

Example 2. The earnings are only Lm40.00 (Euro 93.17) per week, therefore only Lm20.00 (Euro 46.59) is taken into account.

$Lm59.63 - Lm20.00 = Lm39.63$ (Euro 92.31)

$Lm39.63 > Lm34.58$

This beneficiary is entitled to a full BLD/HP/SHP rate.

c) Carer's pension

Carer's pension (Pensjoni tal-Wens, PW) is payable to single, separated or widowed citizens of Malta who are taking care on a full-time basis of a bed-ridden or wheel-chair bound near relative (parents, children, grand-children, brother/sister, in laws). The carer can be also entitled to credits towards Social Security contributions. For the purposes of Social Assistance Carers (SA Carers), patient need not be bed-ridden or wheel-chair bound.

Highest rate 2007 (PW): Lm36.87 (Euro 85.88)
Highest rate 2007 (SA Carers): Lm25.73 (Euro 59.94).

Table 3.15

NAME	DESCRIPTION AND WORKINGS	VARIABLES	MODELLING
3. Carer's pension (PW, SA Carers) Schedule 2, 6	Workings based on a means test: no more than Lm6,000 (Euro 13,976.40) for a single person and Lm10,000 (Euro 23.294.00) for a married couple.	a) capital assets b) marital status c) income	Databases: SABS, Public Registry, IRD

3.2.2.2. Assistances

a) Social Assistances

Social Assistance (SA) is payable to heads of households and who are either un-employed, or unfit for work or seeking employment, and where the relative financial means fall below the level established by the Social Security Act. Also, SA is payable to separated persons who have custody of children and to single or widowed females who lack financial resources and who are caring for an elderly or physically/mentally disabled relative on a full time basis.

Rates (2007): Lm35.47 (Euro 82.62) for single person. Where the number of eligible members in the household exceeds one, the respective weekly rates are increased by Lm3.50 (Euro 8.15) per week, in respect of every other eligible member in the household.

SA is excluded from the calculation of total income for income taxation purposes[28].

Social Assistance Benefit (SAB) is payable to spouse and dependants. The head of household, who is unemployed, but who cannot register under Part One for having left employment voluntarily, being discharged on disciplinary grounds, or having been struck off Part One register by the ETC for refusing work, found working or having failed to call for an interview at ETC.

Unemployment Allowance (UA) payable to head of households who are unemployed and registering for work under Part One.

Supplementary Allowance (SPA) is aimed at those beneficiaries where the total income of the members of the household, falls below the limits outlined by the Social Security Act from time to time.

Table 3.16

2. ASSISTANCES			
NAME	DESCRIPTION AND WORKINGS	VARIABLES	MODELLING
1. Social assistance (SA) Schedule 2, 6	Workings: based on an established scale of rates, payable to heads of households, who satisfy means test.	a) household composition b) marital status c) employment status d) time spent on unemployment benefit	Databases: SABS, CDB, Public Registry, IRD, ETC
Social Assistance Benefit (SAB)	Workings: Means testing as for SA. May also apply in cases where head of household who left employment on medical grounds, is registered under Part Two, till being examined by ETC medical board.	a) marital status b) employment status c) means test as for SA	Databases: SABS, Public Registry, IRD, ETC
Unemployment Assistance (UA)	Payable to head of households who are unemployed and registering for work under Part One.	a) household composition b) marital status c) employment status	Databases: SABS, Public Registry, IRD, ETC
Supplementary allowance (SPA) Schedule: 2, 14	Workings: the income limit for this type of allowance stands at Lm4,200 (Euro 9,783.48) net of Social Security contribution, for a married person, and Lm3,270 (Euro 7,617.14) in the case of a single person.	a) marital status b) income c) other non-contributory benefits	Databases: SABS, IRD

[28] Please see also Sections 1.1 and 2.1.3.

Calculation: Social Assistance, family with two children, four examples - 2007

Example 1. Family of four persons, all unemployed, receives Lm45.97 (Euro 107.08) per week (please see table Non-Contributory Benefits).

Example 2. Family of four persons, one child employed full time, income is greater than the National Minimum Wage (NMW). This family would count as a family of three, and Lm3.50 (Euro 8.15) would be automatically deducted from the three person household rate.

Example 3. Family of four persons, one child employed part-time, income is less than the NMW. Let's say that his earnings are less than 35 per cent of the NMW. In that case, his income would be included, and only 17.1 per cent of that income would be considered. Let's say this child earns Lm10 (Euro 23.29), the 17.1 per cent of it would be deducted from the SA rate for four person household.

$Lm45.97 - Lm1.71 = Lm44.26$ (Euro 103.10)
Example 4. Family of four persons, wife is employed. When wife is employed, she is not deducted from the number of persons in the household. Her income is taken as gross income minus Social Security contributions. Her gross income minus Social Security contribution is equal to Lm30 (Euro 69.88) weekly. The applicable SA rate for this family is that one of the four person household, calculated as:

$Lm45.97 - Lm30 = Lm15.97$ (Euro 37.20)

Calculation: Social Assistance, single person family - 2007

Single parent family is taken here as a parent living with a child below age of 16 years. The SA entitlement for this type of family is Lm38.97 (Euro 90.77) weekly. If this parent was earning Lm20.66 (Euro 48.12) or less, this family will be still entitled to SA, since the entitlement plus other earnings are equal to Lm59.63 (Euro 138.90) which is the stipulated NMW for year 2007.

$Lm20.66 + Lm38.97 = Lm59.63$ (Euro 138.90)

However, if this parent was earning let's say Lm21.66 (Euro 50.45), the calculation of SA would go as follows:

$Lm21.66 - Lm20.66 = Lm1$
$Lm38.97 - Lm1 = Lm37.97$
(Euro 88.44)

If the income of this single parent exceeded NMW, SA would not be paid.

Calculation – Unemployment Assistance - 2007

Example 1. Case of 2 persons, married, husband has been employed for 10 years, now unemployed and all his Social Security contributions duly paid. The family has capital resources of less than Lm10,000 (Euro 23,294.00). Once registered under Part One of the ETC register, he applies automatically for unemployment benefit (UB). The rate of UB is lower than the UA. The rate of UA for two persons is equal to Lm38.97 weekly (Euro 90.77). If he is entitled to UB, i.e. if his capital resources are less than stipulated and his spouse's income is less than the applicable rate of UA for 2 persons, then his UB is immediately converted into Special UB (SUB) at Lm42.78 (Euro 99.65) a week, which is higher than UA for 2 persons (Lm38.97 / Euro 90.77). The beneficiary may receive the UB only for the duration of 156 days (approximately 6 months as Sundays do not count).

In case that the beneficiary is not entitled to UB, he will be paid the UA in full.

Example 2. Case of 2 persons, married, spouse is employed full time. If spouse's income is higher than the UA married rate, this beneficiary will be rejected. In this case if the spouse's income is equal to NMW=Lm59.63 (Euro 138.90), it is higher than the 2 person UA rate of Lm38.97 and no payment of benefit will be issued. The reason for rejection: means test has been exceeded.

Example 3. Case of 2 persons, wife is employed part time with earnings of Lm25.00 (Euro 58.23) per week. From this weekly income the Social Security contributions is first deducted minimum rate of Social Security contribution for 2007, was Lm5.96 (Euro 13.88).

$Lm25.00 - Lm5.96 = Lm19.02$ (Euro 44.30)
$Lm38.97 - Lm19.02 = Lm18.75$ (Euro 43.67)

The husband would receive Lm18.75 weekly (Euro 43.67).

Calculation – Supplementary Allowance – married person - 2007

For the calculation of the entitlement of a married pensioner, all pensions are to be included, i.e. what is received by the claimant and the spouse, any part-time employment income, income from rents, interests or any other income. Let's say that the total income is Lm4,500 (Euro 10,482.30).

A married person is entitled to a maximum SPA 1.75 per cent of the difference, as per calculation below. The calculation of entitlement is done as follows:

$Lm10{,}270 - Lm4{,}500 = Lm5{,}770$ (Euro 13,440.48)

To this amount, a 1.75 per cent rate will be applied. The final amount is then divided by 52, so as to express the weekly entitlement as per calculation below.

$Lm5{,}770 * 0.0175 = Lm100.97$

$Lm100.97 / 52 = Lm1.94$
(Euro 4.52)

This goes in line with the rule that maximum weekly SPA should not exceed Lm3.08 (Euro 7.17) for a married man maintaining his wife.

Calculation – Supplementary Allowance – single person - 2007

To work out the entitlement of a single person who is on a UA or SA, it is important that he is the head of household. If he is not, then he is not entitled to SPA. If he is the head of household, his total income (e.g. Lm4,200 / Euro 9,783.37) is deducted from Lm8,270 (Euro 19,263.92), and the difference is multiplied by 1.25 per cent. The weekly entitlement is calculated below.

$$Lm8{,}270 - Lm4200 = Lm4{,}070$$
$$Lm4{,}070 * 0.0125 = Lm50.87$$
$$Lm50.87 / 52 = Lm0.98$$

(Euro 2.28)

This entitlement goes in line with the rule that the maximum weekly single rate should not exceed Lm1.73 (Euro 4.02).

b) Single unmarried parent and emergency assistances

The Social Security Act provides social assistance aimed at atypical and families in difficulties.

Single Unmarried Parents (SUP) is paid to single parents for self and child, at 75per cent of the rate for two persons, if not living on their own.

Rates: The parent is entitled to work and earn up to Lm20.66 (Euro 48.12) per week (Social Security contributions have to be paid).

Emergency assistance is a very special type of assistance, granted to a female who is or has been rendered destitute by the head of household to the extent that she becomes an inmate of any institute for the care and welfare of such persons. This benefit is payable by the Department of Social Welfare Standards.

Table 3.17

NAME	DESCRIPTION AND WORKINGS	VARIABLES	MODELLING
2. Single Unmarried Parents (SUP)	Workings: Social assistance paid to single parents for self and child, paid at 75per cent of the rate for two persons, if not living on their own.	a) household composition b) marital status c) employment status d) time spent on unemployment benefit	Databases: SABS, Public Registry, IRD, ETC
Emergency assistance	Granted to a female who is or has been rendered destitute by the head of household to the extent that she becomes an inmate of any institute for the care and welfare of such persons.	a) marital status b) employment status	Databases: SABS, Public Registry, IRD, ETC

c) Sickness Assistance and other health related assistances - 2007

Sickness assistance (SKA) is payable to persons suffering from a chronic disease or condition that requires a special diet.

Rates: One person households Lm8.35 (Euro 19.45). Where the number of members in the household exceeds one, the weekly rate is increased by Lm6.15 (Euro 14.33) per week in respect of every other member in the household.

Tuberculosis (TA) and Leprosy Assistance (LA) are other two, non-contributory types of benefits, for which means testing is not necessary.

TA rates: Payable as a basic amount of TA in respect of one member of the household which is affected by tuberculosis, Lm9.55 (Euro 22.25). Also, there is an allowance payable in respect to each additional member of the household affected by or particularly vulnerable to tuberculosis, Lm5.15 (Euro 12.00).
LA rates: LA is payable in respect of the head of household who is a leper Lm12.70 (Euro 29.58), in respect of any other member of the household who is a leper and not gainfully occupied, and under age of 16 years Lm6.55 (Euro 15.26), if 16 years and over Lm12.70 (Euro 29.58) and in respect of any other member of the household who is not gainfully occupied Lm6.55 (Euro 15.26).

Table 3.18

NAME	DESCRIPTION AND WORKINGS	VARIABLES	MODELLING
3. Sickness assistance (SKA) Schedule: 2,5,7,9	Workings: means tested, capital assets Lm6,000 (Euro 13,976.40) single person and married Lm10,000 (Euro 23,294.00) as in AP, except that only first Lm40 (Euro 93.17) are to be ignored from interest and rent income.	a) medical condition b) income c) capital assets	Databases: SABS, Public Registry, IRD, Medical Board records
Tuberculosis assistance* (TA) Leprosy assistance* (LA) Schedule 9	Workings: according to the stipulated rates	Not means tested	Databases: SABS, Public Registry, Medical Board records

Calculation – <u>Sickness Assistance, single person</u>

Example: Case of a single retired person, with capital assets below Lm6,000 (Euro 13,976.40). The second means test, is that his means are not greater than Lm9.30 (Euro 21.66) a week. This person has earnings (e.g. interests and dividends) of Lm80 (Euro 186.35) and from rent another Lm40 (Euro 93.18).

This person earns DSS pension of Lm42.50 (Euro 99) a week. From this amount Lm39.92 (Euro 92.99) (single rate of the National Minimum Pension) is being deducted.

$$Lm120 - Lm40 = Lm80$$

$$\frac{Lm80}{52} = Lm1.54$$

$$Pension Lm42.50$$

$$NMR(Single) = Lm39.92$$

$$Lm42.50 - Lm39.92 = Lm2.58$$

$$Lm1.54 + Lm2.58 = Lm4.12$$

$$Lm4.12 < Lm9.30$$

Lm4.12 (Euro 9.59) this sum being below Lm9.30 (Euro 21.66), indicates that this person is entitled to SKA.

Calculation – <u>Sickness Assistance, married person - 2007</u>

Case of a married couple, capital assets below Lm10,000 (Euro 23,294). Both have an income of Lm160 (Euro 372.70) from rents, interest etc. Further Lm40 (Euro 93.17) of the rental income is being deducted from this sum.

$$Lm160 - Lm40 = Lm120$$

$$\frac{Lm120}{52} = Lm2.31$$

(Euro 5.38)

This couple earns DSS pension as well as a foreign pension, a total of Lm67.80 (Euro 157.93) a week. From this amount Lm47.80 (Euro 111.34) (marriage rate of the National Minimum Pension) is being deducted.

$Lm67.80 - Lm47.80 = Lm20.00$ (Euro 46.59)

Their total weekly means are therefore,

$Lm2.31 + Lm20.00 = Lm22.31$ (Euro51.97)

This amount is higher than the stipulated 2007 rate for a married couple of Lm12.80 (Euro 29.82), and therefore this couple is not eligible to SKA.

3.2.2.3 Health benefits in kind

a) Free medical aid (MA) is payable to a person who on account of disablement sickness, or disease (and who is not hospitalised) is in need of medical, surgical, or pharmaceutical aid. It is means tested except in cases where the person is suffering from tuberculosis, leprosy, poliomyelitis or diabetes mellitus or other chronic diseases outlined in the Social Security Act.

Pink and Yellow cards guarantee free medical aid to beneficiaries who are means tested (Pink) and those who do not require means testing (Yellow card).

b) Milk Grant (MG) is usually awarded to those persons who, or their families are recipients of SA or UA benefits.

Table 3.19

NAME	DESCRIPTION AND WORKINGS	VARIABLES	MODELLING
1. Free medical aid (MA) Schedule: 2,5, 8 Pink Card and Yellow card	Workings: based on means test Lm4,000 (Euro 9,317.60) for single person and Lm7,000 (Euro 16,305.80) if married. No means test necessary for clients in receipt of AP, SA, TA, LA. Rented property not calculated as an asset, but only rental income derived from it. Pink Card entitles to a free medical aid and if person is not means tested, falls under the Yellow Card.	a) capital assets b) income c) medical certificate	Databases: SABS, Public Registry, Medical Board records
2. Milk grant (MG) Schedule 9	Milk Grant is payable at Lm6.55 (Euro 15.26).	a) means tested as in SA or UA	

3.2.2.4 Family allowances

a) Children related benefits

This is a significant family of benefits, which all in one way or another, affect families with/expecting children. It includes: Children's Allowance (CA), Special Allowance, Disabled Child Allowance (DCA), Child Rising Allowance, and Maternity Benefit (MB).

Children's allowance is payable to locally residing females, citizens of Malta or married to citizens of Malta, which also includes a citizen of a country signatory to the European Social Charter and from the 1st April 2004 a citizen of a MS of the EU, who have the care of children under 16 years of age, and where the income does not exceed Lm10,270 (Euro 23,923.00).

If a child is over 16 years but under 21 years of age, and still undergoing full-time education or training and who is not receiving any form of remuneration or allowance, or is registered unemployed under Part One of the Employment and Training Corporation register and has never been gainfully occupied, 2 per cent is payable for each such child.

Table 3.20

Children's Allowance	
Number of children in household under 16 years of age	Percentage rate payable
1	6per cent
2	9per cent
3	12per cent
4	15per cent
5th and other subsequent child(ren)	3per cent for each such child
Over 16 years but under 21 years and still undergoing full time education or training in an educational institution recognised by the government in terms of the Education Act (Cap. 327) and who is not receiving any form of remuneration or allowance or is registered unemployed under the Part I register and has never been gainfully occupied.	2per cent for each such child
Over 16 years but under 21 years and is registered as unemployed under Part I of the employment register kept in accordance with the provisions of the Employment and Training Services Act (Cap. 343) and who has never been gainfully occupied, and who is not in receipt of any benefit, pension or assistance payable under this Act.	2per cent for each such child

An allowance payable to a household under this part shall in no case be less than Lm52.00 (Euro 121.13) per annum. Where there are four or more children in a household, entitlement to an allowance is still acquired by such household, as long as such reckonable income does not exceed Lm13,270 (Euro 30,910.78). CA and DCA (below) are income tax exempt.

Special Allowance payable to locally residing parents, citizens of Malta or married to a citizen of Malta who have the care of a child who is 16 years of age or over, up to 21 years of age and who is either still at school or registering for employment. Highest rate: Lm2.88 per week

Disabled Child Allowance (DCA) payable to locally residing citizens of Malta who have the effective custody of a child suffering from cerebral palsy or severe mental sub-normality or is severely disabled, or have a child under 14 years of age who is visually impaired.

Rates: Disabled Child Allowance is equal to Lm5.00 (Euro 11.65), where the annual reckonable income does not exceed Lm9,270 (Euro 21,593.29). When annual reckonable income exceeds Lm9,270 (Euro 21,593.29) but does not exceed Lm13,270 (Euro 30,910.78) the weekly rate of Lm5 (Euro 11.65), by way of an allowance is to be deducted by 6.5per cent of the difference obtained between the reckonable income and Lm13,270 (Euro 30,910.78).

Child Rising Allowance / Fostering Care Allowance (FCA) is payable to recognised institutes for the care of children and to foster parents. The children are to be residents at a recognised institute, or living with foster parents.

Rate: Lm12.00 (Euro 27.95) per week per child is payable. An allowance payable under this part shall continue in payment when the child is over 16 years, but under

18 years and still not gainfully occupied. Similarly to CA, FCA is not included in the calculation of total income for taxation purposes[29].

Allowance for expenses incurred in licenced childcare services amounting to Lm400 (Euro 932) can be deducted from the taxable amount. Additionally, in those cases where employees receive payment from their employer for expenses related to childcare services, such payments shall no longer be considered as fringe benefits in the hands of the employee and will not be taxable.

b) Maternity Benefit (MB) is payable to locally residing pregnant women of Malta, in respect of the last 8 weeks of pregnancy and the first 5 weeks after childbirth. Only payable if the employed woman is not entitled to maternity leave from her employer.

MB is not means tested. It is paid per pregnancy, even if the child is still born. Rate: Lm25.75 (Euro 59.98) weekly. MB is not included in the calculation of total income for income tax purposes.

Table 3.21 **C – Family allowances and maternity benefits**

NAME	DESCRIPTION AND WORKINGS	VARIABLES	MODELLING
1. Children's allowance (CA) Schedule: 2, 14	Workings: the condition is that the household income does not exceed a stipulated amount in 2007 set at Lm10,270 (Euro 23,923). Any reckonable income below Lm2,770 (Euro 6,452.36) shall be accepted to be equivalent to Lm2,770 (Euro 6,452.44). Percentage rate is payable, by way of an allowance, on the difference between reckonable annual income and Lm10,270 (Euro 23,922.66) as per	a) income b) citizenship c) number of children d) age of children e) children in education f) receiving stipend or not	Databases: SABS, Public Registry, Medical Board records Education records
Special allowance	Workings: it is means tested as in the case of Pension for the Visually Impaired.		
Disabled Child Allowance (DCA) Schedule: 2 and 14	When annual reckonable income exceeds Lm 9,270 but does not exceed Lm 13,270 the weekly rate of Lm 5, by way of an allowance, is to be deducted to 6.5 per cent of the difference obtaining between the reckonable income and Lm 13,270. Payable to a household under this Part shall in no case be less than Lm 52 per annum. No entitlement to an allowance under this Part is acquired where the annual reckonable income exceeds the maximum annual reckonable income indicated above.	a) income b) medical records	Databases: SABS, IRD Public Registry,
Child Rising allowance / Fostering Care allowance (FCA) Schedule: 14	Flat rate of Lm12 (Euro 27.95) per week is paid. Those who qualify for DCA get both allowances paid.	a) not means tested b) certificate from Appogg c) age	
2. Maternity Benefit (MB) Schedule: 14	Flat rate paid for the duration on maternity benefit.	a) employment	Databases: SABS, IRD, Public Registry, ETC

[29] Please refer to Section 2.1.3.

Calculation – Children's Allowance, family with three children - 2007

Example 1. Family with three children and income higher than the NMW, let's say Lm5,270 basic wage only. The 12 per cent rate applies for 3 children.

$Lm5,270 < Lm10,270$
$Lm5,270 * 0.10 = Lm527$ (Euro 1,227.58)
$Lm5,270 - Lm527 = Lm4,743$ (Euro 11,048.22)

This is the income taken for the calculation of CA.

$Lm10,270 - Lm4,743 = Lm5,527$ (Euro 12,874.45)
$Lm5,527 * 0.12 = Lm663.2$ (Euro 1,544.84)
$Lm663.2 : 52 = Lm12.75$ (Euro 29.70)

This family qualifies for CA, and is to receive Lm12.75 (Euro 29.70) weekly for all three children.

Example 2. Family with three children, with basic wage of Lm2,770 (Euro 6,452.36).

$Lm10,270 - Lm2,770 = Lm7,500$ (Euro 17,470.30)
$Lm7,500 * 0.12 = Lm900$ (Euro 2,096.44)
$Lm900 : 52 = Lm17.31$ (Euro 40.32)

This family would be entitled to Lm17.31 (Euro 40.32) weekly, for all three children.

Calculation – Disabled Children Allowance, family with disabled child - 2007

Family with one child, both parents work. Only one, higher income is taken into consideration. The higher income is Lm9,270 (Euro 21,593.29). This family will get a flat rate of Lm5.00 (Euro 11.65) for a disabled child (for each disabled child if more than one). Also, the family (mother) will get Children's Allowance, of 6per cent on the income difference, as per calculations shown above.

3.2.2.5 Other allowances

Allowance paid to residents of therapeutic community (DAD) is paid weekly to persons with problem drug use undergoing therapeutic/rehabilitation treatment at an institution recognised by the Minister responsible for social policy and is payable throughout his stay in the programme. If wife is gainfully occupied, the allowance to husband is paid in full.

Rate (2007): Lm10.00 (Euro 23.29).

Table 3.22

NAME	DESCRIPTION AND WORKINGS	VARIABLES	MODELLING
Allowance paid to residents of therapeutic community (DAD) Schedule: 14	Workings: Capital assets of the households are not to exceed Lm6,000 (Euro 13,976.24) if single and Lm10,000 (Euro 23,293.73) if married. When beneficiary is on semi-residential basis, full social assistance is paid. Prior to DAD they have to be on some form of SA paid to them or their parents.	a) marital status b) employment of the spouse	Databases: SABS, IRD Public Registry, ETC

Bonuses are paid to majority of social beneficiaries, as well as to employed persons (all categories). Bonus (1) is payable to all persons receiving a pension, Orphans Allowance, Social Assistance and Leprosy Assistance under the Social Security Act. Bonus (2) is payable to persons receiving a pension for services rendered in Malta, or ex-British Service pensioners, or persons over 75 years of age who receive a Service Pension from any other source, or persons who were born before the year 1902. **Bonus (1)** is paid each June and December Lm58 * 2 (Euro 135.10 * 2). **Bonus (2)** is paid weekly Lm1.34 (Euro 3.12) in March and September Lm34.84 * 2 (Euro 81.16 * 2), employed persons get Lm52*2 (Euro 121.13).

Table 3.23

NAME	DESCRIPTION AND WORKINGS	VARIABLES	MODELLING
Bonus (1) Bonus (2)	Workings: based on flat rates.	a) universal except for DAD recipients	Databases: SABS, IRD Public Registry, ETC
Additional Bonus	Payable to all persons who receive bonus as mentioned in Sickness Assistance.		

The Sixth Schedule of the Social Security Act, in its parts I, II, III and IV stipulates that the rates will be increased by Lm0.50 (Euro 1.16) per week, if the household is paying rent for its normal place of habitation, **House Rent**.

Table 3.24

NAME	DESCRIPTION AND WORKINGS	VARIABLES	MODELLING
4. House Rent	Rent element of 50 cents (Euro 1.16) per week paid to non-contributory beneficiaries, to only one of the spouses, where there is a couple.	a) means test b) rental tenure	Databases: SABS, Rental contract

4. Data availability and other modelling issues

4.1. The input data set

The main scope of this project will be to model the tax-benefit system in Malta, as comprehensively as possible.

The main income data source that will be used for this modelling exercise is EU-SILC 2008, with 2007 income data (Euromod income reference year). In Malta EU-SILC has been conducted on an annual basis by the National Statistics Office, since 2005. Data collection is mainly done by face to face Computer Assisted Personal Interviewing (CAPI), as this method was deemed to be the most efficient mechanism by which data of this kind may be collected.

The EU-SILC is based on a sample size of nearly 3,400 households and approximately 10,000 individuals. Nearly three quarters of the sample contacted in the 2008 survey had already been contacted during previous SILC surveys. This sampling method ensures that representative longitudinal component in the survey is retained. In 2008, 25 per cent of the households were contacted for the first time in 2005 (4^{th} time in EU-SILC 2008); 25 per cent in 2006 (third time), whilst 25 per cent in 2007 (second time).

The questionnaire used in this survey included a vast number of questions that permitted the collection of income data at a very high level of detail and with adequate levels of quality. Data from the EU-SILC 2008, with 2007 as income reference year, have been collected during the four months between June and September, 2008. Most of the questions were obtained directly from the respondents with the exception of social benefits which were extracted from administrative sources.

In fact, social benefits data were obtained from the SABS, with reference year 2007, by linking the EU-SILC micro-dataset with this register at individual level. Database linking was possible through the use of ID cards, which was available in SABS and also collected in the survey. By maximising the use of administrative registers, it was possible introduce more questions and collect more detail on important variables like employment income, without increasing the response burden.

Attempts had been made to link EU-SILC with the employment income register held at the IRD. Unfortunately, access to individual records was restricted at that time because of reasons of data confidentiality. This issue was solved during the following year, and IRD data was made available for EU-SILC 2009 project.

Individual income was merged at household level and linked with the household's earnings to create a main dataset in which the observational unit is the household. Thus, it was possible to derive a comprehensive income dataset with gross household earnings which will serve as basis for the model.

4.1.1 Income Data in the EU-SILC

The main income component that is derived from the EU-SILC is the **gross household income**, which is collected according to 1995 European System of Accounts (ESA 95) methodology and definitions (with some exceptions when it comes to treatment of fringe benefits, imputed rent and non-monetary benefits). Another important household income component is the **household disposable income** which is derived from the gross household income, by deducting all taxes and all Social Security contributions (household income and social security contributions are available as a single variable in the EU-SILC dataset).

The gross household income is derived from another larger list of gross income variables. Most of these variables are collected at individual level. The full list of income components that are available, together with their definitions, is provided in the Annex 3 - EU-SILC 2008 - Income definitions.

The EU-SILC has also a set of **non-income variables at household and individual level** that might be used for disaggregation purposes in the models. These include basic information on the household members, as well as information on employment, health and information related to main dwellings. Variables related to **housing** include type of dwelling, number of rooms, tenure status, bills, mortgages and other housing costs, together with all government subsidies related to the main dwelling.

Due to expected under declaration of income for tax purposes, the actual tax paid may differ from the tax due as estimated from the EU-SILC database. In addition there are also differences between the methodology used to calculate income using the EU-SILC methodology and that used by IRD. As an example, the IRD database excludes interest income which is not declared, but is taxed at source at 15 per cent under the withholding tax. Still, IRD aggregate statistics can be used in order to determine the degree of under-reporting and coherence of the survey with other sources to assess the quality of the data.

The social benefits model relies heavily on the SABS database. The system is readily available at the Ministry for the Family and Social Solidarity. Data inputting is done on a daily basis thus enabling regular updates. The database contains all variables necessary for eventual processing of benefits and it also indicates other benefits being awarded to the household (e.g. SA or CA). The data are kept on individual bases (beneficiary) with relative data on spouse (where applicable). SABS was developed incrementally over a period of twelve years with the first batch of modules deployed in 1995. This provides a solid ground for the analysis of time-series data.

The SABS database includes the following types of data:

- personal data such as: ID card number, Social Security number, date of birth, gender, civil status, locality of residence, number of children (dependent children: biological and fostered children, joint custody detail included)

- personal data of the spouse (where applicable), such as the ID card number
- benefit related data: type of benefit, award date, rate in Lm awarded on weekly basis[30],
- data related to the means test (where applicable) for various tests (e.g. CA or SA),
- data related to other benefits availed of in terms of rate awarded, or the amounts of other types of pensions (such as a Service Pension).

This kind of data allows the application of the model based on different types of family nuclei, by number of dependent children and total household income (of both spouses where applicable). Given the fact that the personal income tax is assessed either on the basis of joint (both spouses) or individual income tax returns, the SABS offers a possibility of matching the Euromod model required data.

The SABS data are maintained regularly, introducing changes as they appear, such as births, deaths, changes in income level, changes in awarded rates and types of benefits. Generally speaking, aggregated data (not individual records), are available for all variables considered to be part of the criteria for each group of benefits: contributory and non-contributory.

4.1.2 Data access issue: technique used to preserve the anonymity of respondents

EU-SILC data is available for Malta. However, due to privacy and confidentiality issues, which are at the base of any release of micro data, this data could not be made available. Given that Malta is a small nation there is the possibility of identifying individuals from any release of micro data. Therefore, in view of this limitation, the National Statistics Office (NSO) has worked with Eurostat in order to determine which controls are required in order to ensure that confidentiality in Malta's EU-SILC data is preserved. Thereby, a technical solution was found which identifies a technique that may be performed on micro data to preserve its anonymity.

This technique was conducted by means of mu-Argus based on the 'rare combinations' approach. This is a common procedure used by a vast number of National Statistical Institutes. The classification of each identifying variable used for the analysis, together with the disclosure control applied in each case, are shown in Annex 5. Although a number of generic rules are applied by all EU Member States, each country has the right to introduce new controls if deemed necessary, depending on the particular type of micro data.

In our case, we have tried to limit the introduction of new controls to a bare minimum in order to keep a good balance between data protection and information loss. However, in view of the characteristics of our micro data (in terms of

[30] Lm converted to Euro on the 1st of January 2008.

composition and size), some additional controls were necessary on some particular categorical variables involving a large number of categories.

4.2. Simulation possibilities

4.2.1 Simulation possibilities – income tax

This section relates to variable requirement and availability for the simulation of income tax and social security contribution. As states in section 4.1, the main income tax data source will be the EU-SILC Survey.

4.2.1.1 Simulation of Income Tax (excluding capital gains)

Overall, the EU-SILC database provides the main data required for simulation of income tax on taxable income. Data are required on:

- Residence - residents, non-residents, foreign employees and returned migrants.
- Income - business, employment, pension, rent, dividends and other income.
- Source of income - arising in Malta or abroad.

Data on resident individuals are available. According to the Employment and Training Corporation, the number of active employment licences as at the end of 2008 was 9,606 and declined to 7,651 by 2009. Data on resident permit holders and returned migrants is available from Eurostat as from 2008 onwards. According to Eurostat statistics, the number of long-term residents increased from 105 in 2008 to 165 in 2009.[31] At the same time, Eurostat data indicates that permits valid at the end of 2009 decreased to 4,608 from 4,875 in 2008. It is important to note that the latter figure includes persons granted with a residence permit for education and study purposes, reasons related to family formation and reunification, remunerated activities and other reasons.

Foreign employee data are included in EU-SILC only if they retain their family ties and work abroad for more than six months, whilst data for resident individuals who are not domiciled i.e. do not have a permanent legal residence in Malta would not be available if the person intends to stay away from Malta for more then six months.

All other information required on taxable income is included in EU-SILC, but data relating to dividends is generally subject to a high degree of item non-response and requires a high degree of mathematical imputation. This makes it less reliable than the other EU-SILC variables for modelling purposes.

Furthermore, the EU-SILC database does not make a difference between income received in Malta or abroad, a distinction which might be necessary for tax calculations of individuals who are resident, but not domiciled in Malta, as well as for non-residents.

[31] Long-term resident status according to Eurostat refers to permits issued under Council Directive 2003/109/EC, which is based on a total duration of legal resident of 5 years or longer, combined with a series of other conditions that must be met to qualify for this status.

Table 4.1 below presents a list of additional variables which would be required for income tax simulation purposes. Data on these variables are required in order to allow for deductions from gross income as recorded by the EU-SILC survey to calculate the taxable income. Since data relating to private retirement schemes, disability pension, age pension, children's allowance, part-time employment and assistance from an estranged spouse are all available and extractable, deductions from the EU-SILC gross income component can be easily made. Data relating to sums received by way of commutation of pension, retiring or death gratuity, scholarships, collective investment schemes, scholarships, foster care, investment income and DCA, are all included in gross income. However, these data cannot be extracted, forbidding the necessary calculations to arrive at taxable income.

Table 4.1 - **EU-SILC Variables: Availability and Extractability**

Income/expense Component	Availability*	Extractability**
Private retirement scheme;	Y	Y
Disability pensions and pension for the visually impaired;	Y	Y
Social assistance;	Y	N
Age pension;	Y	Y
Financial assistance received by an individual from his estranged spouse in respect of maintenance of a child;	Y	Y
Marriage grant;	N	N
Maternity benefit;	Y	N
Children's allowance;	Y	Y
Foster care allowance;	Y	N
Disable child allowance;	Y	N
Scholarships;	Y	N
Collective investment scheme; and	Y	N
Sums received by way of commutation of pension, retiring or death gratuity or received as compensation for death or injury;	Y	N
Expenses incurred in the production of income (self-employed);	N	N
Alimony payments made to an estranged spouse;	Y	N
School, facilitator and childcare centre fees;	N	N
Income from part-time employment;	Y	Y
Investment income;	Y	N
Fringe benefits; and	Y	Y
Women returning to employment after a minimum five year absence.	N	N

*Availability refers to whether the variable is included in the EU-SILC gross income.

**Extractability refers to the ability to identify the amount of income from that particular variable (separated from other income).

Data relating to expenses incurred in the creation of income (in case of self-employed), school facilitator and childcare centre fees, and women returning to

work after a five year absence are not available from EU-SILC. As for fringe benefits, EU-SILC 2008 gross income variable includes only data relating to cars and related expenses; however other fringe benefits (including non-taxable income fringe benefits) are available in the dataset as well. Still it is not possible to fully extract the non-taxable fringe benefits from these variables for simulation purposes. The exclusion of marriage grants from gross income should not be a problem because they are non-taxable. It should also be noted that social assistance provided in kind is not estimated in EU-SILC. However this should not represent a problem as these benefits are non-taxable as well.
It should also be noted that:

- Data relating to private retirement scheme may be under-represented;
- Components relating to income from collective investment schemes and fringe benefits will be available as from EU-SILC 2008; and
- Investment income is part of total income and cannot be solely identified, except in the case of dividends.

4.2.1.2 Simulation of Capital Gains

Simulation of income tax on capital gains requires data on transfer of immovable property and transfer of securities. Data on these variables are not available in the EU-SILC and thus cannot be simulated.

4.2.1.3 Simulation of Social Security Contributions

In order to simulate Social Security contributions, data on:

- Income by source - basic salary, net income, pension including widows, invalidity, retirement and parent's pension or any form of social benefit in cash;
- Type of work - whether full time in excess of 20 hours per week, part time in excess of 8 hours per week, and casual employment;
- Status of contributor - whether employed, self-occupied and self-employed;
- Age of contributor; and
- Nationality and residency.

Additional information required in order to calculate exemptions from Social Security contributions includes information on whether an individual is:

- in full-time education;
- is a married self-employed;
- is a director in a family-run partnership; and
- is a majority shareholder or a major shareholder within a partnership.

The EU-SILC database provides information on most of these variables except for information on the last two. Directors in family-run partnerships are not distinguishable from self-occupied persons, whilst no information on the amount of shares owned in partnerships is available. Therefore, EU-SILC and the IRD data are good basis for modelling Social Security contributions. Section below focuses however on some envisaged limitations in the application of the EU-SILC for the purposes of Euromod modelling.

4.2.1.4 Limitations of Using the EU-SILC for EUROMOD modelling

The quality of data available in EU-SILC mainly depends on the respondents' ability to indicate correctly the household income received during the income reference year and their ability to distinguish between the different sources of income. Although most of these errors are corrected during analysis by the use of auxiliary information within the dataset, errors may still exist, which might create distortions in the model.

Other limitations include unit and item non-response. One typical example are highest income group households who are generally more likely to refuse mostly to participate in surveys which may lead to a considerable underestimation of some income components at aggregate level (e.g. Employment Income). Post-stratification weighting and further calibration using auxiliary information is generally applied in order to cater for unit non-response bias. However, these methods have a number of limitations and depend on a number of assumptions that cannot always be satisfied. On the other hand, item non-response is another factor that affects specific income components. Income components with highest item non-response rates include income from self-employment and income from dividends or interests. This missing information is imputed by the application of valid mathematical algorithms which in turn might have repercussions on the quality of the produced statistics.

It is also to be noted that the definitions of household gross and disposable incomes adapted in EU-SILC do not fully concord with the definitions criteria adapted in the SABS. Alterations by the inclusion or exclusion of some particular gross income components in the EU-SILC are however possible.

EU-SILC also fails to provide information regarding household expenditure and all related (indirect) taxes. Thus, our model will be inadequate to model Value Added Tax, with a consequence of not being able to draw the whole picture as regards to tax burden on households in the Maltese economy.

In order to validate the micro-simulation model, the results need to be benchmarked with a number of official aggregate statistics. These include government finances statistics highlighting the Government's aggregate revenues (mainly from direct taxes) and expenditures (e.g. social benefits) on quarterly basis, and income data from National Accounts. Moreover, the IRD reports on declared incomes and paid taxes may be used for comparative analysis.

4.2.2 Simulation possibilities – social benefits

The SABS database offers a full coverage of all persons receiving social benefits (with the exception of some less significant benefits like housing benefits and education-related benefits, which are collected directly from the respondents) and it can be used for model validation purposes.

Contributory benefits - short term benefits can be modelled using the SABS data. Data such as Social Security contribution, actual rate awarded, marital status and labour market position of the spouse (where applicable) can be obtained from the SABS. The ETC and CDB data can be utilised as well.

With respect to long-term benefits, the records on Social Security contributions are available from the SABS, as well as the income declared for indicated significant years (Class One and Class Two). Regarding WP for example, the income element and detail's on children (age and stipends) are available from the SABS. The details on other benefits which include citizenship and children supporting parents for example, are available from the SABS.

Non-contributory benefits require a detailed set of data on various dimensions of income and capital resources as indicated in the description of links between them (please refer to Chapter 1). Income and capital resources tests are based on a variety of information concerning not only the beneficiary but also his/her spouse and other members of the household. Demographic detail such as: number of household members is available, since some benefits' entitlements depend of the household size. The type of relationship to the beneficiary is also important as it determines which rate of benefit will be awarded (e.g. in case of SA if the spouse is employed her/his weekly income will be deducted from the entitlement rate, however the rate would remain for 2 person household). This kind of information is available from the SABS. Similarly to the definition of income of the beneficiary, in case of spouse's income, the Social Security contribution is always deducted first and than included in the calculation. That kind of information is available and can be easily compared with the EU-SILC income as EU-SILC income provides for complete break-down of the income variable.

In the case of family and child related benefits the income detail and number of children are available. In case of UB and other non-contributory benefits, such as e.g. SKA, which require capital resources details, these are available from the SABS.

4.2.3 Aging data

The income tax and social benefit systems in Malta are currently undergoing extensive reforms. During the past years, such reforms included change in retirement ages of men and women, introduction of new social benefits, changes in social benefit eligibility criteria, as well as changes in income tax brackets. Other reforms are expected to occur within the coming years. Unfortunately, these changes are not always predictable and thus cannot be taken into consideration when developing the model. It is therefore possible that radical policy changes occurring in the future might call for a repeat of the modelling exercise.

Updating of the 2008 dataset is therefore necessary. This will be made possible by updates based on the future SABS and EU-SILC data collections which will be conducted on annual basis. The datasets that will be used will be constructed according to the same methodology as in the EU-SILC 2008, and will replace existing ones for the EUROMOD modelling purposes. A significant proportion of the households in the 2008 dataset will also be included in these new datasets for a maximum period of four years. This overlap will permit the measurement of changes in household earnings over time at minimal standard errors.

‘Aging data’ issue appears crucial in the scenario of possible changes in the whole distribution system of social benefits. The way the SABS is been set up, the changes are introduced on a daily basis, and SABS offers and opportunity to work with calendar data (12 months) as well as with a fixed point in time data (e.g. mid-year). Bearing this in mind, the SABS data can be upgraded by a fresh batch of data for years n+1 etc.

4.3. Non take-up of benefits and benefit fraud

The Department of Social Security (DSS) aims at maximising its resources in order to ensure that social security benefits are paid as expeditiously as possible so as to avoid the possible hardship to those in need. In order to reach the most needy members in the society, the DSS operates from its Main Office in Valletta, as well as from its 24 District Offices spread around the Maltese Islands, (22 in Malta and 2 in Gozo). Through such an approach, the Department is reaching out to provide a timely and good quality assistance and advice on social security matters to all those who are entitled to them.

In order to reduce the non take-up particularly from those who should avail themselves of the social security benefits, the DSS provides claims or advice/information for and on benefits, and it also offers assistance in the filling of forms where required. The Customer Care of the Head Office enables the DSS to provide appropriate and timely answers to questions raised by citizens, in its attempt to become more proactive in its delivery. In this regard, for example persons approaching retirement age are receiving the necessary application forms at their home address three months prior to attaining pension age. Similarly, in cooperation with the Department for Civil Registration (Public Registry), parents are notified about their entitlement to CA and how to apply on registering the birth of the child. Claim-forms are available on-line for CA and SPA, and plans are to place the claim forms for contributory pensions on-line as well. It is hoped that this helps in reducing the non-take up of benefit as well as the appropriate provision of social benefits to the most needy.

At the same time, in order to prevent the abuse of social benefits, the The Benefit Fraud and Investigation Directorate was established within the Ministry for the Family and Social Solidarity in 2005, with the task of investigating all reports of alleged abuse in Social Security benefits.

During 2006, the Benefit Fraud and Investigation Directorate conducted, through its Inspectorate, 1,900 on-site inspections. From these inspections and from other investigations conducted by the Directorate, 928 cases were successfully concluded.

The Directorate recommended to the DSS that 862 social benefits (712 cases, or 76.72 per cent of all concluded cases), that were found to be in breach of the provisions of the Social Security Act, be suspended and that resulting overpayments be collected (Table 4.2 below).

Table 4.2

Suspended Benefits	**Number of cases**
Invalidity Pension	10
Supplementary Allowance	75
Child Allowance	69
Sickness Assistance	215
Social Assistance	194
Unemployment Assistance	183
Age Pension	50
Social Assistance - Single Unmarried Parent	36
Social Assistance – Female	7
Carer’s Pension	10
Sickness Benefit	1
Injury Benefit	1
Milk Grant	1
Pension for the Visually Impaired	2
Special Unemployment Benefit	7
Two-Thirds Pension	1
Total	**862**

Source: Benefit Fraud and Investigation Directorate, MFSS

4.4 Tax evasion

The model’s ability to imitate real economy is strongly dependent on full reporting of income. Under-reporting of income exists in Malta. There are several reasons for under-reporting apart from mere tax evasion. The under-reporting of income occurs when respondents forget the exact amount of money earned during the income reference year. During the past years, NSO has introduced new techniques (e.g. introduction of income bands in the questionnaire; interviewer training, etc.) in order to limit under–reporting in EU-SILC. However, comparison with National Accounts, still demonstrates a significant amount. As an example, SILC 2005 income data, with 2004 as income reference year registered a gross employee cash income of nearly 720 million, which is 91 per cent of that estimated from the National Accounts for the same period. This discrepancy is mainly attributed to under-reporting which is corrected for in the National Accounts.

In general, under-reporting is not uniform and models need to be applied in order to compensate for non-response bias. Unfortunately, these models are very hard to achieve mainly due to the fact that auxiliary information related to under-reporting of income is not available, which explains why this exercise is seldom done even at European level.

5. Conclusions

The initiative to expand the EUROMOD application to cover all MS's national systems and datasets is considered as a momentous move towards an integrated European policy simulation model. The need to improve the capacity and usability of EUROMOD among the 'new' Member States has been welcomed not only from the perspective of testing a new software tool, but also from the policy point of view, as this work on Malta – Feasibility Study has also involved an inter-ministerial team-work through a thorough check of crucial elements which constitute the main body of tax-benefit systems.

The analytic work on Malta Feasibility Study has been the first of this kind, and it is hoped that the study will serve as a 'cookbook' for those who would search for links between the tax-benefit system. The FS offers an extensive description of the current social benefits, the schematic presentation of entitlement rules and the examples of calculation in different scenarios. Similarly, the rules governing the Maltese taxation system are also covered extensively together with the presentation of examples showing calculations of tax liability in various scenarios.

The decision to merge sample data EU-SILC 2007 with 2006 income data with SABS data for the same year, seem highly plausible and hopefully the application of EUROMOD software should lead to various outcomes which should help calibrate both systems, so as to achieve greater social cohesion in the Maltese society. The repetitiveness of the EU-SILC as well as the continuity of the SABS data input, facilitate the application of the model, even for successive years following the base year.

ANNEXES

Annex 1 - Tables and Figures

2008 - Income Tax Rates

Single Rates			Married Rates		
Chargeable Income €	Rate	Deduct €	Chargeable Income €	Rate	Deduct €
0 -8,150	0	0.00	0 -11,400	0	0.00
8,151 -14,000	0.15	1,222.50	11,401 -20,500	0.15	1,710.00
14,001 -19,000	0.25	2,622.50	20,501 -28,000	0.25	3,760.00
19,001 &over	0.35	4,522.50	28,001 &over	0.35	6,560.00

2009 - Income Tax Rates

Single Rates			Married Rates		
Chargeable Income €	Rate	Deduct €	Chargeable Income €	Rate	Deduct €
0 -8,500	0	0.00	0 -11,900	0	0.00
8,501 -14,500	0.15	1,275.00	11,901 -21,200	0.15	1,785.00
14,501 -19,500	0.25	2,725.00	21,201 -28,700	0.25	3,905.00
19,501 &over	0.35	4,675.00	28,701 &over	0.35	6,775.00

2010 - Income Tax Rates

Single Rates			Married Rates		
Chargeable Income €	Rate	Deduct €	Chargeable Income €	Rate	Deduct €
0 -8,500	0	0.00	0 -11,900	0	0.00
8,501 -14,500	0.15	1,275.00	11,901 -21,200	0.15	1,785.00
14,501 -19,500	0.25	2,725.00	21,201 -28,700	0.25	3,905.00
19,501 &over	0.35	4,675.00	28,701 &over	0.35	6,775.00

Figure A1.1 - Structure of Government Tax Revenue

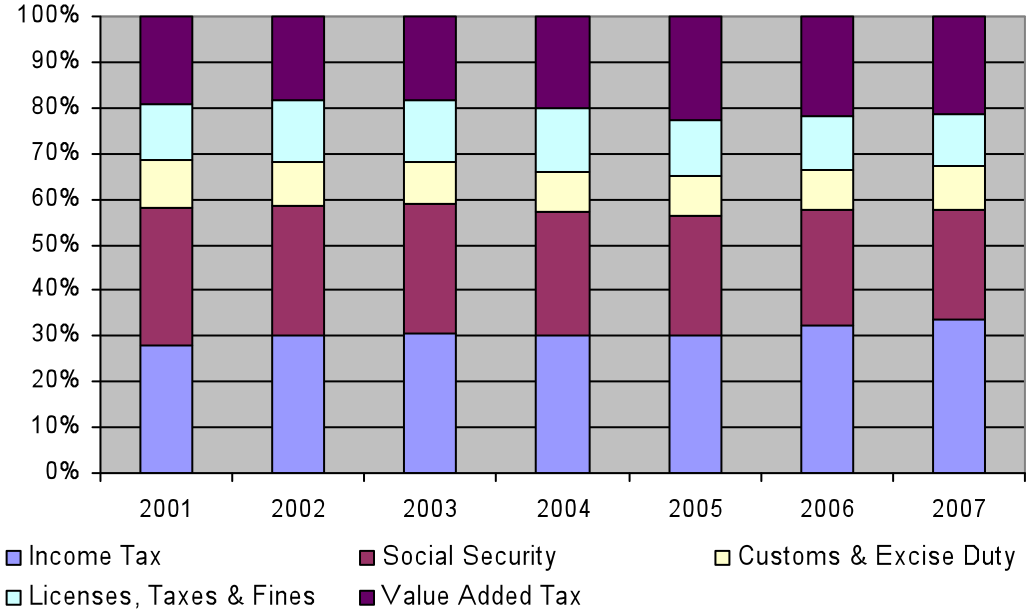

Table A1.1 – **Tax Revenue**

Lm 000s (Euro 000s)	2001	2002	2003	2004	2005	2006	2007
Income Tax	166,302 (387,379)	190,175 (442,989)	205,218 (478,029)	211,177 (491,910)	221,760 (516,562)	256,546 (597,593)	284,810 (663,430)
Social Security	179,065 (417,109)	181,142 (421,947)	188,427 (438,917)	189,657 (441,782)	195,587 (455,595)	202,377 (471,411)	206,168 (480,243)
Customs & Excise Duty	60,885 (141,824)	59,813 (139,327)	61,576 (143,433)	62,309 (145,141)	65,670 (152,970)	69,184 (161,156)	7,9411 (184,978)
Licenses, Taxes & Fines	72,813 (169,609)	86,047 (200,436)	89,160 (207,687)	97,292 (226,629)	88,957 (207,214)	94,512 (220,153)	99,423 (231,593)
Value Added Tax	114,668 (267,105)	117,503 (273,708)	123,910 (288,633)	141,570 (329,769)	168,331 (392,106)	174,634 (406,788)	181,068 (421,775)
Total Tax Revenue	593,733 (1,383,026)	634,680 (1,478,407)	668,291 (1,556,699)	702,005 (1,635,232)	740,305 (1,724,447)	797,253 (1,857,101)	850,880 (1,982,018)

Source: Financial Estimates 2002-2009, Budget Office, Malta

Table A1.2 **- Tax Base and Revenue**

Tax	**Tax Base**	**Revenue in 2007 - Lm million (Euro million)**
Income Tax	Income and Capital Gains	284.8 (663.4)
Social Security Contribution	Basic wage in case of employed persons; Net annual earnings in case of self-employed	206.2 (480.2)
Value Added Tax	Good's value (expenditure)	181.1 (421.8)
Licenses, taxes and fines	Car engines or vehicle's gross combined weight	99.4 (231.6)
Excise Duty	Alcohol, manufactures tobacco, energy products and mobile telephony services according to weight, volume or value	79.4 (185.0)

Source: Financial Estimates 2009, Budget Office, Malta

Table A1.3 **- Applicability of Income Tax on different sources of income**

Income Source	**Income Tax Applicability**
Employment	Y
Dividend	Y
Retirement pension	Y
Rent	Y
Other profits	Y
Private retirement scheme	N
Disability pension and pension for the visually impaired	N
Social Assistance	N
Age Pension	N
Marriage grant	N
Maternity benefit	N
Children's allowance	N
Foster care allowance	N
Disabled child allowance	N
Sums received by way of commutation of pension, retiring, or death gratuity	N
Scholarship	N
Collective investment scheme	N
Financial assistance from estranged spouse	N
Part-time work	Y
Investment income	Y
Fringe benefits	Y
Transfer of immovable property	Y
Transfer of securities	Y
Donations	Only in case of donation of property

Figure A1.2 - Dividends

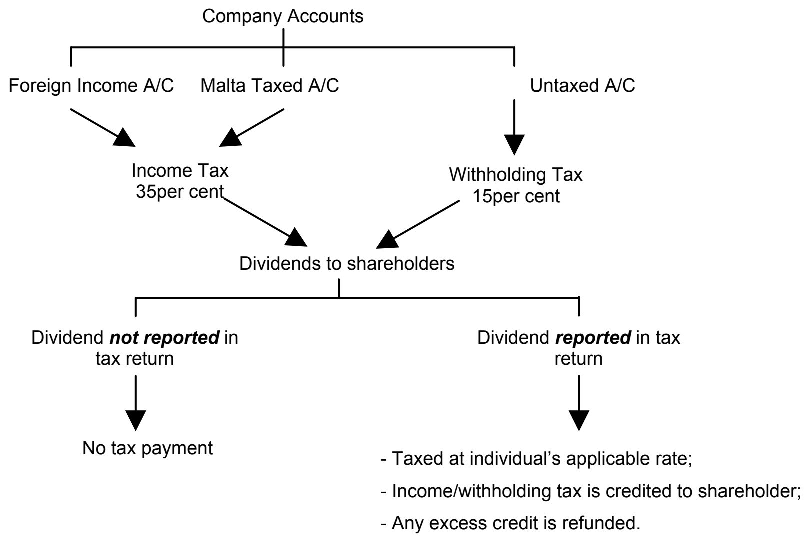

Figure A1.3 - Purchased Property

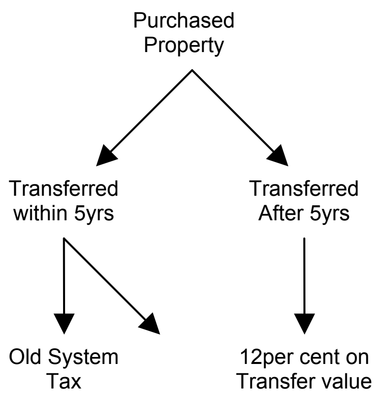

Figure A1.4 - Inherited Property

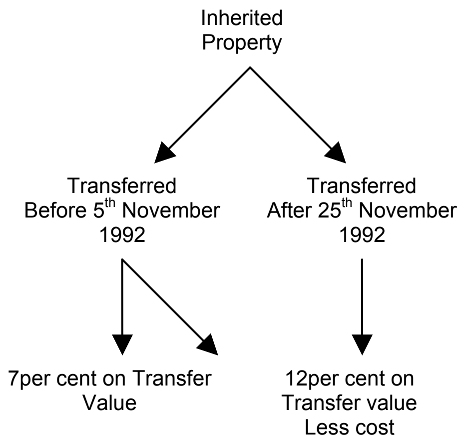

Figure A1.5 - Donated Property

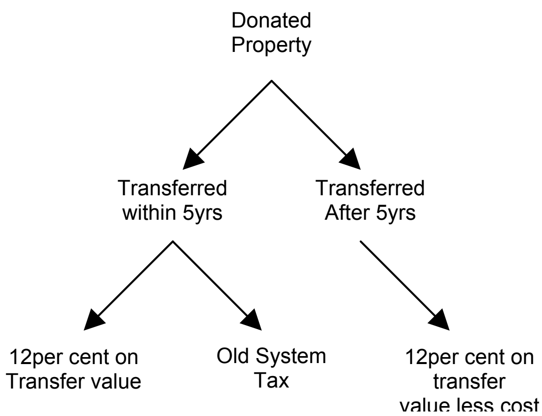

Table A1.4 **- Use of business car – 2007**

Annual fringe benefit value = car value x percentage established as follows

Car value Lm / (Euro)	Motor vehicles less than 6 years old		Motor vehicles more than 6 years old	
	With fuel	No fuel	With fuel	No fuel
0 - 7,000 (Euro: 0 - 16,305.61)	6.9	6.0	4.8	3.9
7,000 - 9,000 (Euro: 16,305.61 - 20,964.36)	9.2	8.0	6.4	5.2
9,000 - 12,000 (Euro: 20,964.36 - 27,952.48)	11.5	10.0	8.0	6.5
12,000 - 14,000 (Euro: 27,952.48 - 32,611.23)	13.5	11.0	10.0	7.5
14,000 - 20,000 (Euro: 32,611.23 - 46,587.47)	14.9	12.1	11.0	8.3
Over 20,000 (Euro: Over 46,587.47)	16.2	13.2	12.0	9.0

Source: Inland Revenue Department

Table A1.5 **- Other fringe benefits – 2007**

1. Allowance for use of employee-own car

Allowance	Fringe Benefit
0 – Lm1,000 (Euro: 0 - 2,329.37)	50per cent
Over Lm1,000 (Euro: Over 2,329.37)	Cash allowance less Lm500 (Euro 1,164.69)

2. Accommodation

- 5per cent of the higher of the market value and the original cost of property;
- Fringe benefit value is increased by the cost of making the property available for use (water, electricity, repairs);

3. Use of other assets

- 12per cent of the higher of the market value and the original cost;
- The original cost is reduced by 40per cent in the case of assets that are more then 6 years old.

4. Any other benefit

- The actual cost to the employer or market value.

Source: Inland Revenue Department

Table A1.6 **- Value Added Tax Rates**

Standard rate	**18 per cent**
Accommodation in hotels and licensed premises Supply of electricity Works of art, collector's item and antiques Medical accessories Printed matter Items for exclusive use of the disabled Minor repairing of: a) bicycles, b) shoes and leather goods, c) clothing and household linen (including mending and alteration) Domestic care services such as home help and care of the young, elderly, sick or disabled	5 per cent
Exports Intra-community supplies Local and international transport Supply and repair of commercial aircraft and vessels; Duty free supplies Food Pharmaceuticals Investment gold Goods under a customs duty suspension regime; and Supply of goods on board cruise liners	0 per cent
Immovable property Non-commercial rent Services by non-profit making organizations Insurance, banking and investment services Sports, religious and cultural activities Lotteries Public postal services Health Welfare, Education Public broadcasting Supply of water by public authority	Exempt

Source: Value Added Tax Act

Table A1.7 **- Vehicle Road License – 2007**

Private Cars	**Lm / (Euro)**
Class 1 (up to 1300cc)	30 (Euro 69.88)
Class 2 (from 1301cc to 1449cc)	40 (Euro 93.17)
Class 3 (from 1450cc to 1500cc)	40 (Euro 93.17)
Class 4 (from 1501cc to 1800cc)	45 (Euro 104.82)
Class 5 (from 1801cc to 2000cc)	75 (Euro 174.70)
Class 6 (2001cc and over)	150 (Euro 349.41)

Source: Inland Revenue Department

Table A1.8 **- Vehicle Road License (National territory only) – 2007**

No. of axles	**Gross Combined Weight**	**Driving axle(s) with air suspension or recognized equivalent**
	Kgs	Lm / (Euro)
2+1	Up to 11,999	40 (Euro 93.17)
	from 12,000 to 13,999	40 (Euro 93.17)
	from 14,000 to 15,999	40 (Euro 93.17)
	from 16,000 to 17,999	40 (Euro 93.17)
	from 18,000 to 19,999	40 (Euro 93.17)
	from 20,000 to 21,999	40 (Euro 93.17)
	from 22,000 to 22,999	40 (Euro 93.17)
	from 23,000 to 24,999	42 (Euro 97.83)
	25,000 and over	76 (Euro 177.03)
2+2	from 23,000 to 24,999	40 (Euro 93.17)
	from 25,000 to 25,999	40 (Euro 93.17)
	from 26,000 to 27,999	50 (Euro 116.47)
	from 28,000 to 28,999	73 (Euro 170.04)
	from 29,000 to 30,999	88 (Euro 204.98)
	from 31,000 to 32,999	144 (Euro 335.43)
	from 33,000 to 35,999	200 (Euro 465.87)
	36,000 and over	200 (Euro 465.87)
2+3	from 36,000 to 37,999	159 (Euro 370.37)
	38,000 and over	222 (Euro 517.12)
3+2	from 36,000 to 37,999	141 (Euro 328.44)
	from 38,000 to 39,999	195 (Euro 454.23)
	40,000 and over	270 (Euro 628.93)
3+3	from 36,000 to 37,999	80 (Euro 186.35)
	from 38,000 to 39,999	97 (Euro 225.95)
	40,000 and over	145 (Euro 337.76)

Source: Inland Revenue Department

Table A1.9 **- Vehicle Road License (used also abroad) – 2007**

No. of axles	Gross Combined Weight	Driving axle(s) with air suspension or recognized equivalent
	Kgs	Lm / (Euro)
2+1	Up to 11,999	58 (Euro 135.10)
	From 12,000 to 13,999	58 (Euro 135.10)
	From 14,000 to 15,999	58 (Euro 135.10)
	From 16,000 to 17,999	58 (Euro 135.10)
	From 18,000 to 19,999	58 (Euro 135.10)
	From 20,000 to 21,999	58 (Euro 135.10)
	From 22,000 to 22,999	58 (Euro 135.10)
	From 23,000 to 24,999	58 (Euro 135.10)
	25,000 and over	76 (Euro 177.03)
2+2	From 23,000 to 24,999	58 (Euro 135.10)
	From 25,000 to 25,999	58 (Euro 135.10)
	From 26,000 to 27,999	58 (Euro 135.10)
	From 28,000 to 28,999	73 (Euro 170.04))
	From 29,000 to 30,999	88 (Euro 204.98)
	From 31,000 to 32,999	144 (Euro 335.43)
	From 33,000 to 35,999	200 (Euro 465.87)
	36,000 and over	159 (Euro 370.37)
2+3	From 36,000 to 37,999	159 (Euro 37.37)
	38,000 and over	222 (Euro 517.12)
3+2	From 36,000 to 37,999	141 (Euro 328.44)
	From 38,000 to 39,999	195 (Euro 454.23)
	40,000 and over	270 (Euro 628.93)
3+3	From 36,000 to 37,999	80 (Euro 186.35)
	From 38,000 to 39,999	97 (Euro 225.95)
	40,000 and over	145 (Euro 337.76)

Source: Inland Revenue Department

Table A1.10 **- Registration Tax for New Private Vehicles**

Engine CC	**per cent**
Not Exceeding 1000cc	50.5
Exceeding 1000cc but not exceeding 1300cc	50.5
Exceeding 1300cc but not exceeding 1500cc	53.0
Exceeding 1500cc but not exceeding 1800cc	60.0
Exceeding 1800cc but not exceeding 2000cc	65.0
Exceeding 2000cc but not exceeding 2500cc	75.0
Exceeding 2500cc but not exceeding 3000cc	75.0
Exceeding 3000cc	75.0

Source: Inland Revenue Department

Table A1.11 **- Registration Tax for Used Private Vehicles – 2007**

Engine CC	**Minimum Tax Rate Used**
Not Exceeding 1000cc	50.5per cent, but not less than Lm1,200 (Euro 2,795.25)
Exceeding 1000cc but not exceeding 1300cc	50.5per cent, but not less than Lm1,500 (Euro 3,494.06)
Exceeding 1300cc but not exceeding 1500cc	53per cent, but not less than Lm2,200 (Euro 5,124.62)
Exceeding 1500cc but not exceeding 1800cc	60per cent, but not less than Lm2,900 (Euro 6,755.18)
Exceeding 1800cc but not exceeding 2000cc	65per cent but not less than Lm4,200 (Euro 9,783.37)
Exceeding 2000cc but not exceeding 2500cc	75per cent, but not less then Lm7,300 (Euro 17,004.43)
Exceeding 2500cc but not exceeding 3000cc	75per cent, but not less then Lm8,400 (Euro 19,566.74)
Exceeding 3000cc	75per cent, but not less then Lm11,000 (Euro 25,623.11)

Source: Inland Revenue Department

Table A1.12 **- Registration Tax for New Goods carrying Vehicles – 2007**

G.V.W	**per cent**
Not Exceeding 5 tonnes	57.5
Exceeding 5 tonnes	24.0
Tipper Trucks exceeding 5 tonnes whose front end of the platform can be pneumatically on hydraulically raised	0
Refuse disposal trucks with a G.V.W exceeding 5 tonnes	0
Chassis fitted with engine and cab not exceeding 5 tonnes	57.5, but not exceeding Lm1,480 (Euro 3,447.47)
Dumpers designed for all highway use (Light Dumpers)	31.0

Source: Inland Revenue Department

Table A1.13 **- Registration Tax for Used Goods carrying Vehicles – 2007**

G.V.W	**Minimum Tax Rate Used**
Not Exceeding 5 tonnes	57.5per cent but not less than Lm1,480 (Euro 3,447.47) per vehicle
Not Exceeding 5 tonnes but not Exceeding 20 tonnes	57.5per cent but not less than Lm2,960 (Euro 6,894.95) per vehicle
Exceeding 20 tonnes	57.5per cent but not less than Lm3,190 (Euro 7,430.70) per vehicle

Source: Inland Revenue Department

Table A1.14 **- Excise Duty Rates – 2007**

Alcohol	Beer	Lm0.32 (Euro 0.75) per hectolitre
		Lm0.16 (Euro 0.37) per hectolitre
		Lm0.08 (Euro 0.19) per hectolitre
	Wine	Nil
	Fermented Beverages	Nil
	Intermediate products	Lm20.00 (Euro 46.59) per hectolitre
	Ethyl	Lm0.10 (Euro 0.23) per per cent vol. Per liter
Manufactured Tobacco	Cigarettes	51.4per cent of the retail price plus Lm7.30 (Euro 17.00) per 1000 cigarettes but not less than Lm43.30 (Euro 100.86) per 1000 cigarettes
	Cigars and Cigarillos	Lm6.22 (Euro 14.49) per 1000 units
	Hand-rolling Tobacco	Lm27.70 (Euro 64.52) per kg
	Other Smoking Tobacco	Lm27.70 (Euro 64.52) per kg
	Pipe Tobacco	Lm8.92 (Euro 20.78) per kg
	Chewing Tobacco and Snuff	Lm12.03 (Euro 28.02) per kg
Energy Products	Leaded Petrol	Lm224.60 (Euro 523.18) per 1000 liters
	Unleaded Petrol	Lm203.60 (Euro 474.26) per 1000 liters
	Gas Oil	Lm142.70 (Euro 332.40) per 1000 liters
		Lm61.00 (Euro 142.09) per 1000 liters
		Lm29.10 (Euro 67.78) per 1000 liters
		Lm41.55 (Euro 96.79) per 1000 liters
		Nil
	Biodiesel	Lm142.70 (Euro 332.40) per 1000 liters
	Heavy Fuel Oil	Lm6 (Euro 13.98) per 1000 kgs
		Nil
	Natural Gas	Nil
		Lm0.36 (Euro 0.84) per gig joule
Mobile Telephony Services	Mobile Telephony Services	3 per cent

Source: Excise Duty Act

Annex 2 – Statistics on Social Benefits

Social Protection

Table A2.1 **- Social protection expenditure, by function (ESPROSS)**

Year	2001	2002	2003	2004	2005
Lm thousands					
per cent of the GDP	17.36	17.50	17.88	18.43	18.12
Total Social Protection Expenditure	300,886	321,188	336,891	353,658	372,542
	€700,884	€748,175	€784,754	€823,811	€867,799
Administration costs	4,301	4,374	4,211	4,337	4,475
	€10,019	€10,189	€9,809	€10,103	€10,424
Other Expenditure	669	452	259	0	0
	€1,558	€1,053	€603	€ -	€ -
Social Protection Benefits	295,916	316,363	332,421	349,320	368,067
	€689,307	€736,936	€774,341	€813,706	€857,375
Sickness	75,579	78,477	85,494	93,427	96,920
	€176,054	€182,804	€199,150	€217,629	€225,765
Disability	17,527	18,784	21,691	23,683	24,712
	€40,827	€43,755	€50,527	€55,167	€57,564
Old Age	154,128	158,743	165,529	170,971	186,378
	€359,026	€369,776	€385,583	€398,260	€434,149
Survivors	5,420	5,918	6,063	6,236	6,413
	€12,625	€13,785	€14,123	€14,526	€14,938
Family/Children	19,327	19,464	18,449	18,003	17,362
	€45,020	€45,339	€42,975	€41,936	€40,443
Unemployment	17,866	26,979	25,569	26,074	27,148
	€41,617	€62,845	€59,560	€60,737	€63,239
Housing	2,281	4,260	5,326	5,753	3,244
	€5,313	€9,923	€12,406	€13,401	€7,557
Social Exclusion n.e.c.	3,787	3,739	4,302	5,173	5,889
	€8,821	€8,710	€10,021	€12,050	€13,718

Source: NSO, 1Euro=Lm0.4293

Table A2.1 **(cont.) - Social protection expenditure, by function (ESPROSS)**

Year	2006	2007	2008
Lm thousands			
per cent of the GDP	18.06per cent	17.89per cent	18.68per cent
Total Social Protection Expenditure	399,310	423,132	464,936
	€ 930,142	€ 985,633	€ 1,083,010
Administration costs	4,401	4,755	5,225
	€ 10,252	€ 11,077	€ 12,172
Other Expenditure	394,909	418,377	459,711
	€ 919,890	€ 974,557	€ 1,070,838
Social Protection Benefits	114,501	122,250	136,420
	€ 266,715	€ 284,767	€ 317,772
Sickness	24,646	26,532	27,054
	€ 57,409	€ 61,804	€ 63,020

Disability	166,225	176,699	193,325
	€ 387,200	€ 411,598	€ 450,326
Old Age	40,722	42,206	44,120
	€ 94,857	€ 98,313	€ 102,772
Survivors	24,549	24,808	31,186
	€ 57,183	€ 57,788	€ 72,644
Family/Children	13,381	11,868	12,627
	€ 31,169	€ 27,644	€ 29,412
Unemployment	3,828	5,617	5,661
	€ 8,916	€ 13,083	€ 13,187
Housing	7,058	8,397	9,319
	€ 16,440	€ 19,559	€ 21,707
Social Exclusion n.e.c.	18.06 per cent	17.89 per cent	18.68 per cent
	399,310	423,132	464,936

Source: NSO, 1Euro=Lm0.4293

Table A2.2 **- Total current pension expenditure (ESPROSS) as a per cent of the GDP**

	2001	2002	2003	2004	2005
Total	153,679	158,760	167,238	172,973	187,802
	€357,980	€369,816	€389,564	€402,923	€437,466
GDP	1,733,073	1,835,521	1,883,928	1,918,416	2,055,560
	€4,037,020	€4,275,663	€4,388,422	€4,468,758	€4,788,221
per cent	8.90 per cent	8.65 per cent	8.88 per cent	9.02 per cent	9.14 per cent

Source: NSO, 1Euro=Lm0.4293

Table A2.2 **(cont.) - Total current pension expenditure (ESPROSS) as a per cent of the GDP**

	2006	2007	2008
Total	199,605	210,867	227,493
	€ 464,954	€ 491,187	€ 529,917
GDP	2,210,962	2,364,995	2,488,734
	€ 5,150,156	€ 5,508,957	€ 5,797,191
per cent	9.0 per cent	8.9 per cent	9.1 per cent

Source: NSO, 1Euro=Lm0.4293

Table A2.3 **- Total current pension expenditure (ESPROSS) in 000 Lm**

	2001	2002	2003	2004	2005
Disability	13,012	13,970	16,311	17,517	18,355
	€30,310	€32,542	€37,995	€40,804	€42,756
Old age	136,166	139,834	145,852	150,235	164,045
	€317,185	€325,729	€339,748	€349,957	€382,126
Survivors	4,501	4,956	5,075	5,221	5,401
	€10,485	€11,545	€11,822	€12,162	€12,581
Total	153,679	158,760	167,238	172,973	187,802
	€357,980	€369,816	€389,564	€402,923	€437,466

Source: NSO; 1Euro=Lm0.4293

Table A2.3 (cont.) **- Total current pension expenditure (ESPROSS) in 000 Lm**

	2006	2007	2008
Disability	18,272	18,223	17,511
	€ 42,562	€ 42,449	€ 40,790
Old age	143,923	153,757	169,444
	€ 335,250	€ 358,158	€ 394,698
Survivors	37,410	38,886	40,538
	€ 87,142	€ 90,580	€ 94,429
Total	199,605	210,867	227,493
	€ 464,954	€ 491,187	€ 529,917

Annex 3 – EU-SILC - Income definitions

The EU-SILC 2008 income reference year is the calendar year 2007. The main income component that is derived from the EU-SILC is the **gross household income**, which is collected according to the ESA 95 (1995 European System of Accounts) and includes the following income components:

- Gross employee cash or near cash income;
- Gross non-cash employee income;
- Gross cash benefits or losses from self-employment (including royalties);
- Pension from individual private pension plans;
- Unemployment benefits;
- Old-age benefits;
- Survivors' benefits;
- Sickness benefits;
- Disability benefits;
- Education-related allowances;

which are collected at individual level (household members aged 16 years and over) and,

- Imputed Rent;
- Income from rental of property or land;
- Interests, dividends, profits from capital investments in unincorporated business;
- Family/Children related allowances;
- Social exclusion not elsewhere classified;
- Housing allowances;
- Regular inter-household cash transfers received;
- Regular taxes on wealth;
- Income received by people aged under 16,

that are collected at household level.

Employee income

This income component is defined as the total remuneration, in cash or in kind, payable by an employer to an employee in return for work done by the latter, either on part-time on full-time basis, during the income reference period. This variable includes:

- Gross employment income, which includes all monetary compensation of employers to employees including bonuses, overtime pay, piece rate payments, tips etc.
- Non-cash employee income, which includes all non-cash benefits like company cars, petrol allowance, subsidized meals, subsidized insurance, etc., and
- Employers’ social insurance contributions.

Cash benefits or losses from self-employment

Self-employment income is defined as the income received by individuals for themselves or for their families as a result of their involvement in part-time or full-time self-employment activities during the income reference year. This variable includes:

- Gross cash benefits or losses from self employment (including royalties) that includes all net operating profit (excluding importation/exportation costs, salaries paid to employees, taxes related to business and similar expenditures). This variable includes also income from interests and dividends in case these revenues are obtained through accounts incorporated within the business.
- Value of goods produced by own consumption. This variable limits to the value of food and beverages produced and consumed within the household.

Pension from individual private pension plans;

This variable includes all social benefits (e.g. old-age, unemployment, sickness and disability benefits) received during the income reference period from individual private plans in the form of interests and dividends. This variable excludes all income from mandatory-government/employment pension schemes.

Unemployment benefits

These refer to benefits earned by persons as replacement to their employment income. These benefits may be full or partial in cases of compensation for loss of wages due to formal short-time working arrangements, training needs, or similar conditions at work. This variable also includes capital sums given to employees prior to termination of work at a pre-retirement age. The provider of this income does not necessarily have to be the government.

Old-age benefits

The old-age benefits cover all benefits intended to maintain the income of the beneficiary after retirement age from the labour market (65 years) as a guarantee of a certain income of their previous salary. All social benefits, except family and children allowances, earned after retirement age fall under this income category. These include also lump sums given by the government or employers at retirement age, together with foreign pensions earned by Maltese due to past service abroad.

Survivors' benefits

These refer to benefits given to people below retirement age as temporary or permanent income who have suffered a loss of their spouse or partner or next of kin, in cases when the latter was the main earner. This benefit includes death grants as well.

Sickness benefits

Sickness benefits refer to cash benefits to persons below the retirement age in order to replace in whole or in part loss of earnings during temporary or permanent inability to work due to sickness or injury.

Disability benefits

Disability benefits refer to cash benefits to persons below retirement age to replace in whole or part of loss of income due to impaired capacity to work due to permanent disability. This variable includes also payments directed towards persons who had to terminate their employment at a pre-retirement age due to a reduced ability to work. These benefits also include allowances given to disabled persons in their own right irrespective of employment.

Education-related allowances

These include all cash benefits given to students or persons undergoing further education or training as financial aid to continue their studies. Examples of these benefits are stipends, scholarships and other book vouchers given by the state to University students.

Imputed Rent

Imputed rent is a gross income component assigned to households who either own their main dwelling, rent it at a reduced price or whose accommodation is provided for free. Imputation of this income component is done by assigning average market rent estimates based upon the 2005 census figures basing upon certain criteria like number of rooms, year of construction, use of garage etc. It is to be noted that this figure amounts to a significant proportion of the total household gross income due to the fact that the majority of Maltese households actually own their main dwelling.

Income from rental and property of land

This refers to the total household income component received during the income reference year from rent of land or property, less all mortgage and other housing costs related to that dwelling. This component excludes income from rents associated with household member's business activities.

Interests, dividends, profits from capital investments in unincorporated business;

This variable includes all gross income from interests and dividends earned by household members during the income reference period from personal accounts not related to unincorporated businesses. Sources of this income include bank accounts, shares, deposits, etc. This income component excludes all expenses incurred related to these earnings. Although these variables are collected separately at individual level they are merged and imputed at household level.

Other income collected at household level

This income component includes all social benefits, not elsewhere classified, which are collected at household level, like allowances for single parents, housing allowances and other family-related allowances allocated to households whose income does not exceed minimum established income thresholds. It also includes all income earned by household members aged under 16. Although these income components are collected separately, it is usually preferred to merge them into one single income variable for statistical analysis in order to increase the number in readings in the sample.

Regular inter-household cash transfers received

This income component includes all regular cash transfers received during the income reference period by the household members from the other households. Reasons for such transfers include child alimonies, voluntary cash support from other households or beneficiary non-governmental organizations.

Lump Sums

Lump sum payments are the only non-regular income components collected in the EU-SILC. They are distributed within the other income variables according to the main reason for the payment and source. As an example, lump sum payments earned upon retirement are merged with old-age benefits, whilst lump sum payments earned upon termination of employment due to illness are merged with sickness benefits. If these earnings occurred further to redundancy, then they are merged with unemployment benefits.

It is to be said that great care is taken when working with these income components as they might create distortions within the time series due to them being non-regular by nature. As an example, one particular household might belong to one of the highest income categories in a particular year due to a high lump sum payment and fall under the poverty line the next year as soon as that payment is no longer made available.

Lump sums earned upon maturity of individual private pension plan schemes, lotteries or inheritance are not collected in the EU-SILC.

Disposable household income

The total household disposable income is defined as the total gross household income **minus** the:

- Employer's social insurance contributions
- Interest paid on mortgage
- Regular taxes on wealth
- Regular inter-household cash transfer paid
- Tax on income and social insurance contributions

Employer's Social Insurance Contributions

This corresponds to the insurance contributions paid by employers to their employees during the income reference year. This variable is added as part of the total gross household income and then removed from the disposable income mainly due to the fact that this cash it is not made available to the household.

Interest paid on mortgage

Interest paid on mortgage refers to the mortgage interest of the main residence owned by the household during the income reference year. This negative income is extracted from the total mortgage costs basing on the total loan taken by the household and terms of payment

Regular taxes on wealth

This refers to all taxes paid by the household related to the net wealth which includes property, assets within the country, jewellery, etc. This variable is not collected in the EU-SILC as it is null for Malta.

Regular inter-household cash paid

This refers to all regular household cash payments to other households during the income reference year for same reasons related to inter-household cash payments stated above.

Tax on income and social insurance contributions

This is the major negative income component included in the EU-SILC. This variable, which is made available at household level, mainly includes:

- All individual and household taxes paid by all the household members during the income reference year. This variable includes also indirect tax-related cash payments like fines related to late payments, etc. Tax arrears and tax reimbursements due to insufficient or excess tax paid during the previous year is also taken into account.

- All national insurance contributions paid by the household members during the income reference year in respect to their earnings.

These payments need not relate to the income earned during the income reference year. Examples are taxes paid by the majority of the self-employed whose tax assessment is made upon the income declared during the year previous to the income reference year.

Although most of the tax and Social Security payments are collected at individual level and disaggregated by source, they are merged into once single negative income component at household level in the EU-SILC dataset.

It is however possible to re-distribute this variable by the related source of income for simulation purposes, by referring back to the raw-dataset and by the use of register information. However, it would be very difficult to disaggregate this variable at individual level, rather than at household level, especially in case of married couples who may choose to pay one singe tax payment for the whole household.

Annex 4 – SILC 2008 Micro Data

Personal Register (R-file) and Personal Data (P-file)

1. VARIABLES REMOVED
RB031: Year of immigration
RB070 + PB130: Month of Birth
PB070: Personal design weight for selected respondent
PB090: Day of personal interview
PB220B: Citizenship 2

2. RECODING
RB080 + PB140: Year of birth – grouped into 5 years + appropriate modification of RX010 (Age at the time of interview), RX020 (Age at the end of income reference period)and PX020 (Age at the time of interview)
PE020: ISCED level currently attended – Merged "0", "1" and "2" into "2" and merged "5" and "6" into "5".
PE040: Highest ISCED level attained – Merged "5" and "6" into "5"
PB100: Month of the personal interview – Grouped into quarters
PB190: Marital Status - Recoded "3" and "5" into "3"
PB210: Country of birth – Recoded "LOC" and "OTH"
PB220A: Citizenship 1 – Recoded "LOC" and "OTH"
PL050: Occupation (ISCO-88 (COM)) – Grouped according to:
11 – 13 = "1" – Legislators, senior officials and managers
21 – 24 = "2" – Professionals
31 – 34 = "3" – Technicians and associate professionals
41 – 42 = "4" – Clerks
51 – 52 = "5" – Service workers and shop and market sales workers
61 = "6" – Skilled agricultural and fishery workers
71 – 74 = "7" – Craft and related trades workers
81 – 83 = "8" – Plant and machine operators and assemblers
91 – 93 = "9" – Elementary occupations
01 = "10" – Armed forces

PL110: NACE (Rev 1.1) – Grouped according to:
1 - 5 = "a+b"
10 - 41 = "c+d+e"
45 = "f"
50 – 52 = "g"
55 = "h"
60 - 64 = "i"
65 - 67 = "j"
70 - 74 = "k"
75 = "l"
80 = "m"
85 = "n"
90 - 99 = "o+p+q"

PL111: NACE (Rev 2) – Grouped according to:
1 - 3 = “a”
5 - 39 = “b – e”
41 – 43 = “f”
45 – 47 = “g”
49 – 53 = “h”
55 – 56 = “i”
58 – 63 = “j”
64 – 66 = “k”
68 – 82 = “l – n”
84 = “o”
85 = “p”
86 – 88 = “q”
90 – 99 = “r - u”

PL130: Number of persons working at the local unit – Merging
“1 “ – “5” into “1”,
“6” – “10” into “2”,
“11” and “12” into “3”,
“13” into “4”,
“14” into “5” and
“15”into “6”

PL180: Most recent change in the individual’s activity status – Recoded:
1 – 3 = 1 – Employed – other
4 – 6 = 2 – Unemployed – other
7 – 9 = 3 – Retired - other
10 – 12 = 4 – Other inactive – other

RL050: Suppress data for the 3 data providers

3. PERTURBATION
DB030: Household ID
→ Randomised and appropriate modification of related identification numbers (RB030, RX030, RB220, RB230, RB240, RB270, PB030, PX030, PB160, PB170, PB180)
DB060, DB062: PSU-1/2 – not applicable to MT

Household Register (D-file) and Household Data (H-file)

1. VARIABLES REMOVED
DB050: Primary strata
DB080: Household Design Weight
DB120: Contact at address
DB130: Household Questionnaire result
DB135: Household interview acceptance
HB040: Day of household interview

2. RECODING
DB100: Degree of Urbanisation – Merged “2” and “3” into “2”
HH030: Number of rooms available to the household – Merged 6 and above
HH010: Dwelling Type – 5 recoded as missing
HB050: Month of household interview – Grouped into quarters

3. PERTURBATION
DB030: Household ID
→ Randomised and appropriate modification of related identification numbers (HB030, HB070, HB080, HB090, PB030)
DB060: PSU-1 (first stage) - not applicable
DB062: PSU-2 (second stage) – not applicable

Annex 5 - The Pension Reform – the enacted changes as of year 2010

Pension retirement age

The retirement age at the time of the reform stood at 61 years for men and 60 years for women. The reform introduced equal retirement age for men and women at 61 years as from the 1st of January 2007. The retirement age is set to increase to 65 years of age for both men and women in a gradual manner.

From the 1st January 2007 the pension age will increase as follows for persons:

Born on or before 31/12/1951 - no change

Born between 1/1/1952 and 31/12/1955 – at 62 years

Born between 1/1/1956 and 31/12/1958 – at 63 years

Born between 1/1/1959 and 31/12/1961 – at 64 years

Born on or after 1/1/1962 - at 65 years

Pension contribution accumulation period

For current pensioners the pension contribution accumulation period for a Two-Thirds Pension is 30 years. This does not reflect correctly person's work career. Given the proposed increase in the retirement age to 65 years, a 40 year period is a fairer reflection of a full career. The implementation of this recommendation will be introduced in a staggered manner and in proportion to how close one is to retirement.

Those born on or after 1/1/1962 will need a contribution accumulation period of 40 years. Persons born between 1/1/1952 and 31/12/1961 will need 35 years of contributions while persons born on or before 31/12/1951 will continue to need 30 years of contributions.

Calculation of the Pensionable Income

The Two-Thirds Pension for employed persons is currently calculated on the basis of the best three consecutive years out of the last ten years prior to retirement, while for the self-employed it is calculated on the average of the full last ten years. The base line for the calculation of the Two-Thirds Pension is being gradually increased to 40 years. The increase in the way the Pensionable Income is calculated will be implemented as follows in proportion to how close one is to retirement:

- for employed persons born on or before 31/12/1951, the Pensionable Income will continue to be calculated on the basis of the best three consecutive years in the last decade of their working lives while for self-employed persons will continue to be calculated on the average of the full last ten years prior to retirement,

- for persons born from 1/1/1952 to 31/12/1955, the Pensionable Income for employed persons will be calculated on the basis of the best three consecutive years in the last 11 years of their working lives while for self-employed persons will be calculated on the average of 10 consecutive years in the last 11 years prior to retirement,

- for persons born from 1/1/1956 to 31/12/1958, the Pensionable Income for employed persons will be calculated on the basis of the best three consecutive years in the last 12 years of their working lives while for self-employed persons will be calculated on the average of 10 consecutive years in the last 12 years prior to retirement,

- for persons born from 1/1/1959 to 31/12/1961, the Pensionable Income for employed persons will be calculated on the basis of the best three consecutive years in the last 13 years of their working lives while for self-employed persons will be calculated on the average of 10 consecutive years in the last 13 years prior to retirement,

- for younger workers (employed and self-employed persons born on or after 1/1/1962) the pension will be based on the best 10 years (not necessarily consecutive) (basic wage/salary for employed or net profit/net income in the case of self-occupied/ self-employed persons) of 40 years of their working lives.

The Maximum Pensionable Income

The Maximum Pensionable Income (MPI) of the Two-Thirds Pension in the time of Pension Reform in 2006 stood at Lm6,958. The maximum pensionable ceiling in Malta remained unchanged in the period 1987-2004, an issue which was due to be addressed since the purchasing value since 1987 till 2004 has been eroded and quality of life has been dramatically improved. In 2007 the MPI stood at Lm 7,049 (Euro 16,420) , in 2008 MPI= Euro 16,601, 2009 MPI = Euro 16,813 and in 2010 MPI = Euro 17,115.

In line with the changes introduced in the Pensions Reform, the MPI will go up as follows:

- Persons born on or before 31/12/1951 – will increase by Cost of Living increases until it reaches a cap of Euro 17,470.

- Persons born between 1/1/1952 and 31/12/1961 – will increase by Cost of Living increases until it reaches a cap of Euro 20,964.

- Born on or after 1/1/1962 - will increase in three equal instalments from 2011 to 2013 until it reaches Euro 20,964. Thereafter, it will increase by a yearly amount based on 70per cent of the National Median Income and 30per cent on inflation.

Pension Indexation

The White Paper however recommends that the MPI should be calculated in accordance with inflation to ensure that a pensioner who will retire in twenty years time, will in terms of purchasing power attain a pension that will have the same purchasing power of a person who retires today. This will result because the White Paper recommends that the inflationary adjustment to the ceiling of the MPI will be cumulative. The post retirement pension income ceiling for persons born on or after 1/1/1962 will be based: 70per cent on the increase in the median national equivalised income and 30per cent on the change in inflation rate.

Pension reform 2006 improved the minimum pension. The Government will continue to guarantee a national minimum pension under the new system. The national minimum pension for persons born on or after 1st of January 1962 will be linked to the 60per cent of the national median equivalised income. However, if this is less than four-fifths of the minimum wage as it is presently (for married persons) or two-thirds of the minimum wage (for single persons) they will continue to get the latter.

Mandatory pensionable age

The Budget 2008 measure allows for current pensioners to continue working (if such agreement is reached with the employer) and continues receiving the pension as well as income from work (to which social security contributions are being paid).

Annex 6 - References

Duty on Documents and Transfers Act
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