

## **Business Promotion Act**

### **The Incentive Package**

The new Business Promotion Act (BPA) introduces greater scope and flexibility to the incentives available for the promotion of business and covers a much wider range of qualifying sectors and activities than before.

The BPA provides incentives for those industries demonstrating growth and employment potential that are engaged in manufacture, repair, improvement or maintenance activities.

New provisions also provide attractive fiscal incentives for companies engaged in certain manufacturing and qualifying activities a summary of which is set out below:

- Electronic and telecommunications equipment, semiconductors and other components and products;
- Software development including installation, implementation & support and training;
- Machinery and engineering;
- Certain fabricated metal products;
- Rubber and plastic items;
- Pharmaceuticals and medicinals;
- Medical, precision and optical instruments and equipment;
- Production of audio-visual productions including films, advertising programmes or commercials and documentaries;
- Jewellery and related articles;
- Repair, improvement and maintenance of aircraft, yachts, motor boats, turbines, gantry cranes and their equipment;
- Biotechnology;
- Aquaculture;
- Waste treatment and recycling;
- Research and development;

Companies carrying out the activities summarised above qualify for the incentives listed in section A, in addition to the incentives set out under sections B and C. The incentives listed in sections B and C are available to manufacturing and related service companies.

### **Section A**

#### Tax incentives for qualifying companies carrying out specific activities

##### **Reduced rates of income tax**

Qualifying companies benefit from a highly favourable tax structure. The applicable rates of tax will be as follows:

- (a) 5% for the first 7 years of operation
- (b) 10% for the following 6 years
- (c) 15% for the following 5 years

### **Investment tax credits**

Tax payable can be reduced or eliminated by investment tax credits calculated as the higher of:

- (a) 50% of the amount invested; or
- (b) 50% of the first 2 year wage cost of new jobs created
- (c) For SMEs the percentage for both the above is increased to 65%
- (d) Unutilised investment tax credits may be carried forward

The interaction of the above incentives would normally result in ***minimal or no taxes being paid for a number of years.***

## **Section B**

### Tax incentives applicable to manufacturing and related service companies

#### **Value Added incentives scheme**

A scheme whereby companies may benefit from reduced rates of tax according to the increase in value added of their activities.

The reduced rates of tax are as follows:

- 5% for the first 7 years
- 10% for the following 6 years
- 15% for the following 5 years

The reduced rates of tax apply to part or indeed a multiple of the increased profit when compared to a base period. For new companies since the base period will be NIL all the profits in the initial three years will be taxed at the reduced rate 5%.

#### **Investment allowances**

Tax deductions in addition to normal tax depreciation are provided as follows:

- Plant and Machinery - 50% of the investment.
- Industrial Buildings or Structures - 20% of the investment.

#### **Reduced tax rate for reinvested profits**

The tax on profits re-invested in projects approved by the Malta Development Corporation is reduced by 19.25%.

#### **Research and development expenditure**

In Malta all research and development expenditure is for tax purposes deducted at 120%.

#### **Incentives for job creation**

The creation of a new job may entitle a company to write off a percentage of the wage costs of the said new job, as a further tax deduction.



## Tax Treaties

Malta has concluded tax treaties with a number of countries (mainly European and including Canada and Australia) and which enhance the incentives provided by Maltese domestic legislation. Most of these treaties ensure that profits generated in Malta are either exempt from tax in the country of residence of the investor, or that such a country will provide a tax credit for the Malta tax spared as a consequence of the incentives Malta provides.

## **Section C**

### Other non-tax incentives applicable to manufacturing and related service companies

#### **Provision of industrial buildings**

The corporation also provides industrial buildings at competitive rates of rent.

#### **Soft loans**

Companies may also benefit from loan up to 75% of the qualifying expenditure.

#### **Loan interest rate subsidies**

Companies may also qualify for a subsidy on the interest rate payable on loans needed to acquire additional assets.

#### **Loan guarantees**

The Malta Development Corporation may guarantee loans taken by the company to finance the acquisition of such additional assets.

#### **Exemption from import duties**

Plant, machinery and equipment as well as materials, accessories and components to be used for processing may be imported duty free.

#### **Training assistance**

Qualifying companies may benefit from substantial training assistance. Depending upon whether a company is classified as a "large", or a "small or medium" enterprise, such assistance may vary from 35% to 80% of costs involved.