



The 2014 Budget has brought in changes to the taxation system applicable to income from the letting of immovable property situated in Malta for residential purposes. The Budget Measures Implementation Act, 2014 provides for a reduced flat rate of 15% on the rental of residential property, which is believed to produce an 'honest' response in terms of the declaration of income and thus having a double effect, being that of regularising the market and incentivising it at the same time.

THE NEW TAX OPTION

The 15% flat rate on the gross rental income as aforementioned is optional and is applicable only to the rental of residential tenements by any person when such person is renting to an individual or individuals who occupy such tenement as a home or residence. When the lessors are individuals, such income does not need to be further declared in the personal income tax return. Holders of more than one residential tenement must tax all the tenements at the same option meaning that if the 15% flat rate option is chosen, it must be used for all tenements; otherwise the previous system would apply to all. Given that the 15% flat rate on residential tenements is optional, the previous system can still be applied in those cases where there are expenses to be deducted against the rental receipts, as provided for by law. This is usually the case where the allowable expenses, such as bank interest on loans acquired to finance the property being rented out, are to such extent that the profit from the lease is minimal and thus, the 15% flat rate would result in a higher tax to be paid. The previous system may also prove to be more beneficial in case of individuals whose rental income is their only source of income, since in that case, by the application of the progressive tax system applicable to Maltese resident individuals; the tax to be paid may result in a lower tax charge compared to the 15% flat rate option.

Residential tenements, which are defined as being non-commercial tenements consisting of a dwelling house or part thereof which is to be or is occupied as a home or residence. A dwelling house for this purpose consists of an apartment, flat, villa, maisonette, townhouse, farmhouse, terraced house, or a garage. The garage must be attached to, or underlying, such dwelling house or situated in the same block of which the residence forms part, or a garage of not more than 30m² situated within 500m² of such residence, where such garage has been let out together with such dwelling house on the same contract of letting. After the adoption of the Directive, member states will have two years to transpose the directive into national law. MEPs also approved a 'transfers of funds' regulation, which aims to improve the traceability of payers and payees and their assets. This regulation will be directly applicable in all EU member states 20 days after its publication in the EU Official Journal.

METHOD OF PAYMENT

The 15% tax shall be paid by not later than the 30th June of the year following the calendar year, in respect of the gross rental income received during the period January to December. This payment shall be accompanied by the relevant form which the Commissioner may prescribe indicating the gross rental income received for the relevant calendar year.

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As a reputable organisation of over 20 years standing, and forming part of a worldwide network of independent business advisors, consultants, auditors and accounting firms present in over 120 countries, we are optimally positioned to offer global expertise. Along these years, we have built client loyalty around a credible reputation for delivering results whilst working to the highest professional standards.

Nexia BT's strength lies in the technically competent staff with experience across a varied range of industry sectors. We deliver solutions to our clients through a high calibre customised service reflected in the professional work approach and ethics of our staff and driven by our ethos 'Closer to you'. With the backing of this business approach, we confidently present you Nexia BT as your trustworthy, dependable and reliable partner in Malta.

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