

ALTERNATTIVA DEMOKRATIKA - Proposals Budget 2008

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Introduction

Alternattiva Demokratika – The Green Party is, in this document, presenting its key proposals to government for Budget 2008. This document is not intended to present a complete set of proposals but rather those measures that we consider as clear priorities in the upcoming fiscal year.

The principle target of our proposals is to provide assistance to those families raising children, a group that we consider to be most in need. In addition we believe that this should be the first budget that can start to address the severe problems in housing affordability and utilisation of the vast vacant property stock. We are also proposing that in this budget funds are made available to compensate owners of controlled-rent properties who have suffered at the hands of successive governments for six decades.

Our proposals also include the reduction of income tax on companies from 35% to 30%, but the increase in the tax rate on banks from 35% to 40%. We are also proposing a reduction of the VAT rate on restaurants and tourist services from 18% to 12%, accompanied by more enforcement on tax evasion in this sector.

We also make proposals on the revision of the electricity surcharge as well as a proposal to liberalise public transport and convert the fleet of public buses to gas-powered engines. Finally we are making two proposals to improve the economy of Gozo, that include the establishment of an “Eco-Island” Venture Capital Fund.

Assumptions

In drawing up our measures, that are each costed on page 9 of this document, we have had to make an assumption of what funds government can make available in the coming budget for additional programs and any further tax-reduction measures. In order to estimate such we have assumed that the sum of Lm 18 million that was available last year for distribution, will also be

available this year. We believe this assumption is fair, considering that the economic growth rate in 2008 is expected to be at least as much as that in 2007.

In addition to these Lm 18 million we can be certain, from the Prime Minister's own words, that there will be an additional saving of Lm 40 million per annum of capital expenditure on the new hospital that will no longer be incurred from 2008 onwards. However we also recognise that, according to the Prime Minister's own declaration, the additional operating cost of the new hospital will amount to Lm 15 million per annum. This will result in a net saving of some Lm 25 million.

Therefore we are assuming that in this budget government will have available an additional Lm 43 million in funds. The cost of our proposals amount to Lm 30 million, leaving government with an additional Lm 13 million to meet other social programs, economic targets or simply deficit reduction.

The Family

Government needs to seriously address the escalating financial burdens being faced by families raising children. Currently the income tax system does not provide any benefits, direct or indirect, to individuals raising children. This anomaly in our tax system is unique in Western Europe, and contrasts severely with other tax systems (most noticeably that in France) that discriminate in favour of those raising children. We believe that rather than through tax-cuts that benefit those paying most tax, this situation can be addressed more equitably through a direct social assistance program.

AD was highly critical of the fact that in last year's budget government decided that the thrust of its budget would be a Lm 12 million tax-cut. This effectively meant that those on low to medium-low incomes benefited very little. We had proposed at the time that half of the target Lm 12 million should have been targeted directly to families raising children, with the other half to be given as a tax-cut. We regret noting that this proposal was not taken on board.

We also believe that it is high time that government addresses the fact that Malta's maternal leave entitlement is one of the poorest in Western Europe. We believe that this not only causes

severe personal burdens on working mothers who have to return to work very soon after child birth, but is also having a long-term effect on the birth rate.

Further we believe that one of the most important challenges facing Malta is that of increasing the female labour participation rate (an issue even noted by the President of the European Commission recently), whilst ensuring that families are able to provide adequate care to children, particularly in the crucial months after child birth.

Measures:-

1. Extension of Maternal Leave. An increase of the paid maternal leave from 13 weeks to 26 weeks. In order not to burden employers with the additional cost of such a measure, we are proposing that this extension is paid out by government, at the flat rate of Lm 70 per week for the additional 13 weeks.
2. Special child allowance. In order to address the costs of raising children, and the fact that children's allowance is not paid to families earning over Lm 10,000, we are proposing an annual cash allowance for each and every child up to age 16 of Lm 160 per annum.

Housing & Rent

The situation in the housing and property market is a series of contrasts marked by chronic bad planning, social injustices, anomalous over-supply, rampant government-facilitated speculation, gross under-utilisation, disproportionate environmental impact and increasing unaffordability. Over the last four decades, subsequent governments have failed to address this situation, which is affecting the welfare of tens of thousands of families and individuals. The growing disparity between the "haves" and "have-nots" in the property market can and should be addressed in this budget.

We cannot but refer to the perverse situation that exists by which the government is permitting the construction of between 4,000-5,000 more residential units for which there may be speculative demand, but not real demand. We are confident that when the Census 2005 (already two years late) is published a vacant property stock of over 40,000 units will be revealed. This

policy is having tremendous not only upon our health and environment, but also upon our economy, particularly tourism.

Faced with this situation, AD believes that the promotion, through fiscal policy, of an active rental market in residential property will act as a cushion on property inflation whilst providing a real alternative to those who can no longer afford to purchase. Government's target should be to incentivise the rent and/or sale of vacant properties.

Finally we must address the grave injustice being faced by owners of controlled-rent properties. AD is pursuing its referendum campaign. We do not believe that government will present the promised White Paper on rent reform. Despite this, we still believe that this budget can be the first one that starts to address this "national shame".

Measures:-

3. Compensation to owners of controlled-rent properties. Annual cash compensation amounting to 1/3rd of the fair value of rent, increasing to 2/3rd in 2009, and 3/3rd in 2010, in the absence that no reform in the rent laws is enacted.
4. Tax incentive on rent of vacant residential property. An advantageous flat annual tax of 0.45% on the capital value of the property (as declared by the owner) on all residential properties that are not registered as the owners' primary or secondary residence. This is equivalent to 15% of an estimated rental value of 3% on the declared property value. This amount is a 'full and final tax', and therefore no further taxes are payable on any rental income earned.
5. Direct assistance for home loans and rent. The funds generated from measure 4 above (estimated to be Lm 8 million) should be ear-marked to provide direct assistance to those paying rent or still repaying bank loans on primary residences. The mechanism to be adopted should be decided following consultation with the Ministry of Finance and the Housing Authority.

Taxation

Alternattiva Demokratika believes that taxation policy should not only be designed to collect revenue for government, but also to favour certain businesses and business activities, as opposed to others. We regret to note that this government fails to fully recognise the use of differential tax rates to achieve such goals. Whilst we recognise the administrative benefits of having a uniform tax rate on business profits, we believe that a two-rate system is not only manageable but economically sensible.

As we have been proposing for a number of years, small business should not face the same tax burden as larger ones. In particular, the tax system should make a clear distinction between profits earned in highly-competitive markets (e.g. retailing) and those earned in monopolistic markets (e.g. banking). Further we believe that, by taxing accounting profits contrary to cash profits, the tax system poses a heavy burden on business start-ups and is not conducive to promoting enterprise.

We recognise that the existing VAT rate on tourist services is high, and places Malta at a competitive disadvantage to competing destinations (e.g. Spain at 7%). However, we also note that there is rampant VAT evasion by several catering outlets. This not only results in lost revenue to government, but also gives the abusive operators an illegal and unfair advantage over compliant businesses. More compliance measures, particularly inspection activities, are needed to weed out the rampant abusers and bolster state revenues. This will enable the lowering of the VAT rate of these services.

We are supportive of the decision taken in the last budget to reduce the number of tax bands and thereby simplify the system. Government should continue implementing changes to the tax system to raise the level at which income tax kicks-in.

Measures:-

6. Reduce company tax rate. Reduce tax rate from 35% to 30%, whilst enhancing tax compliance measures so that the net effect on government finances is minimized.

7. Raise tax rate on Banks. The standard tax rate on domestic banking activities is to rise from 35% to 40%
8. Tax 'start-ups' and micro-enterprises on 'cash' profits. Introduce a mechanism that will allow, to some extent, these businesses to incur company tax on cash profits rather than accounting profits, by making adjustments for movements in working capital.
9. Lower VAT on restaurant and tourist services. Obtain consent from EU to introduce a reduced VAT rate on tourist services and catering activities of 12%.
10. Raise personal tax threshold. Increase untaxed portion of "Single" computations from Lm3,250 to Lm3,400; for "Married" computation from Lm 4,500 to Lm4,750.

Energy

Over the last two years, the cost of energy has been a key factor affecting both inflation and consequently purchasing power. The situation in the international oil market is what triggered this off, however Malta's situation has been exacerbated due to our near-complete dependence on the importation of fossil fuels and the continuing inability of government to seriously address the issue of alternative renewable energy, most notably wind and solar.

Apart from tackling the issue of alternative energy and energy efficiency, we believe that over the short-term government had no option but to increase energy prices. While one could argue that the flat electricity surcharge was not the best mechanism, the fact that the rising cost of oil had to be met was and still is inescapable.

Further we strongly disagree with the Labour opposition's proposal to halve the surcharge. This proposal is not only unaffordable but also works against the need to bring about a culture of energy efficiency which is needed not only to lower our economic dependence on imported oil, but also to meet Malta's targets on climate change.

Having said this we believe that the existing flat surcharge mechanism, whilst having served to meet the increasing cost of imported oil, did not contribute sufficiently to incentivise energy efficiency. More must be done to reward efficiency and penalize waste.

Measure:-

11. Revise Surcharge mechanism. The rate of surcharge should not remain uniform, but should vary according to usage. The system must be based upon “*daily consumption per person per household*”. This measure should be revenue neutral. It is aimed at changing consumer behaviour and fostering a culture of energy saving and efficiency at domestic level, by rewarding those that save energy and penalising those who do not.

Transportation

One of the most serious problems facing our country is that of transportation. We regret noting that this is one of the most neglected national issues by both government and Labour opposition. The situation on our roads, particularly in the inner harbour area, is fast approaching grid lock point. Not only will the new hospital create serious congestion on the B’Kara by-pass, but the imminent residential occupation of Tigné Point, and eventual occupation of Fort Cambridge, Pender Gardens and Manoel Island will most certainly increase traffic jams around the Sliema/Gzira/Msida area.

Due to Malta’s small size, government has the possibility of embarking on a revolution in transportation. Successive governments and this one in particular, have not been up to such a challenge. Transportation policy is at best mediocre. It has been designed upon the building of more roads, the relentless importation of private vehicles (without a policy of replacement), the licensing of transportation monopolies, and the maintenance of an inefficient, monopolised, highly-polluting, and antiquated public transport system.

Whilst we can agree that measures like the Valletta “park and ride” system have reduced congestion in certain areas and improved the urban environment, we cannot but note that these localized measures do little to address directly the need to increase the patronage of public transport as a measure to reduce private car use. Having said this we can understand the public’s reluctance to make more use of route buses. The whole system is ripe for reform.

AD believes that public transport (as well as taxis) should not remain in the domain of private monopoly. It should be liberalised. The government's role is to ensure a reliable, customer-friendly and affordable service. Many more routes must be introduced. Unprofitable routes should be subsidised. Most importantly, we believe that the vehicles used for public transportation should be adequate (in terms of size) to serve their routes and use clean energy.

Measure:-

12. Ten-year plan to convert all public buses to gas power. We are proposing that part of the liberalisation process includes the mandatory conversion of the whole fleet to gas powered vehicles, over a period of 10 years. Government should subsidise the marginal cost of converting from conventional-fuel power to gas powered engines, as well as the additional fuel costs to switch to Compressed Natural Gas.

Gozo

The most serious challenge facing Gozo is the creation of employment. Measures to boost Tourism in Gozo are key towards improving job prospects for Gozitans. In this regard we are making a proposal about the shifting of public holidays.

However in regards to tourism we believe that other innovative tourism ideas, (that exploit Gozo's unique characteristics and size) must be explored. In this regard AD has been proposing that Gozo's tourism is developed around the marketing of specific niches, like 'retirement tourism', but also agro-tourism, eco-tourism and ecological industries. Our idea of developing Gozo as an ecological island was discussed recently with Italian Green Environment Minister Alfonso Pecoraro Scanio who, not only endorses the idea, but has also pledged his support, albeit in an informal way, to convert Gozo into "an eco-island". The idea is in line with a project undertaken by the Italian government to invest in some small islands in a manner that exploits alternative energy (particularly solar) and creates of itself a value-added tourist attraction.

AD believes that the Maltese government should pursue this idea. We are also confident that this project could also involve converting one of the industrial areas in Gozo into a "Green technology

park”. This will incentivise new business, such as the building of solar panels and micro-wind turbines, generating more employment in Gozo.

Measure:-

13. Turning public holidays into ‘long-weekends’. In order to improve domestic tourism to Gozo we are proposing that government moves as many public holidays that fall between Tuesday and Thursday to Friday. In order to increase the number of long-weekends during the year. We believe that, besides being beneficial for tourism in Gozo, this is a win-win measure for employees who win more long-weekends, as well as most employers who prefer not having the disruption of a public holiday mid-week. This measure will be at not cost to government.

14. Gozo “Eco-Island” Fund. In response to the idea proposed by Italian Green Environment Minister Pecoraro Scanio, we are proposing that government establishes a specific venture capital fund for local and foreign entrepreneurs who wish to develop eco-industries in Gozo.

Costing of Measures

<u>Measure</u>	<u>Revenue</u>	<u>Expenditure</u>
	<i>(Lm million)</i>	<i>(Lm million)</i>
1. Extension of Maternal Leave	-	4.5
2. Special child allowance	-	6.5
3. Compensation to owners of controlled-rent properties	-	4.5
4. Tax incentive on rent of vacant residential property	8.0	-
5. Direct assistance for home loans and rent	-	8.0
6. Reduce company tax rate	-	6.0
7. Raise tax rate on Banks	4.0	-
8. Tax 'start-ups' and micro-enterprises on 'cash' profits	-	1.0
9. Lower VAT on restaurant and tourist services	-	3.0
10. Raise personal tax threshold	-	3.5
11. Revise Surcharge mechanism (revenue neutral)	-	-
12. Ten-year plan to convert all public buses to gas power	-	3.0
13. Turning public holidays into 'long-weekends' (No cost)	-	-
14. Gozo "Eco-Island" Fund	-	2.0
	<u>12.0</u>	<u>42.0</u>
Net cost of Measures		<u>30.0</u>