

# AWARD IN PAYROLL FUNDAMENTALS

## Lecture 06: FSS & NI (Part 1)

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# Today's Agenda

- National Insurance
- Classes of SSC
- Employed
- Self-occupied
- Self-employed
- Persons employed abroad
- Income Tax
- Domicile
- Tax Treaties



# What is National Insurance?

- The Social Security Act was enacted in 1987.
- Act X of 1987, updated regularly.
- Any contract of service or apprenticeship, written or oral, whether expressed or implied, by or under the Government of Malta, is **insurable employment**.
- 
- The term “gainfully occupied” also refers to a person who is employed in insurable employment or is self occupied.



# What is National Insurance?

- There can only be one insurable employment at the same time.
- In case of more than one concurrent employments, the insurable employment will be that which provides the highest income or earnings.
- In most cases, a 40-hour week determines the primary employment.



# What is National Insurance?

- Insurable employments are classified into 3 categories:
  - Employed Persons (employed with a provider of employment or employer)
  - Self Occupied Persons
  - Self Employed Persons



# Employed Persons

- Pay Social Security at the rates established in Class 1 of the Contribution Schedule.
- Employed Persons who are not excepted under Part II of the First Schedule of the Social Security Act, shall be liable to pay Class 1 Social Security Contributions with applicable contribution rates according to Part I of the Tenth Schedule of the Social Security Act.
- Employee has a sum deducted from the payslip, in most cases 10% of Gross Basic Salary, per week.
- Employer pays a similar amount.



# Employed Person

All full-time or part-time employees who are employed for less than eight (8) hours in any one calendar week are not considered as being in insurable employment for Social Security Contribution purposes.



# Social Security Contributions

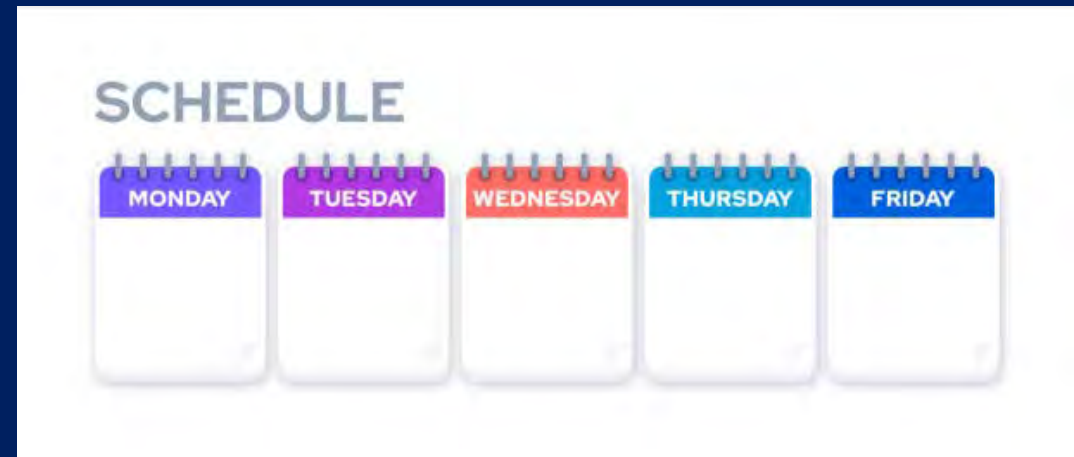
- All persons who:
  - are over the age of sixteen (16)
  - who have not yet attained retirement age of 65 years
  - who are in insurable employmentare liable to pay Social Security Contributions.
- Social Security contributions are paid in weekly rates, and each year of gainful occupation will carry 52 or 53 social security contributions (depending on the annual number of Mondays) on the payee's contribution record.





# Employed Person

- The Social Security Contribution rate due is based on earning derived from the Basic Weekly Wage.
- The basic weekly wage does not include allowances, bonuses, and/or overtime earned in a particular week.



# Social Security Contributions

- Calculated on the **basic weekly wage** of the employee
- Factors that affect Social Security deduction
  - Employed elsewhere
  - Age of Employee
- Two Categories

Class 1

<https://cfr.gov.mt/en/rates/Pages/SSC1/SSC1-2023.aspx>

Class 2

<https://cfr.gov.mt/en/rates/Pages/SSC2/SSC2-2023.aspx>



# National Insurance Contributions (2023)

| Class 1<br>Employed Persons |            | Basic<br>Weekly<br>Wage to € | Weekly NI<br>Contributions<br>(Employee) | Weekly NI<br>Contributions<br>(Employer) | Weekly Maternity<br>Leave Contribution<br>(Employer) |
|-----------------------------|------------|------------------------------|--|--|--|
| Category                    | Age        |                              |  |  |  |
| A                           | < 18 years | 192.73                       | €6.62                                    | €6.62                                    | €0.20  |
| B                           | 18+ years  | 192.73                       | €19.27<br>(or 10%)                       | €19.27                                   | €0.58  |
| C                           | Born <1962 | 392.76                       | 10%                                      | 10%                                      | 0.3%   |
| C2                          | Born 1962+ | 515.98                       | 10%                                      | 10%                                      | 0.3%   |
| D                           | Born <1962 | >392.77                      | €39.28                                   | €39.28                                   | €1.18  |
| D2                          | Born 1962+ | >515.99                      | €51.60                                   | €51.60                                   | €1.55  |
| E                           | < 18 years |                              | 10%<br>(max. €4.38)                      | 10%<br>(max. €4.38)                      | 0.3%<br>(max. €0.13)                                 |
| F                           | 18+ years  |                              | 10%<br>(max. €7.94)                      | 10%<br>(max. €7.94)                      | 0.3%<br>(max. €0.24)                                 |



# Employed Person

- Part-time employees who work less than 40 hours per week
- and who earn less than the National Minimum (weekly) Wage
- can opt to have their share on social security contributions, paid at the rate of 10% of their basic weekly wage.
- This contribution rate is called the Pro-rata rate and does not apply to the employer's share who has to pay the full applicable weekly rate.



# Employed Person

- One should also consider that when paying social security contributions by 10% pro-rata, these will not be considered as one contribution per week for records purposes, but carry a lesser, albeit proportional weight against the applicable full weekly rate.



# Employed Person

Both employer and employee's share of social security contributions are paid to the Commissioner of Inland Revenue in monthly payments by the employer.

<https://cfr.gov.mt/en/rates/Pages/SSC1/SSC1-2023.aspx>



# Self Employed vs Self Occupied

- Self-Employed as referred in Social Security Act is different from that we colloquially refer to.
- **Self Occupied Persons** - persons who earn income from Trade, Business, Profession, Vocation or any other economic activity that exceeds €910 per annum.
- **Self Employed Persons** - persons who receive income from rents, investments, capital gains or any other income.



# Self Occupied Persons

- A self-occupied person is one who:
  - is not an employed person;
  - is excepted under Part II of the First Schedule of the Social Security Act;
  - is engaged in any activity through which earnings exceeding €910 *per annum* are being derived.





# Self Occupied Persons

- Social Security Contributions by Self Occupied persons are called **Class 2** Social Security Contributions with applicable contribution rates according to Part III of the Tenth Schedule of the Social Security Act.



# Self Occupied Persons

- Full-time or part-time employees who are employed for less than eight (8) hours per week but earn more than €17.50 per week (€910 per annum); are considered as **Self Occupied persons** for Social Security Contribution purposes.
- The Social Security Contribution rate due is based on income derived from the net annual income from trade or profession; earned during the previous calendar year of that of payment.



# Self Occupied Persons

- Self occupied persons' social security contributions are paid to the Commissioner of Inland Revenue every four months; namely in April, August and December respectively.



# National Insurance Contributions (2023)

| Class 2<br>Self-Employed Persons |   | Annual Net Income<br>from €910 (€1,006<br>for SP) up to | Weekly NI<br>Contribution<br>payable by self-<br>employed | Full-Time Farmers |
|----------------------------------|---|---|---|-------------------|
| Category                         | Age   |   |   |                   |
| SP                               | Income from<br>Rents, investments<br>or capital gains | €9,901.80   | €28.56  | n/a               |
| SA                               |   | €11,362.80  | €32.78*   | €21.85            |
| SB                               | Born <1962  | €20,423.72  | 15% of net weekly   | 10% of net weekly |
| SB2                              | Born 1962+  | €26,831.00  | 15% of net weekly   | 10% of net weekly |
| SC                               | Born <1962  | €392.77+  | €58.91  | €39.28            |
| SC2                              | Born 1962+  | €515.99+  | €77.40  | €51.60            |

\* May choose to pay 15% of Net weekly income if:

- A part-time woman
- A full-time student <24 years working part-time
- A pensioner

# National Insurance - Weeks

| Month | No. of Mondays |  | Month | No. of Mondays |
|-------|----------------|--|-------|----------------|
| Jan   | 5              |  | Jul   | 5              |
| Feb   | 4              |  | Aug   | 4              |
| Mar   | 4              |  | Sep   | 4              |
| Apr   | 4              |  | Oct   | 5              |
| May   | 5              |  | Nov   | 4              |
| Jun   | 4              |  | Dec   | 4              |

**52 weeks  
in 2023**

- Self-Employed & Self-Occupied Persons pay their dues:
  - April – 17 weeks
  - August – 18 weeks
  - December – 17 weeks



# Self Employed Persons

- A self-employed person means a person who has not yet passed his 65th birthday,
- is ordinarily resident in Malta,
- And is not an employed person or a self-occupied person.



# Self Employed Persons

- Social Security Contributions by Self Employed persons are also called **Class 2** Social Security Contributions with applicable contribution rates according to Part II of the Tenth Schedule of the Social Security Act.
- The difference in weight between Class 2 Self Occupied contributions and Self Employed contributions, is that Self Employed contributions are valid only for **Pension** purposes, while Self Occupied contributions are valid for both **Pension and Short-Term Benefit** eligibility purposes.



# Self Employed Persons

- The Social Security Contribution rate due is based on income derived from the **net annual income** from rents, bank interest or financial investments; earned during the previous calendar year of that of payment.
- Rates are similar to those of Self Occupied persons with the exception of the Class 2 SP rate which is applicable only to Single persons.





# Self Employed Persons

- Self employed persons' social security contributions are paid to the Commissioner of Inland Revenue every four months; namely in April, August and December respectively.



# Persons Employed Abroad

Article 13(i) of the Social Security Act provides for:

- persons employed under a contract of service outside Malta,
- but who retain their ordinary residence in Malta,

Request the Director – DSS to pay Class 1 (Employed person) contributions instead of Class 2 contributions.

Article 13(i) provides that no social security contribution shall be payable by or on behalf of the Employer.



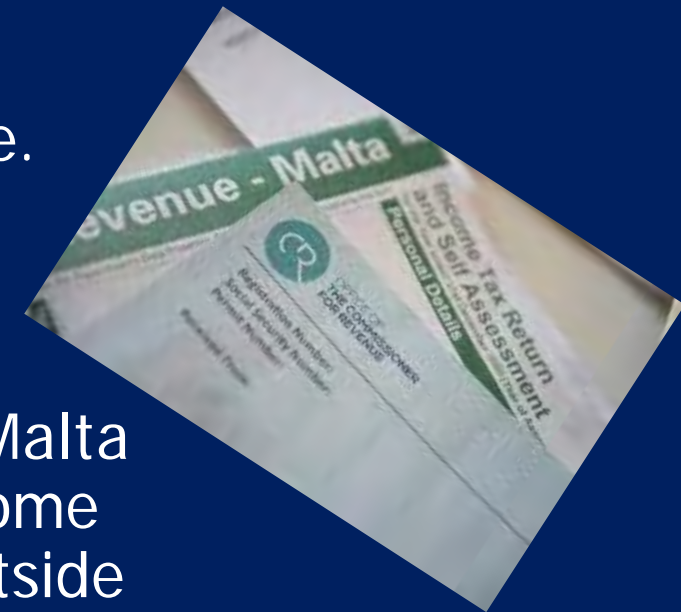
# Persons Employed Abroad

- Although equivalent to Class 1 contributions, Social security contributions under Article 13(i) are paid in the same manner as Self Occupied Class 2 contributions.
- To the Commissioner of Inland Revenue every four months; namely in April, August and December respectively, or until the same employment conditions continue to apply.



# What is Income Tax?

- Malta taxes individuals who are both **domiciled** and **ordinarily resident** in Malta on their worldwide income.
- Act 54 of 1948, and subsequent amendments.
- Referred to as Chapter 123 – Income Tax Act.
- Any person who is ordinarily resident in Malta but not domiciled in Malta is taxable only on income arising in Malta and on any foreign income remitted to Malta, i.e. on income and chargeable gains arising in Malta and on income outside Malta that is received in Malta.
- Such persons are not taxable in Malta on income arising outside Malta, which is not received in Malta, and on capital gains arising outside Malta, regardless of whether they are received in Malta, or otherwise.



# What is Income Tax?

- Persons who are married to an individual ordinarily resident and domiciled in Malta, are subject to a worldwide basis of taxation (and not on a source and remittance basis).
- A non-resident individual is taxed only on income and chargeable gains arising in Malta.
- Individuals are subject to tax on income arising in a calendar year (i.e. the basis year), which is assessed to tax in the year following the year in which it arises (i.e. the year of assessment).



# Personal Income Tax Rates

- The rates of tax for an individual are progressive rates with a range of 0% to 35%
- The higher the income, the higher the tax rate
- Tax Rates are different:
  - Single
  - Parental
  - Married
- Corporate tax is fixed at 35%



# Tax Rates

| Tax Rate<br>(Marginal) | SINGLE                          |                                     | PARENT                          |                                     | MARRIED                         |                                     |
|------------------------|---------------------------------|-------------------------------------|---------------------------------|-------------------------------------|---------------------------------|-------------------------------------|
|                        | Chargeable<br>Income up<br>to € | Deduct from<br>Income X<br>Tax Rate | Chargeable<br>Income up to<br>€ | Deduct from<br>Income X<br>Tax Rate | Chargeable<br>Income up to<br>€ | Deduct from<br>Income X Tax<br>Rate |
| 0%                     | <b>9,100</b>                    | 0                                   | <b>10,500</b>                   | 0                                   | <b>12,700</b>                   | 0                                   |
| 15%                    | <b>14,500</b>                   | 1,365                               | <b>15,800</b>                   | 1,575                               | <b>21,200</b>                   | 1,905                               |
| 25%                    | <b>19,500</b>                   | 2,815                               | <b>21,200</b>                   | 3,155                               | <b>28,700</b>                   | 4,025                               |
| 25%                    | <b>60,000</b>                   | 2,725                               | <b>60,000</b>                   | 3,050                               | <b>60,000</b>                   | 3,905                               |
| 35%                    | <b>60,001+</b>                  | 8,725                               | <b>60,001+</b>                  | 9,050                               | <b>60,001+</b>                  | 9,905                               |

# Personal Income Tax Rates

- A person who is resident in Malta for more than 183 days a year will be taxed in Malta on his/her income earned in Malta, as well as on any income earned overseas that is received in Malta. The law stipulates that, each month, the employer is obliged to deduct the amount of tax payable on a salary, at source.
- Certain payments are deductible from the taxable income of an individual that are allowable for tax purposes.





# What is Domicile?

- Domicile means the country where you officially have a permanent home or have a substantial connection with.
- If it is not where you live currently, it is then the place which you intend to return and make your home indefinitely
- **In Simple terms your domicile is your home**
- You can have more than one residence, but you only have one domicile



# What is Domicile?

- When you are born, you are automatically assigned to the same domicile as your parents. This is your domicile of origin.
- Even if you move abroad it is highly unlikely that your domicile will change



# Why is Domicile important?

It is essential to determine the domicile for tax purposes.

Tax liabilities can be divided into three main areas:

- Your Income Tax (from investment or employment);
- Capital Gains Tax
- Inheritance Tax



# Can you change your domicile?

- After the age of 18, you can change your domicile.
- For this, you will be required to satisfy several criteria with evidence of each one.
- The criteria for changing your domicile are varied, and each case will be judged on its merit combining with the evidence provided.



# Can you change your domicile?

- The basic principles for changing your domicile will typically include as an absolute minimum:
  - Leaving the country in which you are domiciled and settle in another country.
  - Provide strong evidence that you intend to live in your new location permanently or indefinitely.



# Is it easy to get a domicile status in Malta?

Simply put: - **No!!**

- You are required to break all ties with other countries to be domiciled in Malta.
- Once you get the status, you will be taxable on a worldwide basis.
- Under the Maltese jurisdiction, you can have multiple residences but only **ONE** domicile.
- Also, Malta does not have any deemed domicile rules.



# Is it easy to get a domicile status in Malta?

- It is crucial to mention that if you are a third- country national and have taken up Maltese citizenship by investment (IIP), you will remain domiciled in your native country.
- Rules change and are currently being revised and tightened.



# What is Non-Domiciled Status

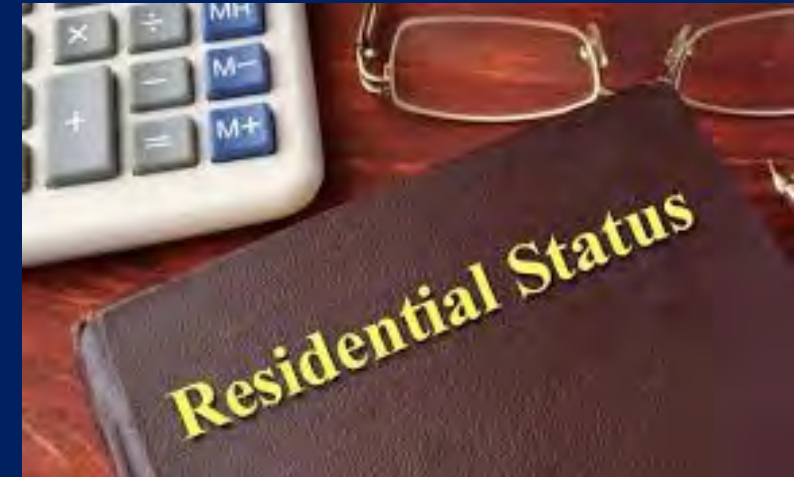
- As a general rule - be a foreign national living in Malta, which means you or your parents are not of Maltese origin.
- While you may be considered a **tax resident**, your domicile will typically remain as your country of birth. If you are recognised as a "non-dom", you cannot live in Malta indefinitely.





# Who is a Resident?

- You will be considered a resident (for tax purposes at least) if you're present in a country for 183 days or more per tax year or if not, by visiting the country very frequently and have the intention to reside there.
- It also means that you have the legal right to live, work, set up business, travel or even study in a particular country.



# Who is a Resident?

- The Malta Residency programs like Malta Residency Visa Program (**MRVP**) and Global Resident Program (**GRP**) give the opportunity to non-European nationals and their families to settle in Malta.
- If you are a resident in Malta, it doesn't mean you are a tax resident as well.



# Who is a Tax Resident?

- In general, individuals who spend more than six months in Malta in a calendar year are likely to be Maltese tax residents (the reference is made to Article 13 of the Income Tax Act)



# Who is a Tax Resident?

- Tax residency in Malta is a facts-based test, and the following factors are usually taken into account to determine the residency of individuals:
  - Place of abode;
  - Physical presence, i.e. >183 days;
  - Regularity and Frequency of visits;
  - Intention to reside in Malta;
  - Ties of birth;
  - Ties of the family;
  - Business Ties.



# Income Tax in Malta

- In Malta the taxation of an individual's income is **progressive**; i.e. the higher an individual's income, the higher the tax paid.
- To attract highly qualified personnel from abroad, Malta has introduced an incentive scheme targeting foreign executives.



# Income Tax in Malta

- Professionals in the financial services, gaming and aviation sectors can benefit from a flat personal income **tax rate of 15%** on income up to €5 million. Any income over that figure is tax-free.
- To qualify for this tax incentive, the employee must earn a minimum of €85,016 per year among other criteria.



# Income Tax in Malta

- EU nationals can benefit from the reduced tax rate for an unlimited period
- EEA and Swiss nationals for a period of ten years
- third-country nationals for four consecutive years.



# Different Tax Rates

- A reduced income tax rate of 7.5% applies in respect of income derived by registered professional football or water polo players, athletes, or licensed coaches.
- As of 1 January 2022, artists may opt to be taxed at a flat rate of 7.5%.
- Recipients of royalty income derived by an individual in one's capacity as an author from qualifying literary works may opt to tax the full gross amount of such royalty income at a reduced rate of 7.5% (decreased from 15%). The literary publication must be eligible for copyright in terms of the Maltese Copyright Act. The tax is final, no set-off or refund shall be granted, and it is payable by 30 April of the relative year of assessment.

