No. 614

MINISTRY FOR FINANCE

Budget Measures Implementation Act 2025
Part IV – Income Tax Act

Explanatory Notes[1]

1. Introduction

This document provides a summary and background information regarding the Budget Measures Implementation Act, 2025 (Act No. IX of 2025) amending Part IV f the the Income Tax Act (Cap. 123) .

2. Summary and background

a) Business Permit Deduction: Clause 12
The measure provides for a deduction in respect of capital expenditure incurred for acquiring business permits, concessions, or commercial leases. The deduction shall be allowed only if the person has incurred such an expense in the course of a trade or business.

b) School Fees Deduction: Clause 13
As announced in the budget speech, the maximum deduction for school fees paid by parents for children attending private schools (secondary, primary, and kindergarten) shall increase.

c) Tax Rates Adjustment: Clause 15(a)
The tax rate brackets shall be widened for every category of taxpayer, as previously announced in the budget speech.

d) Artists: Clause 15(b)
This amendment revises the current provisions to ensure that artistic activity is taxed at 7.5% on the net profit, rather than on the gross income.

3. Overview of the structure of the instrument

These following amendments shall be included in the Budget Measures Implementation Bill.

a) Business Permit Deduction: Clause 12
This clause will be introducing a new paragraph after paragraph (m) of sub-article (1) of article 14 of the principal Act.

b) School Fees Deduction: Clause 13
This clause amends article 14B of the principal Act by substituting paragraph (b) by a new paragraph.

c) Tax Rates Adjustment: Clause 15(a)
This clause amends article 56(1) of the principal Act by substituting the current sub-paragraphs (i), (ii), (iii), (iv) and (v) of paragraph (a) with new sub-paragraphs.

d) Artists: Clause 15(b)
This clause amends article 56(26A) by substituting certain words.

[1]These Explanatory Notes are in accordance with and for the purpose of article 3(2)(c) of the Small Business Act (Chapter 512 of the Laws of Malta).

4. Commentary

a) Business Permit Deduction: Clause 12

This new paragraph further specifies that the deduction is spread over a maximum of 15 years or the lease/permit duration, whichever is shorter. Deductions are not allowed for indefinite or long-term acquisitions (over 15 years). If the asset is transferred, the deductions already claimed must reduce the cost of acquisition for tax purposes. No deductions are allowed for related-party transactions. Additionally, costs for extending or modifying permits, concessions, or leases are deductible under the same conditions.

b) School Fees Deduction: Clause 13

In accordance with article 14B of the principal Act parents who send their children to private schools are eligible for a deduction. This applies to children attending both secondary and primary schools and private kindergartens. Such deductions will be increased.

c) Tax Rates Adjustment: Clause 15(a)

Article 56(1) of the principal Act provides the normal rate of tax on individuals. With this amendment the three basic categories, namely single computation, married computation and parent computation are replaced by higher thresholds which mean less tax per category.

Moreover, parents who have custody of or pay maintenance in respect of a child who is under 18 (or under 23 if receiving full-time education), can benefit from the parent rates regardless of whether the child is gainfully employed or not and irrespective of any amount earned, as the €3,400 income threshold is being removed.

d) Artists: Clause 15(b)

This article, the reduced rate of 7.5% on income from artistic activities, as approved by Arts Council Malta, is applied to gross income before any deduction. With this amendment, the reduced rate will therefore become applicable to net income and not to gross income.

5. Concluding sections

a) Business Permit Deduction: Clause 12

This clause shall come into force on date of publication of the Budget Measures Implementation Act.

b) School Fees Deduction: Clause 13

This clause shall come into force as from year of assessment 2026.

c) Tax Rates Adjustment: Clause 15(a)

This clause shall come into force as from year of assessment 2026.

d) Artists: Clause 15(b)

This clause shall come into force as from year of assessment 2026.

In case of queries, the general public is encouraged to contact the Malta Tax and Customs Administration via email at (servizz@gov.mt).

N.B. These Explanatory Notes are not intended to be an exhaustive description of the instrument nor a substitute thereof or a legislative supplement thereto. These Explanatory Notes do not purport to be an authoritative ruling on the interpretation of the legislation.

17th April, 2025

No. 615

MINISTRY FOR FINANCE

Budget Measures Implementation Act 2025
Articles 38 to 44 – Part VIII
Amendments to the Motor Vehicles Registration and Licensing Act (Cap. 368)

Explanatory Notes[1]

1. Introduction

By means of the the Budget Measures Implementation Act, 2025 (Act No. IX of 2025), the Minister responsible for finance in concurrence with the Minister responsible for transport and the Authority for Transport in Malta amended Part VIII of the Motor Vehicles Registration and Licensing Act (Cap. 368).

2. Summary and background

Certain definitions were needed to be included in the principal Act and other definitions needed to be amended in line with new EU Directives and Regulations. Other clarifications and slight amendments were critical because during the registration of vehicles certain definitions and regulations were not in line with the EU Regulations and hence we were acting ultra vires.

Amongst the definitions we included the definitions for "Regulation (EU) No 167/2013" related to the surveillance of agricultural and forestry vehicles and "Regulation (EU) No 168/2013" related to surveillance of two- or three-wheel vehicles and quadricycles. We also included the Local Enforcement System Agency amongst the regulatory Authorities as the agency responsible since it was missing in the principal Act.

Furthermore, due to technological advancements in the production of category T vehicles, new models of agricultural tractors have emerged that resemble quad bikes (category L) almost in all technical and operational aspects. As a result, such tractors are being imported into Malta, not for their intended agricultural purpose, but to be driven on the road as quad bikes, thereby avoiding paying registration tax. It was therefore deemed that agricultural tractors (category T) with a maximum design speed above 40 km/hr should be taxed at the same rate of quad bikes. Agricultural tractors with a maximum design speed below 40 km/hr shall continue to be exempted from registration tax, since these are normally exclusively used for agricultural purposes.

Another important clarification which was needed in the principal Act is the definition of a third country especially since the United Kingdom is no longer part of the European Union.

Another clarification is that during the registration of a vehicle we clarified that the registration value of any vehicle for the purpose of calculating the registration tax shall be based on the average market value of identical, equivalent or similar motor vehicles on the international market and provided that the registration value shall not in any event be less than the invoice value.

Finally the amending Act provides that any person who without making use thereof, with regard to an M1 motor vehicle or a motor cycle which has been registered with the Authority for use on the road in Malta solely and exclusively on Friday

[1]These Explanatory Notes are in accordance with and for the purpose of article 3(2)(c) of the Small Business Act (Chapter 512 of the Laws of Malta).

as from 18:00 onwards, Saturdays, Sundays, national holidays and other public holidays, fails to keep such M1 vehicle or motorcycle garaged on any other day shall also be guilty of an offence.

3. Overview of the structure of the instrument

The amending Act is made up of seven (7) articles and consist of the following:
Article 38 – Amendments to the Motor Vehicles Registration and Licensing Act.
Article 39 – Amendment of article 2 of the principal Act.
Article 40 – Amendment of article 8 of the principal Act.
Article 41 – Amendment of article 18 of the principal Act.
Article 42 – Amendment of article 21 of the principal Act.
Article 43 – Amendment of article 25 of the principal Act.
Article 44 – Amendment of the Second Schedule to the principal Act.

4. Commentary

Article 39: Adds new definitions to the principal Act as well as amends certain definition in order to be in line with new EU Directives and Regulations.

Article 40: Clarifies that an M1 motor vehicle or a motor cycle which has been registered with the Authority for use on the road in Malta solely and exclusively on Friday as from 18:00 onwards, Saturdays, Sundays, national holidays and other public holidays, has to keep such vehicle or motorcycle garaged on any other days.

Article 42: Where a vehicle is used on the road without payment of the vehicle registration tax, especially foreign plates the said vehicle is impounded, the owner shall be liable to the payment of administrative costs and penalties which may be established by the Authority. We clarified that when such vehicles are especially leased in another country and used in Malta by Maltese residents hence cannot be registered then vehicles will be taken out of Malta and be liable to pay an administrative penalty to take the said vehicle out of Malta.

Article 43: Clarifies that during the registration of a vehicle the registration value of any vehicle for the purpose of calculating the registration tax shall be based on the average market value of identical, equivalent or similar motor vehicles on the international market and provided that the registration value shall not in any event be less than the invoice value.

Article 44: Provides that battery and, or electric quad bikes shall be exempt from the payment of registration tax.

5. Concluding sections

This amending Act shall come into force once the Bill has passed through all the parliamentary stages.

For more information or clarification on the implementation of these amendments, kindly refer your queries to Transport Malta via email on info.tm@transport.gov.mt.

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17th April, 2025