AWARD IN PAYROLL FUNDAMENTALS

Lecture 07: FSS & NI (Part 2)

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Monday, 4 December 2023

Today's Agenda

- Non-Resident Tax Status
- Double Taxation
- Global Residency Programme
- Malta Retirement Programme
- UN Pensions Programme
- Highly Qualified Persons
- Persons returning to Work
- NI Scenarios
- TAX Rates Residents & Non-Residents
- Jesmond's Payslip

What happens if a person is not a Tax Resident Anywhere?

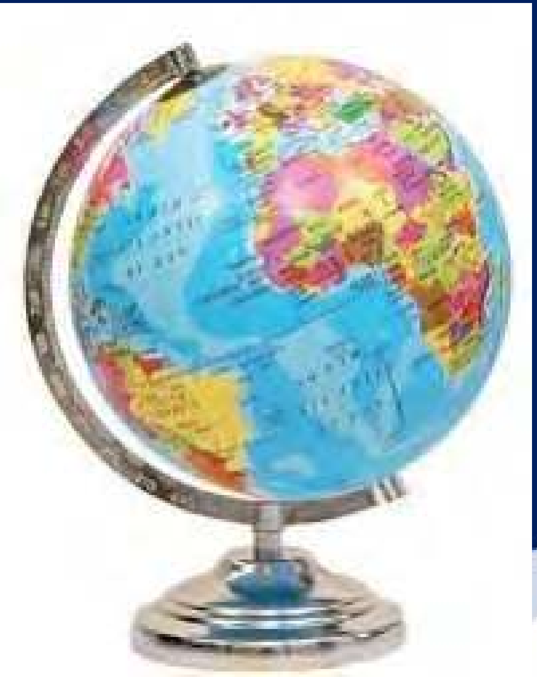
- Most of the countries tax income on a resident basis, so it is possible that the person is not taxed anywhere.
- But if you want to open a bank account, then the bank might ask for a tax number to receive the income. So being a tax nomad would not get you anywhere.
- For this purpose, Malta has programs like Global Residence Program (GRP) and Residence Program to give you a tax status.

What is double taxation System?

- Often, **double taxation** occurs as an unintended consequence of **tax** legislation, whereby international businesses are burdened with income **tax** arising from the country where the income was earned, and **taxed** once more when the income is repatriated in the home country of the business

What is double taxation System?

- Malta has over 70 double tax treaties in force.
- Double taxation system helps to reduce withholding taxes when a foreign company is paying a dividend to Malta.
- As per the Domestic Legislation, if a Maltese company is paying dividends outside of Malta, there will be no withholding tax even if there is no agreement.
- Treaties help to reduce the withholding tax on inbound dividends, interests and royalties.
- It also solves dual residence status conflicts where income is taxed twice.
- Malta has different types of double taxation reliefs.
- If foreign income is received in Malta and the treaty allocates right to Malta, Malta will give relief on the tax suffered in another country, subject to a ceiling which is usually the Malta Tax.



Malta Double Tax Treaties and Tax Information Agreements

- In force: Albania, Andorra, Australia, Austria, Azerbaijan, Bahrain, Barbados, Belgium, Botswana, Bulgaria, Canada, China, Croatia, Cyprus, Czech Republic, Denmark, Egypt, Estonia, Finland, France, Georgia, Germany, Greece, Guernsey, Hong Kong, Hungary, Iceland, India, Ireland, Isle of Man, Israel, Italy, Jersey, Jordan, Korea, Kuwait, Latvia, Lebanon, Libya, Liechtenstein, Lithuania, Luxembourg, Malaysia, Mauritius, Mexico, Moldova, Montenegro, Morocco, Netherlands, Norway, Pakistan, Poland, Portugal, Qatar, Romania, Russia, San Marino, Saudi Arabia, Serbia, Singapore, Slovakia, Slovenia, South Africa, Spain, Sweden, Switzerland, Syria, Tunisia, Turkey, Ukraine, United Arab Emirates, United Kingdom, USA and Uruguay and Vietnam.
- Treaties signed but not yet in force: Belgium, Curaçao
- Tax Information Exchange Agreements in Force: Bahamas, Bermuda, Cayman Islands, Gibraltar, USA.
- Tax Information Exchange Agreements – signed but not in force: Macao

Tax – Global Residence Programme

- The Global Residence Programme is aimed at attracting more third country national individuals in taking up residence in Malta without taking up employment in Malta.
- Foreign-source income remitted to Malta by the beneficiary, or their dependents is taxed at a flat rate of 15%, subject to a minimum tax of EUR 15,000 *per annum*.
- Beneficiaries should satisfy a number of qualifying criteria in order to be eligible for the beneficial tax treatment.

Tax – Global Residence Programme

- Applicants must hold immovable property in Malta for a purchase price of not less than EUR 275,000 (with lower thresholds applicable in the case of property situated in certain areas in Malta and/or Gozo).
- Alternatively, individuals may rent property in Malta for an annual rental payment of not less than EUR 9,600 (with lower thresholds applicable in the case of property situated in certain areas in Malta and/or Gozo).

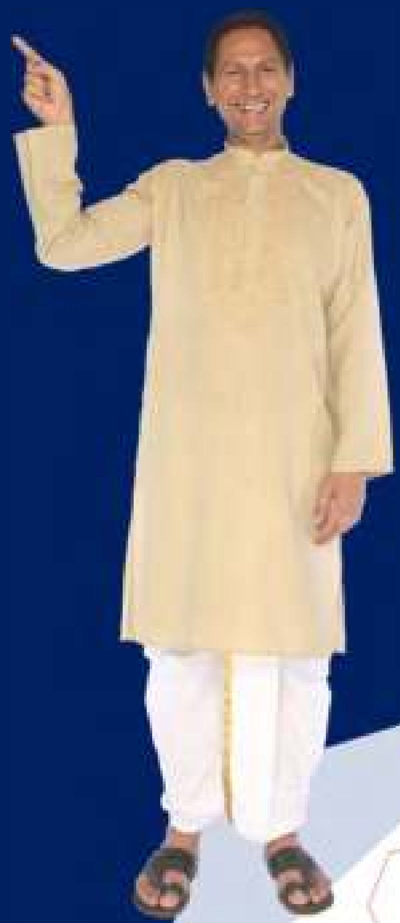
Tax – Malta Retirement Programme

- A Malta Retirement Programme is applicable to pensioners in receipt of periodic pension income.
- Pension income must constitute at least 75% of the pensioner's chargeable income in Malta, and such pension must be received in Malta.
- A number of other statutory conditions apply in order to be eligible for the said programme.
- Foreign-source remitted income is taxed at 15%, subject to a minimum tax liability of EUR 7,500 *per annum* and an additional EUR 500 per each dependent, *per annum*.
- This Programme includes third country nationals.

Tax – Returned Migrant

- Subject to the satisfaction of a number of conditions, a returned migrant may elect to be taxed on a source and remittance basis (rather than on a world-wide basis).
- Foreign- sourced income received in Malta exceeding the tax-free brackets of
    - EUR 4,200 for single taxpayers, and
    - EUR 5,900 for married taxpayers

should be subject to income tax at a flat rate of 15%, subject to a minimum tax liability of EUR 2,325 *per annum*.



Tax – UN Pensions Programme

- The United Nations (UN) Pensions Programme Rules, 2015 are designed to attract foreign pensioners retiring from the United Nations.
- Similar to the Global Residence Programme and other programmes already in place, applicants must satisfy a number of conditions
- These include holding immovable property in Malta for a purchase price of not less than EUR 275,000, or EUR 220,000 for property situated in certain areas.
- Alternatively, individuals may rent property in Malta for an annual rental payment of not less than EUR 9,600, or EUR 8,750 for property situated in certain areas.
- A beneficiary who should receive at least 40% of the UN pension or a widow’s/widower’s benefit in Malta is not subject to income tax on such income in Malta.
- Other foreign-source remitted income should be taxed at a flat rate of 15%, subject to a minimum tax of €10,000 (or €15,000 where both spouses are in receipt of a UN Pension), after double tax relief.

Tax – Highly Qualified Persons

- The Highly Qualified Persons Rules cater for expatriates (i.e. individuals who are Maltese residents but not domiciled in Malta)
- Are in receipt of income payable in terms of a 'qualifying contract of employment' in respect of activities carried out in Malta.
- May be subject to tax on such income at a beneficial flat rate of 15%.
- The beneficial rate may be availed of by individuals occupying an "eligible office" in financial services or gaming sectors or in undertakings holding an air operators certificate.
- These Rules have now been extended to cover specific positions of employment in the sphere related to assisted reproductive technology.
- No determination in terms of these Rules should be issued following 31 December 2020, and any determination issued should refer to an employment commencing by 31 December 2021 and terminated by 31 December 2025.

Tax – Highly Qualified Persons

- “Eligible office" in the financial services and gaming sectors (and undertakings holding an air operators certificate) comprises employment in one of the following positions:
- Actuarial Professional
- Aviation Continuing Airworthiness Manager
- Aviation Flight Operations Manager
- Aviation Ground Operations Manager
- Aviation Training Manager
- Chief Executive Officer
- Chief Financial Officer
- Chief Commercial Officer
- Chief Insurance Technical Officer
- Chief Investment Officer

Tax – Highly Qualified Persons

- Chief Operations Officer (including Aviation Accountable Manager)
- Chief Risk Officer (including Fraud and Investigations Officer)
- Chief Technology Officer
- Chief Underwriting Officer
- Head of Investor Relations
- Head of Marketing (including Head of Distribution Channels)
- Head of Research and Development;(including Search Engine Optimisation and Systems Architecture)
- Portfolio Manager
- Senior Analyst (including Structuring Professional)
- Senior Trader/Trader
- Odds Compiler Specialist

Tax – Highly Qualified Persons

- "Eligible office" in an aerodrome licensed undertaking refers to employment in the following position:
  - Chief Executive Officer

- "Eligible office" in the assisted reproductive technology sector comprises employment in one of the following positions:
  - Embryologist
  - Responsible Person
  - Lead Quality Manager

Tax – Highly Qualified Persons

Scheme Rules

a) Employment Income

Individual income from a qualifying contract of employment in an "eligible office" with a company licensed by the Competent Authority is subject to tax at a flat rate of 15% provided that the income amounts to at least €75,000 (seventy five thousand euro) adjusted annually in line with the Retail Price Index. This is from 2010.
The 15% flat rate is imposed up to a maximum income of €5,000,000 (five million euro), the excess is exempt from tax.

Tax – Highly Qualified Persons

In practice this means that the minimum income (based on the Retail Price Index published by the National Statistics Office) must exceed the following thresholds:

- €75,000 for basis year 2010
- €76,136 for basis year 2011
- €78,207 for basis year 2012
- €80,100 for basis year 2013
- €81,205 for basis year 2014
- €81,457 for basis year 2015
- €82,353 for basis year 2016
- €82,881 for basis year 2017
- €84,016 for basis year 2018
- €84,991 for basis year 2019
- €86,385 for basis year 2020
- €86,938 for basis year 2021

Tax – Highly Qualified Persons

- The 15% tax rate applies for a consecutive period of five years for European Economic Area (ie EU countries plus Norway, Iceland and Liechtenstein) and Swiss nationals
- For a consecutive period of four years for third country nationals.
- Individuals who already have a qualifying contract of employment in an "eligible office" two years before the entry into force of the scheme may benefit from the 15% tax rate for the remaining years of the scheme.
- There was a transitory period for a national of the EEA and Switzerland who had a qualifying contract of employment in an "eligible office" starting in 2008 (basis year) benefited for three years from the scheme, i.e. basis years 2010, 2011 and 2012, while a third country national benefited from one less.
- This "grandfathering" only applies for eligible offices in the financial services and gaming sectors.

Tax – Highly Qualified Persons

- The four or five year period, as the case may be, commences from the year when the individual concerned first becomes taxable in Malta.
- In cases where the individual was taxable in Malta but not benefiting under this Scheme and subsequently comes to Malta and becomes eligible under the Scheme, he can benefit only if the four or five year period has not elapsed.
- The benefit is for the years remaining from the date of eligibility under the Scheme until the said four or five year period from the date of first being subject to tax in Malta elapses.
- Nationals of the EEA and Switzerland who have availed themselves of the benefit under this scheme may apply for a one-time extension of five years to the qualifying period.
- Third country nationals who availed themselves of the benefit under this scheme may apply for a one-time extension of four years to the qualifying period.

Tax – Highly Qualified Persons

b) Qualifying Contract of Employment

An individual may benefit from the 15% tax rate if he satisfies all of the following employment conditions:

- derives employment income subject to income tax in Malta
- has an employment contract subject to the laws of Malta and proves to the satisfaction of the Competent Authority that the contract is drawn up for exercising genuine and effective work in Malta
- (Note: where an individual receives salaries from different companies in the same group and the group relationship of such companies is of 100% ownership, he will still be eligible if the aggregate salaries (excluding fringe benefits) are higher than the minimum thresholds as specified above).
- proves to the satisfaction of the Competent Authority that he is in possession of professional qualifications and has at least five years professional experience;

Tax – Highly Qualified Persons

- has not benefitted from deductions available to investment services expatriates with respect to relocation costs and other deductions (under article 6 of the Income Tax Act);
- fully discloses for tax purposes and declares emoluments received in respect of income from a qualifying contract of employment and all income received from a person related to his employer paying out income from a qualifying contract as chargeable to tax in Malta;
- proves to the satisfaction of the Competent Authority that he performs activities of an eligible office; and

Tax – Highly Qualified Persons

- he is in receipt of stable and regular resources which are sufficient to maintain himself and the members of his family without recourse to the social assistance system in Malta;
- he resides in accommodation regarded as normal for a comparable family in Malta and which meets the general health and safety standards in force in Malta;
- he is in possession of a valid travel document;
- he is in possession of sickness insurance in respect of all risks normally covered for Maltese nationals for himself and the members of his family.

Tax – Highly Qualified Persons

- **Exclusions from the Scheme**

- The individual income derived from employment in an "eligible office" will not qualify for the 15% reduced rate if

  - It is paid by an employer who receives any benefits under business incentive laws or is paid by a person who is related to the employer who received any benefits under any business incentive laws

  - if the individual holds more than 25% (directly or indirectly) of the company licensed and/or recognised by the Competent Authority

  - if the individual is already in employment in Malta before the coming into force of the scheme either with a company not licensed and/or recognised by the Competent Authority.

- The individual income derived from employment in an "eligible office" will not qualify for the scheme if a claim is made for any relief, deduction, reduction, credit or set-off of any kind except for any income tax deducted at source.

Tax – Highly Qualified Persons

- Anti-abuse provisions in respect of split contracts have been introduced. An arrangement in terms of which a beneficiary receives a payment from a person related to his employer and such payment is not declared for tax purposes in Malta is considered to be an artificial arrangement.
- Any rights are withdrawn with retrospective effect if a beneficiary is not an EEA or Swiss national and he either:
  - Physically stays in Malta, in the aggregate, for more than four years; or
  - Directly or indirectly acquires real rights over immovable property situated in Malta or holds a beneficial interest directly or indirectly consisting in, inter alia, of real rights over immovable property situated in Malta.
- Any individual who claims a benefit under the scheme when he is not entitled to do so is liable to a penalty equal to the amount of benefit claimed and if the benefit is paid the individual is liable to repay the benefit received plus additional tax of 7% per month or part thereof.

Tax – Highly Qualified Persons

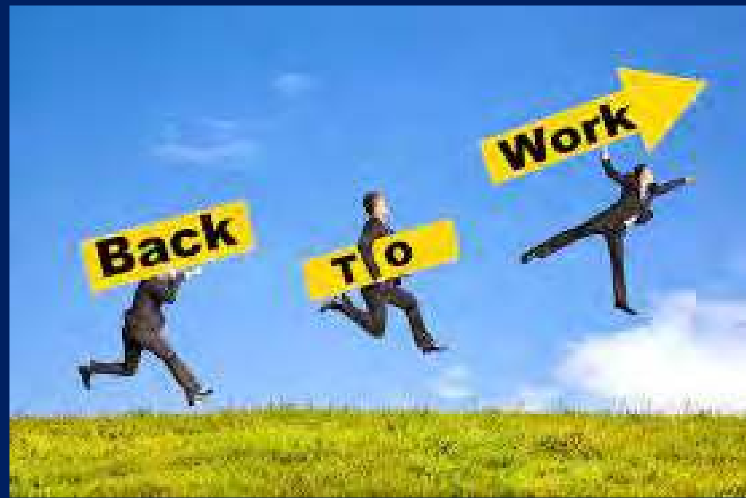
- **Application to Benefit from the Scheme**

- An application for a formal determination relating to eligibility under the Highly Qualified Persons Rules must be made to:

- The Chairman, Malta Financial Services Authority (in the case of Financial Services). Persons who already submitted a personal questionnaire to the Malta Financial Services Authority can apply on a separate form.
- The Chairman, Lotteries and Gaming Authority.
- The Chairman, Authority for Transport in Malta (in the case of Aviation Services).
- The Chief Medical Officer to Government (in the case of assisted reproductive technology).

Persons Returning to work

- Persons returning to work and who pay tax are given a tax credit of a maximum of €5,000
- According to the amounts these are to fill in forms RA4, RA7 or RA9 Accordingly
- Another option is to fill in an FS4 and not pay tax for the period.



Persons Returning to work

- With effect from calendar year 2017 (Year of Assessment 2018) when a person (**man** or woman, that is no longer restricted to a woman):
  - returns to employment (and not of retirement age); and
  - after having been absent from any gainful occupation for at least five years (and who has never been, prior to the date of the said return to employment, in receipt of a pension in view of past employment); and
  - had previously been in employment for at least twenty-four consecutive months
  - Such person (including a man) can benefit from a tax credit of €2,000 which shall be set-off against the tax in respect of gains or profits from the said employment. Such €2,000 tax credit may be availed off over a maximum period of two years.

Persons Returning to work

- The legal notice affords further leeway to couples in their child-care and upbringing planning in addition to a fiscal incentive for both spouses to return to the workforce following childbirth.
- Moreover, since the provision is not explicitly tied to childbirth, the benefit may be claimed by individuals (men) who took a career break for reasons unrelated to childbirth, such as taking care of elderly parents.

National Insurance Contributions (2023)

Class 1 Employed Persons		Basic Weekly Wage to €	Weekly NI Contributions (Employee)	Weekly NI Contributions (Employer)	Weekly Maternity Leave Contribution (Employer)
Category	Age				
A	< 18 years	192.73	€6.62	€6.62	€0.20
B	18+ years	192.73	€19.27 (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% (max. €4.38)	10% (max. €4.38)	0.3% (max. €0.13)
F	18+ years		10% (max. €7.94)	10% (max. €7.94)	0.3% (max. €0.24)

National Insurance Class 1

- If a person earns a yearly rate of €15,900 how much would be his basic weekly rate? **€305.77**
- What Category would the person be in if they are born in 1995? **C - 2**
- How much national insurance would they be paying per week? **€30.58**
- How much national insurance would they be paying per year? **€1,590.16**
- How much would the employer be paying in a year? **€1,590.16**

National Insurance Class 1

- If a person earns a monthly salary of €2,800 how much would be his basic weekly rate? **€646.15**
- What Category would the person be in if they are born in 1981? **D - 2**
- How much national insurance would they be paying per week? **€51.60**
- How much national insurance would they be paying per year? **€2,683.20**
- How much would the employer be paying in a year? **€2,683.20**

National Insurance Class 1

- If a person earns a yearly salary of €5,200 how much would be his basic weekly rate?
- What Category would the person be in if they are born in 1998?
- How much national insurance would they be paying per week?
- How much national insurance would they be paying per year?
- How much would the employer be paying in a year?

€100.00

B

€19.27 or €10.00

€1,002.04 or €520.00

€1,002.04

Maternity Fund

- How much maternity fund should be paid yearly by the employer for the following amounts:
  - €100 per week **€30.16**
  - €300 per week **€46.80**
  - €500 per week (born in 1960) **€61.36**

National Insurance Contributions (2023)

Class 2 Self-Employed Persons		Annual Net Income from €910 (€1,006 for SP) up to	Weekly NI Contribution payable by self-employed	Full-Time Farmers
Category	Age			
SP	Income from Rents, investments 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 Class 2

- If a person earns money in his first year of being Self –Occupied, how much NI does he have to pay on a weekly?

  €32.78

- What Category would the person be in if they are born in 1990?

  SA

- How much national insurance would they be paying per year?

  €1,704.56

- How much NI Class 2 was paid in August 2023?

  €590.04
  18 weeks

National Insurance Class 2

- If a person made €21,456 in the previous year how much NI does he have to pay weekly?

  €61.89

- What Category would the person be in if they are born in 1995?

  SB - 2

- How much national insurance would they be paying per year?

  €3,218.28

National Insurance Class 2

- If a person made €21,456 in the previous year how much NI does he have to pay weekly?

  €61.89

- What Category would the person be in if they are born in 1995?

  SB - 2

- How much national insurance would they be paying per year?

  €3,218.28

National Insurance Class 2

- If a person born in 1960 made €21,456 in the previous year how much NI does he have to pay weekly?
  €58.91
- What Category would the person be in if they are born in 1995?
  SC - 1
- How much national insurance would they be paying per year?
  €3,063.32
- If he was a full-time farmer, what would be the NI due in 2023?
  €2,042.56

Tax – Non-Resident tax rate

Tax Rates: 2008 to Date			
Chargeable Income (€)			
From	To	Rate	Subtract (€)
0	700	0%	0
701	3,100	20%	140
3,101	7,800	30%	450
7,801	and over	35%	840

Tax – Non Resident Tax rate

- If a person is in Malta for less than 183 days then they are to pay a non-resident tax rate.

- How much would a person pay if they are earning €12,000 in a year

€3,360 per annum

€280 per month

Tax – Non Resident Tax rate

- After the 183 days in Malta they are to be transferred to Resident tax rate

Tax Rates

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

Tax – Single Tax Rate

- This is used by people who are either:
  - not married and have no children
  - Married couples with no children and who both work full time

Tax – Parent Rates

Applicable when:

- The Child is less than 18 years of age (or between 18 and 23 and attending full time education)
- Such child is not gainfully occupied or if gainfully employed does not earn more then €3,400 per annum

Tax – Married Tax Rate

- This is use by a single parent or Married couples where only one works full time
- The other party can be either non-working or works full-time and uses the 10% part time qualified.

Calculating a Payroll - Data

- Jesmond Stivala
- Born on 12 July 1987
- ID No. 654387M

} ID Card

- Single with no children } FS4
- Full-time Employment as from 1 September 2023
- Annual basic gross salary of €30,000
- No fixed allowances

} Contract

- Was employed elsewhere up to 31 August 2023 } Previous FS3

Monthly Gross Remuneration

- Basic Gross Monthly
  - € 30,000 per year
  - Divided by 12 months = €2,500.00 per month

- Basic Gross Weekly
  - € 30,000 per year
  - Divided by 52 weeks = €576.923 per week

- Monthly Hours worked
  - Full-time = 40 hours per week X 52 weeks = 2,080 hours
  - Monthly = 2,080 hours divided by 12 months = 173.33 hours

Payslip Calculation for September 2023

Name	**Jesmond Stivala**	
ID No.	**654387M**	
NI No.	**654387M**	
Address	**123, Main Street**	
	Valletta VLT1234	
Occupation	**Designer**	
PAYSLIP FOR THE MONTH OF	**Sep-23**	
		€
Basic Monthly Gross	173.33 hrs	2,500.00
Weekly Allowance (Pro-Rata)		19.57
		2,519.57
Less: Social Security (D2)	4NI	- 206.40
Less: FSS	Single	???
		XXX

FSS Calculation

- Jesmond is taxed on SINGLE RATES
- Had a previous employment
  - Gross earned to 31 August 2023 = €17,902.89
  - Tax paid to 31 August 2023 = €2,659.00
- To add the Gross Taxable income earned in September to that earned from previous employment
- Extrapolate to full year
- Calculate Tax due at SINGLE rates
- Pro-rata tax due to September
- Deduct tax already paid at previous employment

Jesmond's Tax charge in September

	€
Gross Income Previous Employment	17,902.89
Gross Income Earned in September	2,519.57
Gross Income Jan-Sep	20,422.46
Extrapolated for Annual Gross	27,229.95
[€20,422.46 / 9 * 12]	
Expected Tax Charge - Annual [SINGLE]	4,083.00
[€27,229.95 * 25% - €2,725]	
Tax Due Jan-Sep	3,063.00
Tax Paid at Previous Employment	2,659.00
Tax Due in September	404.00

Net Pay in September

Gross Taxable Income - **€2,519.57**

Less: NI – 4 weeks - **€206.40**

Less: FSS - **€404.00**

Net Salary - **€1,909.17**

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ACADEMY