

# Proposals for National Budget 2014



**mea**

MALTA EMPLOYERS' ASSOCIATION

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## Introduction

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This budget will be presented within the first year of the new administration, within an international scenario which is still struggling with sluggish global economic growth, with the EU lagging behind in economic growth and job creation relative to the United States and Japan.

Malta retains its position as one of the EU countries with the lowest unemployment, but, as mentioned in the pre-budget document, we do have a situation whereby wage growth is considerably higher than labour productivity. It is arguable to what extent this trend can be sustained without incurring a loss of jobs, and the marginal increase in unemployment should be monitored closely to ensure that it does not escalate. The Association's proposals for the budget are in line with its main recommendations in the memorandum which it presented to the political parties before the last election, based on the need for fiscal consolidation and job creation through innovation and competitiveness.

The need to curtail the fiscal deficit and the public debt is pivotal for the sustainability of our welfare systems, including health and education. It is of concern to MEA that public sector employment has increased by more than 1000 persons between June 2012 and June 2013, with an estimated cost of €25m. The impact of an increased complement, combined with wage inflation resulting from collective agreements in the public sector creates serious constraints on government expenditure and fiscal targets. This sentiment was reflected in the recent ratings awarded by Moody's and Fitch to Malta. Both rating agencies are awaiting the outcome of the government's fiscal policies in maintaining a deficit below 3% of GDP and to reduce the public debt.

Needless to say, fiscal consolidation is not only dependent on curtailment of expenditure reductions or controls, but also, perhaps more importantly, on wealth generation in the private sector. The expansion of the economy can, in itself, generate added revenues which make the public finances more sustainable.

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## Proposals

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### 1. Income tax

MEA supports the reduction in income tax rates on the lines proposed in the previous budget, as long as these do not jeopardise the targets of deficit reduction.

Although some have criticised the income tax reductions as being anti-social, a good proportion of income falling under the brackets which are affected is overtime. Many employees complain to their employers that overtime is taxed at 35% whereas income from part-time employment is taxed at 15%.

### 2. VAT registration thresholds

The vat registration thresholds were established in 1995 when the first vat law was enacted. Eighteen years have passed since then and the entry and exit thresholds have not changed since. Taking inflation into consideration, the figures established in 1995 have little relevance today. It is therefore recommended that these thresholds are adjusted upwards at least by the inflation experienced during this span of years and that these are automatically increased annually by the inflation rate.

### 3. Set off between Government Departments against amounts due by the Government

It is very common to find a situation where a company is owed money from one Government Department and at the same time owes money to another Government Department. This often creates a strain on the cash flow of the company concerned as in many instances the Department who is owed money will insist to be paid together with penalties and interest - even to the point of instituting criminal proceedings - while at the

same time the Department who is owed money simply claims that it has run of budget and therefore is unable to settle outstanding amounts.

It is highly recommended that the Government establishes a system under which such a set off can be arranged. The Government may set up an ad hoc Unit through which each case can be managed and administered. This will be a big relief to many businesses as it will ease liquidity issues.

#### **4. Focus on SMEs**

The budget can include a number of measures that target SMEs. These can include:

- A revision in the procedure in which small businesses upgrade their electricity supply. The current charges are excessive and a disincentive to many as these charges also include part of expenses of the substation.
- Tourist zoning areas have to be better defined, as some businesses have a permit to open for longer hours and on Sundays, where others do not. The issue of opening hours should be dealt with conclusively.
- A revisiting of the eco tax. Many businesses complain of an uneven playing field in the manner in which the system works and is administered.
- Parking and traffic restrictions being currently imposed are in some cases unnecessary and a hindrance to business.
- A revival of the incentive scheme for businesses to install photovoltaic systems.

Government should consider setting up an SME unit as a specialised agency to look into the specific needs of SMEs. Such a unit will be in a better position to address the needs of SMEs and would eliminate the current fragmentation that exists between different departments and authorities.

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## 5. Child care

MEA supports initiatives to make Child care more affordable as a measure to increase the labour market activity rate. Making child care free of charge will be an investment which will yield a good return in terms of added productive hours.

## 6. Tax incentives for Care of elderly parents

Many employees are facing a burden not just looking after children. An emerging problem, resulting from an increased activity rate together with a higher mortality age is the care of elderly parents. Many families are pooling resources to cater for the needs of parents, through private homes for the elderly or even engaging care workers at home.

It is being proposed to grant tax incentives for working persons who are paying for private services in elderly care.

Such initiatives can relieve government institutions from carrying the full burden of caring for an increasing number of elderly persons, and also help in retaining people – mostly women - in the labour force.

## 7. Maternity leave

Unlike many other EU countries, the main burden of maternity leave still falls on employers. This is also affecting women of child bearing age in finding employment as they have a competitive disadvantage with male applicants. MEA is proposing phasing out the expense of the thirteen weeks maternity leave that is currently being paid by employers

## 8. Benefit fraud

Government can make considerable savings through a concerted effort to curb benefit abuse. The main benefit is not simply to address the fiscal balance but also to improve assistance to persons who are really in need of financial support.

The Association does not support the argument that people need an incentive to switch from being benefit recipients to productive employees. Social benefits should be paid only to those who are truly seeking employment and government should avoid the pitfall whereby benefits are considered to be an opportunity cost to employment.

## 9. An Employability Index

In its proposals to the political parties prior to the last election, the MEA has recommended conducting an exercise to rank courses at tertiary level according to employability prospects.

The reasons behind this recommendation are that:

- Although the EU boasts of a higher graduate employment than Malta, it also has a high incidence of unemployed or underemployed graduates which is contributing to youth unemployment.
- The heavy investment which government is putting into tertiary education should be directed towards areas which are or are expected to be in demand. Although the options to students should not be limited, this will be an added service for them as they will be guided towards courses with better prospects of employment.

The MEA is satisfied that the issue is being discussed as part of Active labour Market Counseling and Action committee, and the budget should allocate the necessary resources for such an index to be actioned.

## **10. Pensions – incentives for third pillar**

The sustainability and adequacy of pensions requires proactivity and long-term planning to avoid sudden shocks in future. The MEA has advocated the reform of the first pillar – which is underway through a graded increase in retirement age and a reform in contributions and benefits – together with incentives to invest in voluntary third pillar pensions.

The Association has always cautioned against the mandatory introduction of second pillar schemes as this can be prohibitive both for businesses and employees. Second pillar pensions also carry various risks which can be avoided through a strategy to re-enforce the first and third pillars.

For the coming budget, MEA is proposing tax benefits to employees who invest in third pillar schemes.

## **11. Services charter**

MEA has presented an objective and clear position paper on the issue of atypical, illegal and unethical employment practices, which unions are defining under the generic heading of 'precarious work'. The three sessions held at MCESD dedicated to the subject have been inconclusive as to both the definition of precarious work and also to the extent to which 'precarious' conditions actually prevail.

The Association has always been outspoken against illegal work practices, and has openly supported government's revised regulations to have a level playing field among companies bidding for tenders in the public sector, with the exception of the provision for sub-contracting which needed to be refined to address possible abuse, rather than restrict sub-contracting out rightly.

The Association believes that the Services Charter will introduce a self regulatory mechanism that will encourage compliance in the cleaning, security and care-working sectors.

### **11.1 Minimum rates for Outsourced Work in the Public Sector**

As part of the strategy to ensure decent working conditions in outsourced work in the public sector, the Association is recommending setting a minimum hourly rate below which no tenders will be awarded. The recommended minimum rate is of €7.50 per hour.

## **12. Energy**

Government is planning radical changes in the generation and management of energy in Malta. The latest development has been the memorandum of understanding with China for collaboration in the generation of energy and in the production of photovoltaic systems.

The upcoming negotiations with the Chinese government, and the China Power Investment Corporation need to strike a delicate balance between protecting Malta's sovereignty and accommodating China's business (and political) interests. Depending on the outcome, Malta stands a good chance of being a net winner from this endeavour which, besides easing Enemalta's woes, can also open investment and employment opportunities in the private sector. This will also be an opportunity for a more effective deployment of labour at Enemalta. (As far back as 2004, MEA had proposed the utilisation of excess labour at the shipyards to produce and install solar powered equipment).

Combined with the impact of the interconnector with Sicily and stable oil prices, energy rates in Malta should fall to rates comparable with the EU average. Although government is politically committed to reduce consumer rates in the coming months, MEA is proposing to give priority to commercial rates first. This would work in the interest of workers and their

families as well since the generation of employment depends on competitiveness, which in turn depends to a considerable extent on energy rates in key sectors of the economy such as tourism and manufacturing. It should also be considered that although both consumer and commercial energy rates in Malta are currently higher than the EU average, commercial rates are amongst the highest in the EU, whereas the situation with respect to consumer rates is different.

### **12.1 Night Rates**

As an alternative, government can introduce night rates for commercial entities with effect from January 2014.

## **13. Schemes to assist Employers**

Government should immediately start the implementation of schemes to assist employers. Amongst these are:

- The Micro Invest Scheme. Although there has been a legal notice in the pipeline for some time
- The Micro Guarantee is in need of implementation and promotion
- ETC schemes. Previous schemes which were in force are now at a standstill. These need to be reactivated in particular to assist the employment of disadvantaged groups.
- Government also needs to look into the allocation of ERDF funds for the next programming period

## **14. Civil Society Funds**

The budget should include an allocation for the issuing of the civil society funds on the same lines as 2013 and previous years. It is essential to retain this allocation to enable

social partners to participate in the EU social dialogue process and EU funded projects from which the whole country will benefit. These funds should be subject to strict governance and audits to ensure that they are being utilised for their intended purpose.