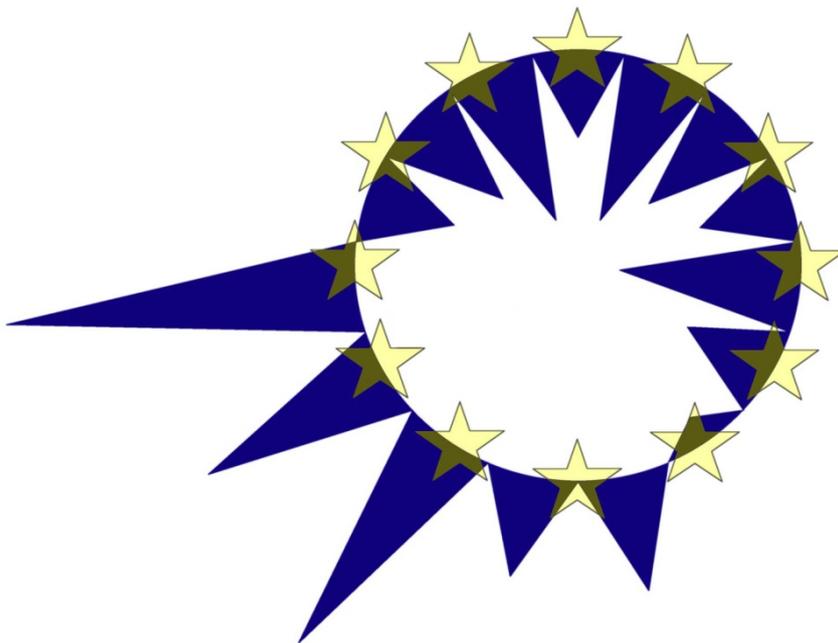


EUROMOD COUNTRY REPORT



MALTA 2007-2012

Pauline Saliba

May 2013



EUROMOD is a tax-benefit microsimulation model for the European Union (EU) that enables researchers and policy analysts to calculate, in a comparable manner, the effects of taxes and benefits on household incomes and work incentives for the population of each country and for the EU as a whole.

EUROMOD has been enlarged to cover 27 Member States and is updated to recent policy systems using data from the European Union Statistics on Income and Living Conditions (EU-SILC) as the input database, supported by DG-EMPL of the European Commission.

This report documents the work done in one annual update for Malta. This work was carried out by the EUROMOD core developer team, based mainly in ISER at the University of Essex, in collaboration with a national team.

EUROMOD coordinator: Holly Sutherland

EUROMOD coordination assistant: Cara McGenn

EUROMOD developer responsible for Malta: Silvia Avram

National team for Malta: Kevin Vella, Pauline Saliba, Godwin Mifsud, Efreem Arpa

This report accompanies the release of EUROMOD G1.0. There may be minor differences between the results presented here and those obtained with G1.0 due to further improvements since the report was prepared.

For more information, see: <http://www.iser.essex.ac.uk/research/euromod>

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This programme is managed by the Directorate-General for Employment, Social Affairs and Inclusion of the European Commission. It was established to finally support the implementation of the objectives of the European Union in the employment and social affairs area, as set out in the Social Agenda, and thereby contribute to the achievement of the Lisbon Strategy goals in these fields.

The seven-year Programme targets all stakeholders who can help shape the development of appropriate and effective employment and social legislation and policies, across the EU-27, EFTA-EEA and EU candidate and pre-candidate countries.

PROGRESS mission is to strengthen the EU contribution in support of Member States' commitment. PROGRESS is instrumental in providing analysis and policy advice on PROGRESS policy areas; monitoring and reporting on the implementation of EU legislation and policies in PROGRESS policy areas; promoting policy transfer, learning and support among Member States on EU objectives and priorities; and relaying the views of the stakeholders and society at large

For more information see: <http://ec.europa.eu/progress>

The information contained in this publication does not necessarily reflect the position or opinion of the European Commission.



CONTENTS

1.	BASIC INFORMATION	5
1.1	Basic figures	5
1.2	The tax-benefit system	5
1.2.1	Basic information about the tax-benefit system	6
1.3	Social Benefits	8
1.3.1	Contributory Benefits	8
1.3.2	Non-Contributory Benefits	13
1.3.3	Lump Sum Benefits	15
1.3.4	Not Strictly Benefits	16
1.3.5	Scope and scale	17
1.4	Social contributions	20
1.4.1	Class-One contributions	21
1.4.2	Class-Two contributions	21
1.4.3	Scope and scale	21
1.5	Taxes	22
1.5.1	Scope and scale	23
2.	SIMULATION OF TAXES AND BENEFITS IN EUROMOD	24
2.1	Scope of simulation	24
2.2	Order of simulation and interdependencies	27
2.3	Social benefits	28
2.3.1	Unemployment benefit (Beneficċju għal dizimpjieg) (bunctnm_s)	28
2.3.2	Unemployment assistance (Għajnuna għal dizimpjieg) (buncnmt_s)	29
2.3.3	Special unemployment benefit (Beneficċju speċjali għal dizimpjieg) (bunctmt_s)	31
2.3.4	Old age pension (Pensjoni ta' l-Eta) (boamt_s)	32
2.3.5	Children's allowance (Allowance tat-Tfal) (bchnm_s and bchmt_s)	33
2.3.6	Social assistance (Għajnuna Soċjali) (bsa_s)	35
2.3.7	Social assistance for single unmarried parents (Applikazzjoni għall-Għajnuna Soċjali) (bchlp_s)	37
2.3.8	Supplementary assistance ('Allowance' Supplimentari) (bmttu_s)	38
2.3.9	Bonuses (btuls_s)	40
2.4	Social contributions	41
2.4.1	Employee social contributions (tscee_s)	41
2.4.2	Employer social contributions (tscer_s)	42
2.4.3	Self-employed/occupied social contributions (tscse_s)	43
2.4.4	Social insurance contributions paid by the state (tscgv_s)	45
2.4.5	Credited social insurance contributions (tsct_s)	46
2.5	Personal income tax (tin_s)	47



2.5.1	Tax unit	47
2.5.2	Exemptions	47
2.5.3	Tax allowances	48
2.5.4	Tax base	49
2.5.5	Tax schedule	49
2.5.6	Tax credits	51
3.	DATA	51
3.1	General description	51
3.2	Sample quality and weights	52
3.2.1	Non-response	52
3.2.2	Weights	52
3.2.3	Item non-response and under-reporting	53
3.3	Data adjustment	53
3.4	Imputations and assumptions	53
3.4.1	Time period	53
3.4.2	Gross incomes	53
3.4.3	Other imputed variables	54
3.5	Updating	55
4.	VALIDATION	56
4.1	Aggregate Validation	56
4.1.1	Validation of incomes inputted into the simulation	58
4.1.2	Validation of outputted (simulated) incomes	64
4.2	Income distribution	70
4.2.1	Income inequality	71
4.2.2	Poverty rates	73
4.2.3	Validation of minimum wage	74
4.3	Summary of “health warnings”	76
5.	REFERENCES	76



1. BASIC INFORMATION

1.1 Basic figures

Table 1.1 Basic figures

	Pop.(mi l)	pop. < 18 (%)	pop. ≥ 65 (%)	Life expect. (years)	Fertility rate	Unemp Rate	GDP per head (PPP)	Currency Name	exch. rate ^[1]
2007	0.41	20.9	13.5	79.7	1.37	6.5	76	Lm	0.4293
2008	0.41	20.3	13.5	79.7	1.44	6.1	79	Euro	1.0000
2009	0.41	19.9	13.7	80.3	1.43	7.0	83	Euro	1.0000
2010	0.41	19.4	14.8	81.4	1.38	7.0	85	Euro	1.0000
2011	0.42	18.7	15.7	80.9	1.49	6.6	85	Euro	1.0000
2012	0.42	18.4	16.5	N/A	N/A	6.5	N/A	Euro	1.0000

^[1] Euro exchange rate on 30th of June.

Notes: In Population figures, in 2010, there is a break in time series. Population figures for 2012 are provisional.

N/A: no data is yet available

Source: Eurostat Statistics Database (2012)-accessed 3 May 2013

1.2 The tax-benefit system

Table 1.2. Tax-benefit system and government budget

	Total general government revenue ^[1] % of GDP	Total tax receipts ^[1] % of GDP	Total general government expenditure ^[1] % of GDP	Social protection ^[2] % of GDP
2007	39.5	27.7	41.8	17.8
2008	38.6	26.6	43.1	18.3
2009	38.7	27.1	42.4	19.7
2010	38.4	26.4	42.0	19.7
2011	39.3	27.0	42.1	19.6
2012	40.5	N/A	43.9	N/A

Source: ^[1] Eurostat (2013); N/A not yet available



Table 1.3 Social protection expenditure by function (as % of total social protection expenditure)

	Sickness/ health care	Disability	Old age	Survivors	Family/ children	Unemploymen t	Housing	Social exclusion
2007	29.30	6.02	42.35	10.11	6.01	2.84	1.35	2.02
2008	29.91	5.36	42.41	9.62	6.70	2.75	1.23	2.02
2009	30.93	4.70	42.87	9.32	6.38	2.98	0.83	1.99
2010	29.21	4.37	45.61	9.31	6.25	2.77	0.82	1.65
2011	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
2012	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Source: Eurostat Statistics Database (2012). N/A not yet available

Table 1.4 Taxation (as a % of total tax receipts)¹

	Direct income taxes ²	Social insurance contributions					Indirect taxes		
		Employers	Employees	Self- employed share	State grant	Further contributions	VAT	Customs and excise duties	Licenses, Taxes and fines
2007	33.47	7.22	7.22	1.72	8.07	0.01	21.28	9.33	11.68
2008	35.07	7.28	7.28	1.64	8.10	0.01	21.70	8.47	10.44
2009	34.71	7.43	7.43	1.60	8.23	0.01	21.31	8.19	11.09
2010	35.73	7.41	7.41	1.58	8.20	0.02	21.52	8.37	9.76
2011	33.40	7.63	7.63	1.50	8.38	0.06	22.60	8.96	9.83
2012	36.19	7.70	7.70	1.52	8.46	0.10	22.32	6.51	9.50

Source: National Statistics Office

¹ Total tax receipts also include receipts pertaining to Social Security contributions

² Direct income is composed of both personal and corporate income tax

1.2.1 Basic information about the tax-benefit system

- Are policies different across regions or municipalities?
Tax-benefit policies are not different in Malta across areas; it is a unified system.
- When is the “fiscal year” (e.g., 1st of January – 31st of December)?

The fiscal year in Malta runs from the 1st January to the 31st December.

The ‘benefit year’ is from the first Monday in January and ending on the last Sunday before the first Monday in January of the following year;

- What is the state pension age?
The retirement age at the time of the reform stood at 61 years for men and 60 years for women. The reform introduced equal retirement age for men and women at 61 years as from the 1st of January 2007. The retirement age is set to increase to 65 years of age for both men and women in a gradual manner. From the 1st January 2007 the pension age will increase as follows for persons:



- Born on or before 31/12/1951 - no change
 - Born between 1/1/1952 and 31/12/1955 – at 62 years
 - Born between 1/1/1956 and 31/12/1958 – at 63 years
 - Born between 1/1/1959 and 31/12/1961 – at 64 years
 - Born on or after 1/1/1962 - at 65 year
- Minimum school leaving age and definition of dependent children for tax and/or benefit purposes

The educational system in Malta and Gozo is divided into three main branches. Primary Education, which extends from age five till eleven, Secondary Education which stretches from age eleven till sixteen, and Tertiary Education. Education is compulsory from age five till sixteen.

According to the Social Security Act, "child" means a person who is under the age of 16 years and includes a stepchild, an adopted child and a child born out of wedlock. In the case of the children's allowance, the definition of 'child' may be extended in some cases to persons aged above 16 but below 21 (see sections 1.3.2. and 2.3.5 for details)

- Definition of lone parent and/or other socially protected groups (e.g., large families) for tax and benefit purposes

According to the Social Security Act, "single parent" means a parent who is widowed, separated (whether de facto or de jure), divorced or unmarried who is solely and entirely (i.e. does not receive alimony from the former partner) responsible for the upkeep and upbringing of his or her dependant sons or daughters who have not yet reached 18 years of age.

- Are income taxed individually or jointly (in case of joint, briefly explain how it works: income splitting, family quotient, etc.)?

The taxation system is progressive. Married couples may choose whether they opt for individual or joint taxation. Widows and separated spouses may also be taxed at rates applicable to married couples when they have the custody of children and fulfil a few additional conditions. Single persons are taxed at the individual tax rate

- Are different income sources taxed differently (e.g., capital income tax)

Some types of investment income and capital gains are taxed at different (usually lower) rates than labour income.

- Do taxpayers need to fill in a tax return or do withholdings match the exact amount due in the end of the financial year?

Every taxpayer in Malta files an income tax return. The self assessment concept, which was introduced as from the year of assessment 1999, requires by law that every taxpayer who files an income tax return has the obligation to make his own 'assessment' for tax purposes. This means that it is the taxpayer himself who determines the amount of tax chargeable. If it results that not all the tax chargeable has been paid, penalties may have to be imposed. The additional tax and interest will be charged as from the tax return date, which was 30th June, 2011.

- Indexation: are there statutory indexing regimes for taxes and benefits to take account of inflation?

In Malta there is the Cost of Living Adjustment (COLA) which is an increase in wages and pensions (the latter granted in full as from Budget for 2008) by a fixed amount that reflects the indexation of the basic wage to the average Retail Price Index inflation of the last 12 months to September of that year.



- How is income assessed on (most) means-tested benefits (weekly/monthly/annually, in terms of past/current/expected income)?

Income for most means-tested benefits is assessed on an annual basis. The previous year's income is taken into account in most means-tests. Income taken into account for the means-tests is usually net of social insurance contributions but gross of taxes.

1.3 Social Benefits

The Social Security Act in Malta provides for two types of benefits: contributory and non-contributory. In the case of contributory benefits, the basic requirement for entitlement is that specific contribution conditions are satisfied. In the non-contributory scheme, the basic requirement is that the conditions of the means test are satisfied.

1.3.1 Contributory Benefits

1.3.1.1 Short-term Benefits

Unemployment benefit (UB) is payable to unemployed persons registered under Part 1 of the unemployment register that satisfy a minimum contributory period.

Special Unemployment Benefit (SUB):-the benefit is a top-up to the UB, when income and capital resources are under a given threshold.

Sickness benefit:-in case of sickness, this entitles the beneficiary to 156 days of sickness benefit but may in certain cases also be extended to 312 days. In each case the first three days of each new claim for this benefit are not paid. Persons are paid according to their normal working week and no payments are effected for public holidays. Sickness benefit is applicable to persons who have not reached retirement age and who satisfy the relevant contribution conditions.

Injury benefit: this benefit is payable to persons who suffer personal injury caused by accidents arising out of or in the course of his/her employment or self-occupation or in the case of contraction of an industrial disease. A person becomes entitled to this benefit if he/she is incapable of work for more than 3 days. The maximum entitlement is limited to 12 months

1.3.1.2 Long-term benefits

Old-Age pensions

The current pension scheme in Malta is based on the Social Security Act, Chapter 318 of the Laws of Malta. The Act provides for two basic schemes, the Contributory Scheme, and the Non Contributory Scheme. In the Contributory Scheme, the basic requirement for entitlement is that specific contribution conditions are satisfied. In the Non Contributory Scheme, the basic requirement is that the conditions of the means test are satisfied. The Contributory Scheme is universal since it practically covers all strata of the Maltese society. Within this scheme, employees, self-occupied and self-employed persons acquire social insurance rights through the payment of a weekly contribution as laid down by the Social Security Act.



In Malta the statutory earning related pension scheme covers old-age pensions, survivor's pensions and invalidity pensions for employed and self-employed persons. Prior to the enactment of the pension reform law, the pension was determined on the basis of the yearly average of the basic wage during the best three years of the last ten years in the case of employees while the best ten years were taken into consideration for self-occupied persons.¹ Under the reform law, in the case of a person born on or after the 1 January 1962, the pension shall be determined by taking the yearly average of the basic wage/salary/net income/net earnings as the case may be, during the best ten calendar years within the last forty years immediately preceding his retirement or invalidity. In determining pensionable income, past wages and incomes are updated with the cost of living adjustment (COLA) granted with respect to those years.

Pension Formula

Prior to the reform, the pension formula for the two thirds pension was as follows:

$$\text{Contribution}_{\text{Average}} * \left(\frac{2}{3}\right) * \text{Pensionable}_{\text{Income}} - \text{Service}_{\text{Pension}}$$

where the Contribution Average was determined as the average of two averages with the first average being the average weekly contribution over the last ten years prior to retirement (Avg_Cont10) and second being the average weekly contribution paid during a maximum of twenty years falling prior the last ten years before the retirement of an insured person (Avg_Cont20):

$$\text{Contribution}_{\text{Average}} = \frac{(\text{Avg}_{\text{Cont}_{10}} + \text{Avg}_{\text{Cont}_{20}}) / 2}{50}$$

The Social Security Act defines the 'service pension' as a pension or any allowance awarded to a person at any time before and after 1st of April 1978 that is payable by or on behalf of his employer with respect to past services in Malta or abroad. Over the years there were a number of changes made to the definition of service pension, however the principle introduced in 1978 remained in place as in the case where a person is in receipt of a service pension that exceeds two-thirds of his or her pensionable income then he or she is entitled to a flat-rate Retirement Pension (classified under 'top-ups'). On the other hand, if the person's service pension is less than two-thirds of pensionable income then the person is awarded an Increased Retirement Pension (classified under '2/3 retirement pension') that is equivalent to the difference between the two-thirds of pensionable income and the service pension.

Therefore, prior to the enactment of the reform, the full rate of the Two-Thirds Pension was equal to 2/3 of pensionable income for a claimant who has paid or been credited with a yearly average of 50 contributions over a period of thirty-years. Under the reform law, the period of contribution changed as follows:

- (i) 30 years in the case of a person born on or before the 31 December 1951;
- (ii) 35 years for a person born during calendar years 1952 to 1961; and
- (iii) 40 years in the case of a person born on or after the 1 January 1962.

For a person born on or after the 1 January 1962, the yearly average of contributions required for the purposes of awarding a Two-Thirds Pension is assessed on any period of 40 years between the first

¹ The basic wage refers to the gross wage or salary that is payable to an employed person by or on behalf of his employer excluding any remuneration for overtime, any form of bonus, any extra allowances, any remuneration in kind and commissions.



day of his contribution year in which he reaches the age of eighteen and the last day of his last complete contribution year before the beginning of his benefit year.

It is important to point out that the resultant average will in no case exceed the Maximum Pensionable Income allowed of Lm7,049 (Euro 16,420) in 2007. In calculating the pensionable income, no income/salary for each year will be considered above the Lm7,049 (€16,419.75) threshold. Each year's income is updated for the cost of living.

Two-thirds pension: Earnings-related pension payable to persons who have retired after January 1979. This scheme basically provides for a pension equivalent to two-thirds of the insured person's pensionable income. There are applicable maximum and minimum rates. The two-thirds proportion may vary where the insured's contribution average is less than 50. In the case of an employed person, the pensionable income is calculated by taking the average yearly salary on which the relevant contribution has been paid, of the best three consecutive calendar years during the last 10 years prior to retirement. This calculation is further adjusted to cater for cost of living adjustments. For self-employed persons (a 'self-employed', for social security purposes is defined as a person who is not gainfully self-employed in a business or profession and mainly lives on income derived from investments/rents) the pensionable income is the average of his/her net income, derived from investments/rents/pensions, etc., of the last 10 calendar years or part thereof if the person had not been in self-employment for the whole ten-year period prior to retirement. In the case of a person defined as self-occupied (a person who derives income from an economic activity and hence declares a net profit/loss) the pensionable income is assessed as the average net income declared from the person's gainful activity during the last 10 years or part thereof as for the case of a self-employed.

Retirement Pension: is payable on reaching the pensionable age. The rates and types of categories vary according to a range of statutory conditions. In Malta, a person may receive only one pension, that is: Retirement or Two-Thirds pension (i.e. the one which is more beneficial). Retirement pension is payable to persons on reaching pension age 61 in the case of males, and 60 for females. A person must have paid at least 156 contributions and an average of 20 contributions per annum (minimum) throughout his/her working life from 18/19 years till age of 61/65 years.

Rates: In the case of a person who is in receipt of a service pension from the UK, he is entitled to Lm40.30 (Euro 93.87) per week if he is married and is maintaining a wife, and Lm31.61 (Euro 73.63) for a single person. Where a person is entitled to a Service Pension which is not payable from the UK Government, he is entitled to Lm37.84 (Euro 88.14) per week, in case of a married man maintaining a wife, and Lm30.49 (Euro 71.02) to a single person.

The law has provided for the payment of an Increased Retirement Pension, in cases where the sum total of a person's service pension together with the rate of Retirement Pension applicable in the case, are lower than the Two-Thirds of his pensionable income.

Increased retirement pension: applies to cases where the sum total of a person's service pension together with the rate of retirement pension applicable in the case, are lower than a certain percentage of the person's pensionable income.

National minimum pension/ Increased national minimum pension: where a beneficiary is not entitled to a Service Pension, he may be eligible to the contributory benefits of NMP or to the INMP. This can be considered to be the minimum entitlement of a person who is not in receipt of a service pension as defined by law. The INMP applies where the Service Pension is low. This benefit is payable up to two-thirds of the pensionable income.



Rates of the NMP: 4/5ths of the National Minimum Wage, in the case of married man maintaining a wife (i.e. the wife is not gainfully occupied and not looking for work), and two-thirds of the National Minimum Wage in case of any other person. The maximum rates paid as from the 1st of January 2007 where a pensioner has an average contribution record of 50, are Lm47.80 (Euro111.34) per week for a man maintaining a wife, and Lm39.92 (Euro92.99) per week for any other person. These rates are applicable when the yearly average of contributions paid or credited is not less than 50.

No account is taken of 83.4 per cent of the total net income, privilege, benefit, allowance or any pension over the NMP, received by other members of the household.

Decreased national minimum pension: where a person is entitled to a service pension and his service pension together with the rate of retirement pension or increased retirement pension applicable in his/her case is less than the rate of national minimum pension in his/her case, then, such a person would be entitled to the National minimum pension reduced by his service pension.

Anticipated old age pension: these are periodic payments intended to maintain the income of beneficiaries who retire before the standard retirement age. In Malta these are pensions given to ex-police and Armed Forces officers according to the Police Act and the Armed Forces Act

Invalidity/ disability benefits

Disability pension: Payable if injury or disease caused or contracted whilst at work is considered to cause a loss of physical or mental faculty calculated between 20% and 89%. Rates awarded according to degree of Disability. Where the degree of disablement is assessed at 90% and over, the person concerned is automatically awarded an Invalidity Pension at the full rate.

Invalidity Pension: this is a contributory benefit payable to persons deemed permanently incapable for suitable full-time or regular part-time employment. Various rates apply according to different conditions.

Decreased national minimum invalidity pension / Increased invalidity pension / National minimum invalidity pension: is payable to persons deemed permanently incapable for full-time or regular part-time employment but who are recipients of a service pension.

Rates: where the flat rate Invalidity Pension together with the Service Pension the claimant is receiving, do not exceed two-thirds of his pensionable income, he is entitled to an Increased Invalidity Pension (IIP) or such part thereof, ensuring that the two-thirds of the pensionable income are not exceeded. A married man will be entitled to a maximum of Lm47.30 (Euro 110.18) per week, whilst a single person is entitled to a maximum of Lm37.30 (Euro 86.89) per week. Decreased National Invalidity Pension is aimed at those who are in receipt of a very low Service Pension so as to ensure that two-thirds of pensionable income plus low Service Pension plus Decreased National Invalidity Pension would amount to the NMP. It is based on different rates (according to average Social Security Contribution and marriage status). Where person is not entitled to a Service Pension, a National Minimum Pension is payable (please see below). A married man will be entitled to a maximum of Lm47.80 (Euro 111.34) a week, whilst a single person will be entitled to a maximum of Lm39.92 (Euro 92.99).

1.3.1.3. Other long-term contributory benefits

Widow's pension: A widow/widower, whose spouse satisfies the relevant contribution conditions on his/her death, is entitled to a Widow/Widower's Pension or to a Survivor's Pension, whichever is the



most beneficial. Widow's Pension or Survivor's Pension is awarded to those persons whose spouse was already in receipt of a Retirement Pension or Two-Thirds Pension. Early Survivor's Pension is awarded to those persons whose spouse was still under retirement age on the date of his/her demise.

Eligibility for this pension reflects a person who is a widow/widower, who is under retiring age, may be eligible to Widow's Pension, if the following criteria are fulfilled:

- The spouse, upon his/her death, has satisfied the relevant contribution conditions:
 - Paid a minimum of 156 contributions
 - Has been in employment or self occupation for not less than 10 years
 - Satisfies the relevant contribution conditions
 - A claim for a Widow's Pension has to be lodged not later than six months following the spouse's death. If more than six months elapse, the pension is paid from the first Saturday following the date of the claim.
 - A widow/er is disqualified from receiving a Widow/er's Pension when s/he is under 60 (female) or 61 (male), has no dependent children (aged less than 16 or between 16 and 21 if in education/ nor working) and the income from a gainful occupation exceeds the National Minimum Wage.
 - When a widow/er does not have children whose age varies from 16 to 21 years she/he may be gainfully occupied but her/his earnings cannot exceed the National Minimum Wage (NMW).
 - When a widow/er reaches retirement age, even though there are no children under 21 years of age, the gainful activity may be retained and the earnings may exceed the NMW.
 - A widow/er who earns more than the NMW as she/he satisfies the required conditions, the Social Security contributions will have to be paid and the employer will have to pay all the statutory bonuses from his end.
 - If a Widow/er earns less than the NMW s/he may opt not to pay the Social Security contributions.
 - A widow/er over 60 years of age may be gainfully occupied and earn as much as she/he likes but continue to pay Social Security contributions if earnings exceed NMW.

The contribution test for the Widows Pension Scheme which existed since 1956 is subject to a minimum of 156 contributions which should have been paid by the late spouse during his/her insured period, and during which period an average of 20 contributions per year should have been paid or credited. The contribution average may affect the pension rate. In the case of a Survivor's Pension entitlement, the first contribution test specifies that the late spouse should have worked for at least 10 years. The second test specifies that during a 30 year period of insurance, an average of 15 contributions per year should have been paid. The 30 year period is divided into two: the last 10 years prior to death of spouse; and any other 20 year period. The 30 year period may be shortened in circumstances where a person dies young. The applicable pension rate in such a circumstance is also subject to the contribution average.

A fresh measure was introduced with effect from January 2007 concerning widow/ers with children aged between 18 and 21. If the youngest sibling is aged between 18 and 21 years, is fully dependent on his parent and has no income whatsoever, a widow/er may continue in gainful activity. If s/he earns up to the National Minimum Wage, the Widows' Pension will not be affected. If he/she earns more than the National Minimum Wage, the Widow's Pension will be awarded according to her income from gainful employment, but not below the minimum rate according to the late husband's contribution average.

The only income a child can get so that his mother/father will qualify for the above condition is a



stipend. The child allowance is not paid to widow/ers whose dependent children are 18 to 21 years of age.

Upon re-marriage, the Widow/Survivors' Pension will cease to be granted but will be entitled to a re-marriage pension for a maximum of 260 weeks at the applicable rate of Widow's Pension relevant to the contribution average only.

Prior to the Budget Speech for 2012, a widower or widow who remarried was no longer entitled to a fixed rate of the widow's or widower's pension for the first five years after remarrying. As from January 2012, this five-year limit was increased by a year, each year. Thus, a widower or widow who remained entitled to a fixed rate of the widow's or widower's pension after remarrying will not lose this pension after having been remarried for more than five years as from January 2012.

Survivor's pension: Earnings-related pension payable to a widow whose husband was entitled to a Two-Thirds' pension or whose husband would have been entitled to a pension had he reached retiring age at the time of his death.

National minimum widow's pension / Widows' pension: A widow/widower whose spouse satisfies the relevant contribution conditions on his/her date of death is entitled to a Widow/widowers Pension as per XII Schedule of the Social Security Act or to a Survivors' Pension. Furthermore, in case where a widow has the care and custody of children under 16 years of age, an increase of Lm1.95 (Euro4.54) per week for each child is also paid if she remains in gainful occupation. Where a widow is not gainfully occupied an increase of Lm4.00 (Euro9.32) per week for each child is paid.

Parent's pension: Payable to a parent of an employed or self-occupation person, who died as a result of industrial disease or accident at work and whom, prior to death of son or daughter, depended solely on their financial resources for livelihood.

Orphan's allowance: Weekly allowance paid to a guardian of a child or children who are under 16 years of age.

Orphan's supplementary allowance: Weekly pension paid to a guardian of a child or children whose age lies between 16 and 21 years and who are unemployed or employed but earning less than the Maltese National Minimum Wage

1.3.2 Non-Contributory Benefits

Age pension: Payable to citizens of Malta over 60 years of age. This non-contributory benefit is means tested.

Pension for the Visually Impaired: Payable to a citizen of Malta over 14 years of age whose visual activity has been certified by an ophthalmologist to be so low so as to render such persons unable to perform any work for which eyesight is essential. The conditions to be met for eligibility for this pension are that he/she must:

- suffer from visual impairment;
- have the case approved by an ophthalmologist.



To be eligible for this benefit, the claimant's income, together with the rate of Pension for the Visually Impaired, does not exceed the National Minimum Wage as applicable to an 18-year-old person.

Pension for Persons with a Disability: Payable to citizens of Malta over 16 years of age. Amount depends on the type of disability. Various types of disability are listed under the Social Security Act. One may receive a Disability Pension if he/she:

- suffers from a severe disability
- has an income not exceeding the National Minimum Wage
- has a disability approved by the specified medical panel

The non-contributory benefits of Pension for the Visually Impaired and the Pension for Persons with a Disability are not capital resources means tested. However, there is a weekly income test which includes interest from bank savings, from part-time employment or spouse's income. Only half of the spouse's income is taken into account.

As from January 2012, disabled persons who receive a severe disability pension are able to work and earn up to the minimum wage without losing any of their pension. In addition, prior to January 2012, when a person who received a severe disability pension got married, he/she did not lose the pension because of his/her wife's/husband's income for the first five years of marriage. As from 2012, the limit is removed such that a severely disabled person who gets married never loses his/her pension because of his/her wife's/husband's income.

Carer's pension: is payable to single, separated or widowed citizens of Malta who are taking care on a full-time basis of a bed-ridden or wheel-chair bound near relative (parents, children, grand-children, brother/sister, in laws). The carer can be also entitled to credits towards Social Security contributions. For the purposes of Social Assistance Carers (SA Carers), patient need not be bed-ridden or wheel-chair bound. Workings for the rate to be paid are based on a means test: no more than Lm6,000 (Euro14,000) for a single person and Lm10,000 (Euro23,300) for a married couple.

Emergency Assistance: Granted to a female who is or has been rendered destitute by the head of household to the extent that she becomes an inmate of any institute for the care and welfare of such persons. This benefit is payable by the Department of Welfare.

Sickness Assistance: Payable to persons suffering from a chronic disease or condition that requires a special diet. Subject to a means-test

Tuberculosis Assistance: Payable to head of household or any member of the household suffering from or has, within the last 5 years, suffered from Tuberculosis. This assistance is not subject to a means test.

Leprosy Assistance: Payable to head of household or any member of the household who is receiving treatment for leprosy. It is not means tested.

Social Assistance: Payable to heads of households who are unemployed or seeking employment and where the relative financial means of the assessment unit falls below that established by the Social Security Act. Payable also to single persons who lack financial resources and who are caring for an elderly or physically/mentally handicapped relative on a full-time basis.

Milk Grant: Payable to head of household receiving Social Assistance when he or any member of the household has the care or custody of a child under 40 weeks of age requiring to:

- either be weaned or,
- is losing weight in spite of being breast fed or,
- is a member of a household receiving Tuberculosis Assistance.



Free Medical Aid: Benefit is granted to a person who on account of disablement, sickness, or disease (and who is not hospitalised), is in need of medical, surgical or pharmaceutical aid. Means-tested except in cases where the person is suffering from tuberculosis, leprosy, poliomyelitis or diabetes mellitus or other chronic diseases outlined in the Social Security Act.

Children's Allowance: The children's allowance is composed of a universal flat-rate element and a means-tested top-up that depends on an income test.

Special Allowance: Payable to locally residing female citizens of Malta who have the care of a child who is 16 years of age or over and who is either still at school or registering for employment. This is also means-tested.

Disabled Child Allowance: Payable to locally residing citizens of Malta who have the effective custody of a child suffering from cerebral palsy or severe mental subnormality or is severely handicapped or have a child under 14 years of age who is blind.

Foster Care Allowance: Payable to recognised institutes for the care of children and to foster parents. The children are to be resident at a recognised institute and young persons or living with foster parents.

Maternity Benefit: Payable to local residing pregnant citizens of Malta in respect of the last 8 weeks of pregnancy and the first 6 weeks after childbirth (for a total of 14 weeks benefits). Only payable if the female is not entitled to maternity leave from her employer, if employed. Not means tested.

Supplementary Allowance (SPA): Payable to households where the total income of the members falls below the limits outlined by the Social Security Act from time to time. This benefit is paid as long as the following conditions are met:

Applicants are distinguished between Married (household) or Single. Persons whose annual income is less than that specified for an application year are eligible for SPA.

Bonus: Payable to all persons receiving a pension, orphans' allowance, Social Assistance and Leprosy Assistance under the Social Security Act. This bonus is paid every six months in June and December of each year. Employers are mandated to pay the Bonus to their employees.

Additional Bonus: Payable to all persons who receive bonus with a rate of €3.12 per week. Employers are mandated to pay the additional bonus to their employees. The Sixth Schedule of the Social Security Act, in its parts I, II, III and IV stipulates that the rates will be increased by Lm0.50 (€1.16) per week, if the household is paying rent for its normal place of habitation, House Rent.

Energy benefit scheme: aimed to mitigate the effect of the increase in expenditure on water and electricity bills of low income families. It partly subsidises the cost of electricity consumption and the cost of renting a water meter and an electricity meter provided an income test is passed.

1.3.3 Lump Sum Benefits

Marriage grant: One-time payment payable upon marriage to persons normally resident in Malta. A grant of Lm97.54 (€227.21) (2007) (in 2011 it reached €250.28 per person) paid both to husband and wife when they get married provided that on the marriage date, the couple satisfies certain contributory conditions, that is, that the couples have paid not less than 26 contributions before marriage.



Re-marriage grant: Payable to a widow who remarries and hence forfeits her right to a widow's pension payment equivalent to one year's pension.

Disablement gratuity: Payable to a person following injury at work and where the degree of disability is estimated as being between 1% and 19%.

1.3.4 Not Strictly Benefits

Hospitals and other health care scheme: this scheme covers the Maltese health care system as operated by means of an integrated health service that is organised at the national level. Parliament is responsible for enacting health care legislation and for approving the health care budget.

Subsidies on utilities scheme: subsidised telephone rent is offered to elderly people who are in possession of the pink form and are on social assistance. Water and electricity rebates are awarded to domestic households whose head is benefiting from social assistance. These rebates are in the form of a waiver on the meter rents (both water and electricity), as well as a reduction in the consumption charge for water.

Housing subsidies scheme: the benefits falling under this scheme include subsidies on the interest paid by members of the public on loans obtained to purchase housing units and subsidies on rents. These benefits are not aimed towards engaged couples.

Housing authority subsidies scheme: the Housing Authority subsidises the interest paid by members of the public on loans obtained to purchase housing units from the Authority and to build on land leased from the Authority. The Housing Authority also subsidises the cost of housing units, plots and ground rents to members of the public. Grants are also given on various schemes offered by the Authority.

Route bus subsidy for pensioners' scheme: subsidies to pensioners (in possession of the 'Kartanzjan' card) on route bus fares.

Gozo ferry subsidy for pensioners' scheme: subsidies to pensioners (in possession of the 'Kartanzjan' card) on Gozo Channel Co. Ltd. Ferry boat trips - a boat ferry service linking the island of Gozo and Malta.

The Employment and Training Corporation (ETC): one of the tasks of the ETC is that of providing training programmes as well as training allowances to unemployed persons who are seeking employment.

Sickness days - employers' expenditure: these consist of wages and salaries paid by employers during periods of sick leave. According to local legislation, full pay must continue to be paid during the first three days of sick leave. Subsequently, sick leave pay is financed partly through social security benefits paid by the Social Security Department, with the shortfall being contributed by the employer. Depending on specific employee-employer arrangements, the employer will, after an established period of time, proceed to cover 50 per cent of the salary. At a later point, the employer may be relinquished from his/her obligations to pay any salary to employees on long-term sick leave.



2. SCOPE AND SCALE

Table 1.5 Social benefits: recipients

Recipients of Contributory Benefits	2007	2008	2009	2010	2011	2012
Sickness benefit	18,876	19,068	19,776	18,209	19332	19,688
Decreased national invalidity pension	24	22	21	8	9	6
Disablement gratuity	63	87	67	41	50	43
Increased injury pension	304	289	263	218	205	171
Injury benefit	2,521	2,572	2,094	2,044	1847	1,948
Injury pension	355	341	328	316	310	303
Invalidity pension	1,608	1,340	1,072	830	654	508
National minimum invalidity pension	6,526	6,117	5,570	5,104	4687	4,270
Decreased national minimum pension	106	104	99	93	89	85
Increased national minimum pension	1,320	1,502	1,504	1,752	1969	1,974
Increased retirement pension	2,242	2,082	1,859	2,509	2705	2,051
National minimum pension	6,197	6,091	6,099	5,946	6042	5,967
Retirement pension	8,782	8,956	9,252	9,499	8876	7,885
Two-thirds pension	24,745	27,345	29,750	32,042	34488	36,983
Early survivors retirement pension	1,871	1,922	1,941	1,976	1954	1,837
National minimum widows' pension	7,733	7,701	7,548	7,374	7303	7,381
Survivors' pension	4,473	4,782	5,139	5,476	5844	6,203
Widows' pension	841	602	458	417	318	263
Widows' with children	1	9	11	16	26	39
Marriage grant	3,139	3,047	2,988	3,343	3185	3,361
Maternity benefit	2,664	2,687	2,639	2,358	2481	3,149
Orphans allowance	11	11	13	18	16	19
Re-marriage gratuity	32	35	41	42	46	48
Special unemployment benefit	947	832	1,008	847	894	822
Unemployment benefit	3,534	2,988	4,511	3,530	2917	2,963
Bonus	-	-	-	-	-	-
Total	98,915	100,532	104,051	104,008	106247	107,967

Source: Department of Social Security (DSS) Unique Beneficiaries Report; Departmental Accounting System (DAS)



Recipients of Non-contributory benefits	2007	2008	2009	2010	2011	2012
Leprosy assistance	57	50	47	43	42	36
Milk grant	159	191	187	165	144	125
Sickness assistance	14,722	14,307	14,045	13,848	13,738	13,664
Social assistance	7,857	7,935	7,969	8,069	8,155	8,232
Social assistance females	466	433	416	388	372	341
Tuberculosis assistance	20	9	3	-	0	-
Disability child allowance	681	745	765	819	820	872
Disability pension	1,897	1,891	1,879	1,894	1,923	1,951
Severely disability pension	338	359	357	362	379	417
Age pension	4,836	4,871	4,830	4,876	4,939	4,969
Blind pension	165	170	172	190	197	213
Carers pension	230	205	181	182	162	141
Children's allowance	33,869	45,714	47,666	47,045	43,503	45,940
Foster child allowance	134	127	133	172	200	218
Single unmarried parents	2,346	2,678	2,945	3,131	3,158	3,302
Social assistance board	66	41	26	28	52	54
Unemployment assistance	5,854	5,390	5,702	5,914	5,856	5,884
Drug addicts	133	150	126	102	100	76
Supplementary allowance	29,791	29,096	28,267	27,154	26,596	26,804
Non-contributory bonus	-	-	-	-	0	-
Total	103,621	114,362	115,716	114,382	110,336	113,239

Source: Department of Social Security (DSS) Unique Beneficiaries Report; Departmental Accounting System (DAS)



Table 1.6 Social benefit: expenditure

Expenditure of Contributory Benefits	2007	2008	2009	2010	2011	2012
Sickness benefit	6,227,591	6,446,491	6,368,311	6,399,713	6444522.3	6,446,491
Decreased national invalidity pension	104,938	88,558	38,471	34,404	38211.42	38,471
Disablement gratuity	79,088	110,632	83,081	52,468	74892.05	83,081
Increased injury pension	1,335,750	1,353,031	1,265,406	1,094,488	1017807.1	1,265,406
Injury benefit	1,458,446	1,480,938	1,235,947	1,145,438	967700.84	1,235,947
Injury pension	349,984	353,352	389,016	354,011	346241.58	389,016
Invalidity pension	5,442,458	4,659,929	3,722,896	3,135,914	2409421.6	3,722,896
National minimum invalidity pension	30,139,748	28,595,769	26,393,654	25,189,861	23227071	26,393,654
Decreased national minimum pension	513,164	496,601	539,225	514,511	454980.04	539,225
Increased national minimum pension	9,295,000	11,329,124	11,740,980	13,031,098	13954367	11,740,980
Increased retirement pension	11,853,923	12,365,709	11,963,101	12,546,445	16150404	11,963,101
National minimum pension	27,686,593	27,750,181	29,283,047	29,142,197	29597416	29,283,047
Retirement pension	42,064,948	47,227,506	48,155,906	54,025,353	47775362	48,155,906
Two-thirds pension	170,733,836	194,821,369	217,824,704	260,631,925	259788872	217,824,704
Early survivors retirement pension	12,435,304	13,027,731	13,490,684	14,462,293	14236803	13,490,684
National minimum widows' pension	40,302,449	41,703,287	42,177,817	42,723,362	42762173	42,177,817
Survivors' pension	28,508,690	31,180,067	34,634,863	37,699,280	40202145	34,634,863
Widows' pension	8,791,200	7,893,144	7,160,356	7,338,110	7381010.6	7,160,356
Widows' with children	2,067	49,518	44,347	54,152	78654.61	44,347
Marriage grant	707,145	700,164	709,030	789,162	790943.87	709,030
Maternity benefit	1,840,114	2,066,442	2,171,237	2,100,967	2259894.8	2,171,237
Orphans allowance	40,913	59,639	51,891	75,743	72851.601	51,891
Re-marriage gratuity	115,941	170,928	182,521	205,405	230616.03	182,521
Special unemployment benefit	776,438	644,657	987,391	842,982	814701.37	987,391
Unemployment benefit	1,546,932	1,674,092	2,492,695	2,007,675	1389469.4	2,492,695
Bonus	28,711,638	32,632,774	38,826,070	46,839,614	48694470	38,826,070
Total	431,064,300	468,881,633	501,932,649	562,436,574	561161003	501,932,649

Source: Department of Social Security (DSS) Unique Beneficiaries Report; Departmental Accounting System (DAS)



Expenditure on Non-contributory benefits	2007	2008	2009	2010	2011	2012
Leprosy assistance	104,131	98,032	94,216	92,955	86,579	82,955
Milk grant	56,060	76,055	78,108	78,383	63,327	68,227
Sickness assistance	15,560,448	15,875,008	16,256,011	17,109,035	17,146,456	19,027,289
Social assistance	28,359,705	29,561,691	30,395,498	34,122,997	32,512,851	33,576,129
Social assistance females	1,273,454	1,231,623	1,217,015	1,330,368	1,157,566	1,136,696
Tuberculosis assistance	11,376	3,841	1,734	0	0	-
Disability child allowance	399,810	624,700	648,153	661,085	727,931	744,144
Disability pension	7,676,471	8,179,699	8,267,840	8,742,070	8,914,202	9,354,436
Severely disability pension	1,263,385	1,421,756	1,448,578	1,562,650	1,610,022	1,820,085
Age pension	16,108,412	16,558,937	17,096,622	18,235,135	18,520,290	18,952,707
Blind pension	565,401	611,751	637,481	714,010	693,482	844,548
Carers pension	898,973	841,039	755,426	767,894	760,426	660,075
Children's allowance	28,614,083	39,539,983	38,362,119	37,087,440	36,463,007	38,490,149
Foster child allowance	530,998	701,722	698,974	1,146,259	504,017	1,439,279
Single unmarried parents	8,014,252	9,169,179	10,511,933	12,721,110	12,427,401	13,528,977
Social assistance board	66,052	51,688	29,304	20,859	46,538	61,169
Unemployment assistance	17,342,647	16,189,654	18,340,183	18,941,485	18,640,942	20,874,836
Drug addicts	67,896	66,662	51,925	56,954	49,181	36,525
Supplementary allowance	6,527,438	6,339,308	5,977,015	5,770,417	6,714,719	6,620,607
Non-contributory bonus	7,793,135	8,807,129	9,035,768	9,753,592	9,794,721	10,301,474
Total	141,234,127	155,949,457	159,903,903	168,914,700	166,833,655	177,620,306

Source: Department of Social Security (DSS) Unique Beneficiaries Report; Departmental Accounting System (DAS)

2.1 Social contributions

The contributory scheme in Malta is a universal system of contributions whereby an employee, self-occupied, or self-employed person pays a weekly contribution as laid down by the Social Security Act. The Maltese system follows a pay as you go system whereby a person makes contributions towards the scheme during the period that such person is gainfully active. These contributions are then used to provide for him or herself when a later contingency such as sickness, unemployment, retirement, etc, occurs. The scheme allows for different types of contributions in order to extend coverage to all types of persons in employment. Two classes of contributions exist, namely Class-One contributions, and Class-Two contributions.



2.1.1 Class-One contributions

These are payable in respect of the employed persons. These contributions imply that any person employed under a contract of service in Malta is considered to be in insurable employment and subject to the payment of these contributions. For each person, a tripartite weekly contribution is payable on the basic pay. The tripartite is constituted of the employee, the employer, and the state. While there is a minimum contribution payable, the total contribution is also capped to a maximum wage ceiling.

In order to address the difficulties encountered by part-time workers, as from the 1st of January 2007, the social security contributions due by employees working eight hours or less was adjusted to 10 per cent of what they earn from such work. This pro-rata rate of social contributions gives the contributor a pro-rata entitlement to contributory benefits.

2.1.2 Class-Two contributions

These are paid by self-occupied and self-employed persons. The Social Security Act distinguishes between self-employed and self-occupied, whereby, a self-employed person is that who is not gainfully self-employed in a business or profession and mainly lives on income from investments/rents, while the self-occupied person is that who derives income from an economic activity and declares net profit/loss. The rate of Class-Two contributions is shared by the state and the self-employed/self-occupied person. While there is a minimum contribution payable, the total contribution is also capped to a maximum wage ceiling.

2.1.3 Scope and scale

Table 1.7 Social contributions: contributors

	2007	2008	2009	2010	2011	2012
Social contributions						
Employee Contributors	14,7740	151,596	149,080	152,898	157,855	N/A
Self-Employed Class 2	12,123	12,653	12,125	11,942	11,712	N/A
Employer Contributors	147,740	151,596	149,080	152,898	157,855	N/A

Note : Figures for 2011 are provisional and may be revised. Figures for 2012 are not yet available.

Source: Inland Revenue Department

Table 1.8 Social contributions: revenue



	2007	2008	2009	2010	2011	2012
Social contributions (€)						
Employee Contributors	150,838,681	155,717,147	158,966,591	166,456,492	178,455,583	N/A
Self-Employed Class 2 Employer Contributors	33,311,593	33,537,324	34,006,954	33,672,538	33,975,593	N/A
Employer Contributors	151,136,720	156,035,625	159,406,620	166,969,027	179,943,393	N/A

Note : Figures for 2011 are provisional and may be revised. Figures for 2012 are not yet available.

Source: Inland Revenue Department

2.2 Taxes

Taxes in Malta are mainly divided into direct and indirect taxes. The former refers to income tax and social security contributions, whilst the latter relates to VAT, excise duty, stamp duty on documents and motor vehicle registration tax. These are regulated by the Income Tax Act of 1949, Social Security Act of 1987, Value Added Tax Act of 1999, Excise Duty Act of 1995, Duty on Documents and Transfers Act of 1992 and Motor Vehicle Registration Tax Act of 1994 respectively. In general, Maltese taxes account for around 87 per cent of total recurrent revenue. Direct taxes make up around 56 per cent of total tax revenue, while indirect taxes constitute around 44 per cent.

Income tax: the income tax is levied on income in general and on the capital gains of every person, including individuals, companies and other bodies. There are no separate laws regulating the taxation of individuals and corporations and both are regulated by the Income Tax Act and the Income Tax Management Act.

Value added tax: akin to the rest of the EU, Malta's value added tax (VAT) is imposed on imports, intra-community acquisitions and supplies of goods and services that take place in Malta. Apart from a standard rate of 18 per cent, there is also a reduced rate of 5 per cent as well as a 0 per cent rate for a number of selected goods and services. Zero rated supplies include items such as food and pharmaceutical goods.

Vehicle road license: a vehicle road licence is an authorization for the vehicle to be on the road. There are different categories and fees for road licenses catering for each type of motor vehicle. Additionally, there is a Controlled Vehicular Access System (CVA) which is a pay-as-you-go system for vehicular access to the capital.

Vehicle registration tax: a vehicle which is newly registered in Malta must pay registration tax. The basis of taxation varies according to whether the vehicle is new or used, and whether it is for private use or a carrying vehicle.

Excise duty: this is a charge on alcohol and alcoholic beverages, manufactured tobacco, energy products, and mobile telephone services. The applicable rates vary within each product/service category and certain exemptions also apply.

Duty on documents and transfers: these are paid on life insurance policies, transfers of immovable property or securities, and on credit cards.



2.2.1 Scope and scale

Table 1.10. Taxes: revenue (000s Euro)

	2007	2008	2009	2010	2011	2012
Annual revenue	1,982,020	2,098,311	2,130,121	2,242,532	2,323,351	2,392,966
Direct taxes						865,927
Personal income tax ¹	663,430	735,899	739,443	801,231	776,109	7
Corporate income tax ¹	204,817	223,557	242,528	281,007	N/A	N/A
Social security – Total	248,911	362,427	364,112	391,787	N/A	N/A
Employers' social security contributions	480,243	510,143	526,100	552,073	585,589	609,690
Employees' social security contributions	143,001	152,762	158,278	166,231	177,247	184,326
Self Employed share	143,001	152,762	158,278	166,231	177,247	184,326
State grant	34,042	34,409	34,039	35,344	34,895	36,287
Further contribution	160,027	169,971	175,298	183,905	194,696	0
Capital gains tax	172	239	207	362	1,504	2,281
Shares	106,677	80,293	66,844	64,365	68,845	65,986
Property	981	969	1,097	554	N/A	N/A
Property taxes - Duty on documents ²	105,696	79,332	65,747	63,812	N/A	N/A
Indirect taxes						534,197
Value added tax	421,775	455,349	454,027	482,538	525,061	7
Customs and excise duties	184,978	177,775	174,371	187,739	208,181	0
Licenses, Taxes and fines	231,593	219,146	236,179	218,946	228,409	227,362

Sources: National Statistics Office, MFEI Annual Reports, Budget Office

Notes:

¹ Personal income tax and Corporate income tax are estimates based on data from MFEI Annual Reports pertaining to Inland Revenue

² Includes income from duty on documents relating to property. The source of this data is NSO and is in compliance with ESA95.

Additional note: Totals may mismatch due to some disaggregated data being an estimate



3. SIMULATION OF TAXES AND BENEFITS IN EUROMOD

3.1 Scope of simulation

Not all benefits and taxes are simulated in EUROMOD. Indirect taxes such as VAT, excise duties etc. that do not affect net disposable income fall outside the scope of EUROMOD. The same is true of services in-kind. These are neither simulated nor included among the output variables. Other benefits and taxes may not be simulated due to lack of information in the input dataset. These are included in the final output dataset but the rules governing them may not be altered by the simulation. Tables 2.1 and 2.2 classify all the main tax-benefit instruments into one of these three groups and provide a brief explanation as to why the instrument is not fully simulated if this is the case. Information is provided regarding the treatment of all tax and benefit instruments in each policy year that has been implemented.

Table 2.1 Simulation of benefits in EuroMOD

	Variable name(s)	Treatment in EuroMOD				Why not fully simulated?
		2007	2008	2009	2010	
Two thirds pension	poanm	IA	IA	IA	IA	No information on contribution history and no information on pensionable income
Retirement pension	poanm	IA	IA	IA	IA	No information on contribution history and no information on pensionable income
Increased retirement pension	poanm	IA	IA	IA	IA	No information on contribution history and no information on pensionable income
National minimum pension	poanm	IA	IA	IA	IA	No information on contribution history and no information on pensionable income
Increased national minimum pension	poanm	IA	IA	IA	IA	No information on contribution history and no information on pensionable income
Decreased national minimum pension	poanm	IA	IA	IA	IA	No information on contribution history and no information on pensionable income
Sickness benefit	bhl00	IA	IA	IA	IA	No information on health status & no information on contribution history
Injury benefit	bhl00	IA	IA	IA	IA	No information on health status & no information on contribution history
Invalidity pension	pdi	IA	IA	IA	IA	No information on degree of incapacity & no information on contributory history
National minimum invalidity pension	pdi	IA	IA	IA	IA	No information on degree of incapacity & no information on contributory history
Decreased invalidity pension	pdi	IA	IA	IA	IA	No information on degree of incapacity & no information on contributory history
Disablement gratuity	pdi	IA	IA	IA	IA	No information on degree of incapacity & no information on contributory history
Injury pension	pdi	IA	IA	IA	IA	No information on degree of incapacity & no information on contributory history
Increased injury pension	pdi	IA	IA	IA	IA	No information on degree of incapacity & no information on contributory history



	Variable name(s)	Treatment in EuroMOD				Why not fully simulated?
		2007	2008	2009	2010	
Disability pension/ Severe disability pension	pdi	IA	IA	IA	IA	No information on degree of incapacity
Survivor's pension	psu	IA	IA	IA	IA	No information on the contribution history
Early survivor's retirement pension	psu	IA	IA	IA	IA	No information on the contribution history
Widow's pension	psu	IA	IA	IA	IA	No information on the contribution history
National minimum widow's pension	psu	IA	IA	IA	IA	No information on the contribution history
Orphan's allowance	psu	IA	IA	IA	IA	No information on the contribution history
Unemployment benefit	bunctnm	PS	PS	PS	PS	Contribution history is approximated based employment in the income reference period and observed receipt in the dataset
Special unemployment benefit	bunctmt	PS	PS	PS	PS	Contribution history is approximated based employment in the income reference period and observed receipt in the dataset
Age pension	boamt	S	S	S	S	
Sickness assistance	bhlmt	I	I	I	I	No information on health status
Child allowance (means-tested)	bchmt	S	S	S	S	
Child allowance – flat rate	bchnm	N/A	S	S	S	
Unemployment assistance	buncnmt	PS	PS	PS	PS	Eligibility conditioned on observed receipt in the data
Social assistance	bsa	S	S	S	S	
Social assistance for single unmarried parents	bchlp	S	S	S	S	
Supplementary assistance	bmttu	S	S	S	S	
Bonus	btuls	S	S	S	S	

Notes: “-”: policy did not exit in that year; “E”: *excluded* from the model as it is neither included in the micro-data nor simulated; “I”: *included* in the micro-data but not simulated; “PS” *partially simulated* as some of its relevant rules are not simulated; “S” *simulated* although some minor or very specific rules may not be simulated.

Simulated benefits include the most important non-contributory benefits. EUROMOD also partially simulated all three types of unemployment benefits existent in Malta. Contributory benefits that take into account long periods of contributions-such as old-age, invalidity and survivor pensions are not simulated. In addition, invalidity and sickness benefits are not simulated due to absence of accurate detailed information about the health status of the recipient. A few specific very small benefits such as tuberculosis assistance, leprosy assistance, benefits for drug addicts, disability child allowance and milk grant are ignored in the simulation. The carer's pension is not simulated due to absence of information about care related responsibilities and the health status of other household members. The maternity benefit is not simulated as it requires information about benefits received from the employer.



Table 2.2 Simulation of taxes and social contributions in EuroMOD

	Variable name(s)	Treatment in EuroMOD				Why not fully simulated?
		2000	2008	2009	2010	
Personal income tax	tin_s	S	S	S	S	
Property tax	tpr	I	I	I	I	No information on property values
Class I contributions	tscee_s tscer_s tscgv_s	S	S	S	S	
Class II contributions	tscse_s tscgv_s	S	S	S	S	
Credited social insurance contributions	tscct_s	S	S	S	S	Not all categories of beneficiaries could be simulated.

Notes: “-” policy did not exist in that year; “E” policy is *excluded* from the model’s scope as it is neither included in the microdata nor simulated by EuroMOD; “PS” policy is *partially simulated* as some of its relevant rules are not simulated; “S” policy is *simulated* although some minor or very specific rules may not be simulated.

The model simulates all direct income taxes payable by households. These include the personal income tax as well as Class I and Class II social insurance contributions payable by the employees, employers, self-employed and the state.

Structural changes between 2007 and 2008

A flat rate child allowance has been introduced in 2008. Families with dependent children that do not qualify for the means-tested child allowance are entitled to a flat rate benefit worth 250 € per year for each child.

Structural changes between 2008 and 2009

There have been no structural changes between 2008 and 2009.

Structural changes between 2009 and 2010

There have been no structural changes between 2009 and 2010.

Structural changes between 2010 and 2011

In 2011, different maximal thresholds have been introduced for employees paying social insurance contributions depending on date of birth. A slightly lower ceiling applies to employees born before Jan 1st 1962.

Structural changes between 2011 and 2012

In 2012, a modification of the income tax has been introduced. A special tax schedule (‘parental computation’) has been introduced for taxpayers who are taxed under the individual taxation regime and who are working parents of children aged up to 18 (or up to 21 if in education) who are not themselves employed.



3.2 Order of simulation and interdependencies

Order of simulation in 2007

The order of the simulation is the same in all 4 years included in this Country Report. The minimum wage is simulated first as this affects subsequent tax and contribution calculations. However, by default the minimum wage is switched off in the baseline.

Next are Class I and Class II contributions paid by employees, employers, self-employed and the state. As they are generally deductible from assessed income both in the case of the personal income tax base and in the case of means-tested benefits, they need to be calculated before those income components. The special unemployment benefit may not be received at the same time with the contributory non means-tested unemployment benefit and thus the latter is simulated first. The age pension is included in the income test of the special unemployment benefit and of the unemployment allowance. As a result its calculation precedes that of the unemployment benefits. All contributory benefits and the age pension are included in the means-test of social assistance and social assistance for single unmarried parents. Bonuses depend on receipt of a number of contributory and non-contributory benefits and so are simulated near the end. Finally, the supplementary assistance is simulated last as eligibility and amount depend on receipt of previously simulated benefits.

Table 2.3 EuroMOD Spine: order of simulation, 2007-2012

Policy	Description	Main output
yem_mt	Minimum wage	yem
tscee_mt	Class I contributions paid by the employees	tscee_s
tscer_mt	Class I contributions paid by the employers	tscer_s
tscse_mt	Class II contributions paid by self-employed and self-occupied persons	tscse_s
tscgv_mt	Class I & Class II contributions paid by the state	tscgv_s
bunctnm_mt	Contributory non-means tested unemployment benefit	bunctnm_s
boamt_mt	Age pension	boamt_s
bch_mt	Means-tested and flat rate child allowance	bch_s; bchmt_s; bchnm_s
tin_mt	Personal income tax	tin_s
bunmt_mt	Special unemployment benefit & unemployment allowance	bunctmt_s; bunnmt_s
bsa_mt	Social assistance and social assistance for single unmarried parents	bsa_s; bchlp_s
btuls_mt	Bonuses	btuls_s
bmttu_mt	Supplementary assistance	bmttu_s
tsctt_mt	Credited social insurance contributions	tsctt_s



Source: Euromod 7.0+

3.3 Social benefits

3.3.1 Unemployment benefit (Beneficċju għal dizimpjieg) (bunctnm_s)

- *Benefit description*

The unemployment benefit is a contributory benefit payable to persons registered as unemployed subject to satisfying a minimum contributory period.

- *Eligibility conditions*

To receive the unemployment benefit, one must be below the statutory retirement age, must not be deriving any earnings and must satisfy a contributory history test. Minimum requirement for the UB is total of 20 paid or credited contributions in the last two consecutive calendar years, preceding the year during which the claim for benefit is made. Any Class Two contributions paid or credited are not taken into account. When full benefit is paid, in order to qualify for another 156 days, one should work another 13 weeks as employed (Class One). UB is issued to any person with Class One contributions.

- *Benefit amount*

The Social Security Act stipulates maximum entitlement to UB of 156 days (excluding Sundays). The rates are slightly increased every year, as per cost of living rate. The benefit is a flat-rate allowance that depends solely on the composition of the household.

Rates are shown in the table below.

Table 2.4 Unemployment Benefit Amounts

Rates	2007	2008	2009	2010	2011	2012
Single parent & married person maintaining non-employed spouse	Lm4.25 (€90).	€10.16	€10.44	€10.85	€10.93	€11.26
Other persons	Lm2.78 (€48).	€6.64	€6.83	€7.10	€7.15	€7.37

- *Income test*

This benefit is not means-tested.

EUROMOD notes: Eligibility conditions for the receipt of unemployment benefit cannot be simulated accurately. Instead eligibility for current recipients of unemployment benefit is taken from the data. For other categories, it is assumed that the fraction of time worked during the income reference period is the same in the previous two years, if this is not higher than the



entire work history. The duration of receipt of the unemployment benefit is also taken from the data. The condition that the recipient must not be earning income is not simulated.

3.3.2 Unemployment assistance (Ghajnuna ghal dizimpjeg) (buncmt_s)

- *Benefit description*

While unemployment benefit is considered a short-term benefit, the unemployed person may qualify for longer-term benefits under Social / Unemployment Assistance. In case that the beneficiary is not entitled to UB, he will be paid the UA in full. Unemployment assistance is received by unemployed persons not qualifying for UB, subject to passing the capital resources test and an income test. The claimant must be registering for work under the Part 1 register.

- *Definitions and eligibility*

To receive unemployment assistance, one must be registered as an unemployed and satisfy an income and an asset test.

- *Benefit amounts*

The amount of the unemployment assistance is the difference between the maximum benefit rate and the claimant's assessed income. Weekly maximum benefit rates are shown in the table below:

Table 2.5 Benefit amounts: Unemployment assistance rates in full as at 30th June

	2007	2008	2009	2010	2011	2012
Rate for single person (weekly)	Lm 35.47	€84.95	€87.67	€91.55	€92.32	€95.43
Additional members (weekly)	Lm 3.50	€8.15	€8.15	€8.15	€8.15	€8.15

- *Income test*

Receipt of unemployment assistance is conditional on passing an asset test-termed the capital resources test and an income test.

Capital resources test (asset test)

The test is done on the value of any property (including financial assets such as savings, stocks, bonds etc.) belonging to all members of the household who are neither employed nor self-employed or self-occupied with the exception of the house of residence, private car, a garage for private use and a summer residence. A person (other than the head & spouse) is considered



not to be employed/ self-employed/ self-occupied if her gross wage/ gross income does not exceed 35% of the National Minimum Wage.

Capital limits depend on the household composition and are shown in the table below.

Table 2.6 Capital resources test limits

	2007	2008	2009	2010	2011	2012
Capital resource limit- Single person	Lm6000	€14000	€14000 Euro	€14000	€14,000	€14,000
Capital resources- Couple	Lm 10000	€23300	€23300 Euro	€23300	€23,300	€23,300

Income test

The test is done on the incomes of all members of the household who are assessed together (i.e. the head & partner, plus all the non-employed members of the household- where a person is considered to be non employed is her income from earnings-wages, self-employment etc.- is less than 25% of the National Minimum Wage). These include:

- i) Income derived from property minus an exempted amount (Lm 40 in 2007, €95 in 2008, 2009 & 2010 per year)
- ii) Estimated income from unused property (calculated as 5% per annum of the value of the property minus a deduction-Lm 250 in 2007, , €585 in 2008, 2009 & 2010)
- iii) All labour income derived by the head of household and her partner minus any Class1 and Class2 contributions due
- iv) A percentage of all labour income derived by other household members (other than the head and the partner) minus any Class1 and Class2 contributions and minus any income tax due (see table below)
- v) Any social benefit received by the head of household and her partner with the exception of Supplementary Allowance, Children’s Allowance, Care Allowance, Disabled Child Allowance and Maternity Benefit
- vi) A percentage of all social benefits received by other household members with the exceptions of the benefits mentioned above and with the exceptions of any pensions or benefits up to the national minimum pension (see table below).

Assessed income must be below the benefit applicable rates for the applicant to qualify. The benefit consists of the difference between the applicable rate and assessed income.

Table 2.7 Percentage of income of household members other than the head and her partner taken into account in the means-test

Year	2006	2007	2008	2009	2010	2011	2012
%	17.1%	16.6%	16.2%	15.7%	15.7%	15.7%	15.7%

EUROMOD notes: The input dataset lacks accurate information about assets. As a result, the capital resources test is simulated based on an imputed financial capital variable-itself based on information about investment income received by the household. As a result, the asset test is likely to be inaccurate. Theoretical income from unused property is not taken into account in the



simulation of the income test (due to lack of information about additional properties). Eligibility to unemployment assistance is taken from the input dataset (i.e. the person is observed as receiving this type of benefit). Other eligible persons are assumed to receive social assistance (the rules of entitlement as well as the amounts received for the two benefits are identical).

3.3.3 Special unemployment benefit (Beneficcju specjali ghal dizimpjieg) (bunctmt_s)

- *Benefit description*

This benefit is aimed at unemployed persons who satisfy the contributory conditions of the unemployment benefit and the means-test of unemployment assistance. If both the contributory and resource conditions are met, the Unemployment Benefit is converted into a Special Unemployment Benefit. The benefit provides a higher rate than the ordinary Unemployment Benefit. A person may not receive the Unemployment Benefit and the Special Unemployment Benefit at the same time.

- *Eligibility conditions*

To claim the benefit, a person needs to be below retirement age, registered as unemployed, not deriving any earnings and satisfying the contributory test of the Unemployment Benefit and the means-test of Unemployment Assistance (see above).

- *Income test*

To qualify, a claimant must pass an asset test and an income test. These are identical to tests applicable in the case of unemployment assistance.

- *Benefit amount*

The benefit is flat rate. Its amount depends only on the household composition. Daily rates are shown in the table below:

Table 2.8 Special Unemployment Benefit daily amounts

Rates	2007	2008	2009	2010	2011	2012
Single parent & married person maintaining non-employed spouse	Lm7.13 (€16.61)	€17.03	€17.52	€18.22	€18.36	€18.92
Other persons	Lm4.66 (€10.85)	€11.13	€11.45	€11.90	€11.99	€12.35

EUROMOD notes: Eligibility conditions for the receipt of the special unemployment benefit cannot be simulated accurately. Instead eligibility for current recipients of unemployment benefit is taken from the data. For other categories, it is assumed that the fraction of time worked during the income reference period is the same in the previous two years, if this is not



higher than the entire work history. The duration of receipt of the special unemployment benefit is also taken from the data. The condition that the recipient must not be earning income is not simulated.

The input dataset lacks accurate information about assets. As a result, the capital resources test is simulated based on an imputed financial capital variable-itself based on information about investment income received by the household. As a result, the asset test is likely to be inaccurate. Theoretical income from unused property is not taken into account in the simulation of the income test (due to lack of information about additional properties).

3.3.4 Old age pension (Pensjoni ta' l-Eta) (boamt_s)

- **Benefit description**

The old-age pension is a non-contributory benefit designed to prevent poverty in old age. It is payable to citizens of Malta over the age of 60 and applicants who satisfy a capital resources test and an income test.

- **Eligibility conditions**

To receive the benefit, the applicant must be over 60 years, be a resident citizen of Malta and satisfy an asset test (capital resources test) and an income test.

- **Income test**

There are two tests that must be passed, namely the capital resources test and an income test.

Capital resources test (asset test):

The test is done on the property (including financial assets such as savings, stocks, bonds etc.) of the applicant and her spouse. A house for residence, a private car, a garage for private use and a summer residence are exempted from the test. In order to qualify, capital must be below the thresholds shown in the table below.

Table 2.9 Old age pension: Capital resources limits

	2007	2008	2009	2010	2011	2012
Single person	Lm6,000 (€3,976.40)	€14,000	€14,000	€14,000	€14,000	€14,000
Couple	Lm10,000 (€3,294.00).	€23,300	€23,300	€23,300	€23,300	€23,300

Income test:

The income test is done on the income of the applicant and her spouse. It includes:

- Earnings from which any Class 1 and Class 2 contributions which are due are deducted



- ii) Investment and property income
- iii) All social benefits with the exception of Supplementary Allowance, Children’s Allowance, Care Allowance, Disabled Child Allowance and Maternity Benefit

The following lump sum is disregarded from the income base:

Table 2.10 Income disregard for age pension (per year)

	2007	2008	2009	2010	2011	2012
Single person	Lm 115	€70	€70	€70	€70	€70
Married couple	Lm 165	€85	€85	€85	€85	€85

- **Benefit amount**

The benefit is equal to the difference between the applicable rate and the assessed income.

Table 2.11 Benefits: Highest rate of non-contributory Age Pension (per week)

	2007	2008	2009	2010	2011	2012
A married couple where both qualify for a pension	Lm47.80 (€11.34)	€14.16	€17.42	€22.08	€23.01	€26.74
A married couple where only one of the spouses qualifies for a pension	Lm29.66 (€9.09)	€1.42	€4.14	€8.02	€8.79	€1.90
Widowed, single persons or a married person where a spouse is in receipt of a State Financed Residential Service	Lm37.22 (€6.70)	89.03	91.75	95.63	€6.40	€9.51

EUROMOD notes: The input dataset lacks accurate information about assets. As a result, the capital resources test is simulated based on an imputed financial capital variable-itself based on information about investment income received by the household. As a result, the asset test is likely to be inaccurate. Theoretical income from unused property is not taken into account in the simulation of the income test (due to lack of information about additional properties). Fluctuations in income throughout the income reference period are not taken into account. The age test is based on age at the end of the income reference period. Hence, persons turning 60 during the income reference period are simulated to be eligible throughout the year.

3.3.5 Children’s allowance (Allowance tat-Tfal) (bchm_s and bchmt_s)

- **Benefit description**

Children’s allowance is payable to locally residing females, citizens of Malta or married to citizens of Malta, who have the care of children under 16 years of age. The benefit is means-tested. There is no asset test but solely an income test.



In 2008, a new flat-rate child benefit has been introduced for those families that do not qualify for the means-tested child allowance. The benefit is equal to €250 per year for every child aged under 16 and has not changed in 2009- 2011. In January 2012, the Government implemented an increase in the minimum rate for children's allowance, where Children's Allowance minimum rate was increased by €100, from €250 to €350 a year for each child.

- **Eligibility conditions**

Must be parent or guardian of a child aged under 16 and satisfy an income test

- **Income test**

The income test is carried out on the income of the applicant and her spouse. Assessed income includes all income with the exception of:

- i) Orphan allowance, children allowance and disabled child allowance
- ii) Injury grants
- iii) Widow & survivor pensions

Income is taken net of any Class I and Class II contributions paid.

Cohabiting couples are treated the same way as married ones.

The income test is carried out on the income realized during the calendar year preceding the date of the claim. The benefit is granted for the duration of a year.

In order to qualify, assessed income must be below a certain threshold (Lm10270 in 2007). Recipients of social/ unemployment assistance and age pension qualify automatically.

The allowance paid is a percentage calculated on the difference between the threshold and the income declared for the previous year less the social security contributions paid. When assessed income is equal or less than a lower limit threshold, the applicant qualifies for the highest rate of the benefit (i.e. income below the lower limit of assessed income is considered to be equal to the limit for benefit calculation purposes).

Table 2.12 Children's allowance policy parameters

	2007	2008	2009	2010	2011	2012
Income threshold	Lm 10,270	€3,983	€3,983	€3,983	€3983	€4,225
Lower limit of assessed income	Lm 2,770	€4,658	€4,658	€4,658	€4718	€4960

- **Benefit amount**

The amount of the means-tested children's allowance is calculated as a percentage of the difference between the income threshold and assessed yearly income (subject to a minimum assessed income defined by the lower limit). The percentage depends on the number of children under the age of 16 as follows:

One child: 6%

Two children: 12%



Three children: 18%

Four children: 24%

Five and more children: an addition of 6% per child.

In case of 16 to 21 year olds registering for work for the first time or students not receiving stipends: 2%

EUROMOD notes: The income test is carried out on current year's income rather than previous year's income. The automatic eligibility of social and unemployment assistance recipients is not simulated. However, the income threshold for children's allowance is well above that for unemployment/ social assistance. A means-tested child allowance is simulated for all persons aged 16 and up to 21 if they are observed to be in education and not receiving a scholarship. Benefits going to persons aged 16 to 21 that register for the first time for work are not simulated.

3.3.6 Social assistance (Ghajnuna Socjali) (bsa_s)

- *Benefit description*

Social assistance is payable to heads of households and who are either unemployed, or unfit for work or seeking employment, and where the relative financial means fall below the level established by the Social Security Act. Also, social assistance is payable to separated persons who have custody of children and to single or widowed females who lack financial resources and who are caring for an elderly or physically/mentally disabled relative on a full time basis.

- *Eligibility*

To be eligible for the benefit a person must be the head of a household and satisfy a means test comprising an asset test and an income test.

- *Income test*

To be eligible, the household must satisfy both an asset tests-termed capital resources test and an income test.

Capital resources test (asset test)

The capital resources test is done on the property of the household. The household includes the head, the partner and any non-employed members that reside together with the head and the partner. A person is considered to be non employed if her earnings from employment, self-employment and self-occupation do not exceed 35% of the National Minimum wage. If a person is receiving social assistance for single parents (see below), she and her dependents are excluded from the household for purposes of simulating social assistance. Capital (including property and financial assets) must not exceed a certain threshold that depends on the household composition. Threshold values are shown in the table below for the 2007-2012 period.



Table 2.13 Asset thresholds and weekly benefits paid under Social Assistance:

	2007	2008	2009	2010	2011	2012
Capital resources limit-single	Lm6,000	€14,000	€14,000	€14,000	€14,000	€14,000
Capital resource limit-couple	Lm10,000	€23,300	€23,300	€23,300	€23,300	€23,300

Income test

The income test is conducted on the income of all household as defined above. Assessed income includes:

- i) Income derived from property minus an exempted amount (Lm 40 in 2007, €95 in 2008, 2009 & 2010, 2011 and 2012)
- ii) Estimated income from unused property (calculated as 5.5% per annum of the value of the property minus a deduction-Lm 250 in 2007, €585 in 2008, 2009 & 2010, 2011, 2012)
- iii) All labour income derived by the head of household and her partner minus any Class1 and Class2 contributions due
- iv) A percentage of all labour income derived by other household members (other than the head and the partner) minus any Class1 and Class2 contributions and minus any income tax due. Income derived from employment of spouse of person in receipt of Social assistance is taken gross.
- v) Any social benefit received by the head of household and her partner with the exception of Supplementary Allowance, Children's Allowance, Care Allowance, Disabled Child Allowance and Maternity Benefit
- vi) In 2012, as shown in Table 2.14, 17.1% of the income of household members other than the head and her partner is taken into account for the means-test.

Table 2.14 Percentage of income of household members other than the head and her partner taken into account in the means-test

Year	2006	2007	2008	2009	2010	2011	2012
%	17.1%	16.6%	16.2%	15.7%	15.7%	15.7%	15.7%

Assessed income must be below the benefit applicable rates for the applicant to qualify. The benefit consists of the difference between the applicable rate and assessed income.

- **Benefit amount**

The awarded benefit is equal to the difference between the applicable social assistance rate (which in turn depends on the household composition) and assessed income.

Table 2.15 Social Assistance weekly rates



	2007	2008	2009	2010	2011	2012
Rate for single person	Lm35.47	€4.95	€7.67	€1.55	€2.32	€5.43
Additional members	Lm3.50	€1.15	€1.15	€1.15	€1.15	€1.15

EUROMOD Notes: The input dataset lacks accurate information about assets. As a result, the capital resources test is simulated based on an imputed financial capital variable-itself based on information about investment income received by the household. As a result, the asset test is likely to be inaccurate. Theoretical income from unused property is not taken into account in the simulation of the income test (due to lack of information about additional properties). Fluctuations in income through the income reference period are not taken into account. A person is deemed to be employed or non-employed based on her yearly earnings.

3.3.7 Social assistance for single unmarried parents (Applikazzjoni ghall-Ghajjnuna Soċjali) (bchlp_s)

- *Benefit description*

The benefit is targeted towards single parents with low income. It is a means-tested benefit, where the means test consists of an asset test (capital resources test) and an income test.

- *Definitions and eligibility*

A person is considered a single parent if she is not married and not cohabiting and is the parent of at least one dependent child. A child is considered to be dependent when aged under 18, not married and not a parent herself. For the purposes of this benefit, the single parent and her dependents are assessed separately from any other household members.

A single parent who is the head of the household (i.e. not living with other adults) is entitled to apply to social assistance even when unemployed and not actively looking for work. If the single parent is employed, she is entitled to apply for social assistance if her assessed income (calculated as for the general Social Assistance benefit) together with the social assistance rate for two persons does not exceed the national minimum wage. In effect, this translates to an income (earnings) disregard (See the table below). Single parents who are not heads of households (i.e. are living with other adults) are entitled to 75% of the corresponding social assistance rate provided they pass the same means-test.

Table 2.16 Disregarded income/earnings (per week)

	2007	2008	2009	2010	2011	2012
Income disregard	Lm20.66 (€48.12)	€49.28	€50.64	€2.58	€2.98	€4.53

- *Income test*

The benefit is means-tested. It consists of the capital resources test and the income test. The capital resources test has the same rules as in the case of general social assistance. The income



test has the same rules as the general social assistance with the exception that earnings up to a threshold are disregarded (see above).

- ***Benefit amount***

In the case of single parents not living with other adults, the benefit is equal to 100% of the difference between the applicable general social assistance rate (for the single person and her dependents) and assessed income. In the case of single parents living with other adults, the benefit is equal to 75% of the difference between the applicable general social assistance rate and assessed income.

EUROMOD Notes: The input dataset lacks accurate information about assets. As a result, the capital resources test is simulated based on an imputed financial capital variable-itself based on information about investment income received by the household. As a result, the asset test is likely to be inaccurate. Theoretical income from unused property is not taken into account in the simulation of the income test (due to lack of information about additional properties). The earnings disregard is applied to yearly employment earnings.

3.3.8 Supplementary assistance ('Allowance' Supplementari) (bmttu_s)

- ***Benefit description***

This is a benefit payable to households once per year, subject to an income test.

- ***Eligibility***

To claim this benefit, the applicant must be the head of the household and the household must satisfy an income test. The unit of assessment is the household which includes the head, his/her partner and all non-employed members residing together with the head and the partner. To be considered non-employed, individual income from employment, self-employment and self-occupation must not exceed 35% of the Minimum Wage. Persons who receive children's allowance or disabled child allowance do not qualify for supplementary allowance.

Recipients of age pension, social assistance and unemployment assistance qualify automatically.

- ***Income test***

The income test is conducted on the yearly income of the household during the previous year. The applicable income limits are described in the table below. Assessed income included:

- i) All property/ investment income
- ii) All earnings of the head and partner minus any social contributions (Class 1 or Class 2) due
- iii) All social benefits received by the head and partner with the exception of injury grants



- iv) In 2012, 15.7% of the net income (net of social insurance contributions and net of taxes) of household members who are not the head or her partner

If the head is a pensioner the income test is done solely on her income and that of the partner.

Persons who receive children’s allowance or disabled child allowance do not qualify for supplementary allowance.

Table 2.17 Yearly income ceilings

	2007	2008	2009	2010	2011	2012
Single person	Lm3,270 (€7,617)	€7,799	€7,799	€8,102	€8,162	€8,404
Married couple	Lm4,200 (€9,783)	€9,966	€9,966	€10,269	€10,330	€10,572

- **Benefit amount**

The benefit amount depends on the assessed yearly income and is worked out as follows:

$$[\text{Amount} - \text{Annual assessed income (minimum applies)}] * \text{Rate}$$

The amount and rate depend on the family composition and are shown in the Table below

Table 2.18 Policy parameters for the supplementary allowance

	2007	2008	2009	2010	2011	2012
Amount-Single person	Lm 8270	€19,233	€19,264	€19,264	€19,627	€19,869
Amount-Married couple	Lm 10270	€23,923	€23,923	€23,923	€24,287	€24,529
Rate-Single person	1.5%	1.5%	1.5%	1.5%	1.7%	1.7%
Rate-Married couple	2.0%	2.0%	2.0%	2.0%	2.268%	2.268%
Minimum assessed annual income	Lm 2270	€5,287	€5,287	€5,287	€650	€892

EUROMOD notes: No information exists in the EUROMOD input dataset about previous year’s income. As a result the income test is simulated based on current year’s income. The incompatibility with the Disabled Child Allowance is not simulated.



3.3.9 Bonuses (btuls_s)

- **Benefit description**

Two types of bonuses are paid to majority of social beneficiaries, as well as to employed persons (all categories).

Bonus (1) is payable to all persons receiving a pension (public or service pension), Orphans Allowance, Social Assistance and Leprosy Assistance under the Social Security Act. It is paid twice a year, in June and December.

Additional Bonus (2): consists of a weekly sum payable to all recipients of Bonus(1). The benefit is paid twice per year, at the end of March and at the end of September. The Sixth Schedule of the Social Security Act, in its parts I, II, III and IV stipulates that the rates of the Additional Bonus will be increased by Lm0.50 (€1.16) per week, if the household is paying rent for its normal place of habitation, House Rent.

- **Eligibility**

To receive a bonus, one must be the recipient of one of the following contributory or non-contributory benefits: contributory old-age, invalidity and survivor pensions, age pension, service pension, social assistance, social assistance for single parents, leprosy and tuberculosis assistance and unemployment assistance. The bonus (or fraction thereof) is paid for every month of receipt of a qualifying benefit.

- **Income test**

There is no separate income test applicable for this benefit

- **Benefit amount**

Table 2.19 Bonus Rates

	2007	2008	2009	2010	2011	2012
Bonus (1)/per 6 months	Lm 58 (€35.10)	€35.10	€35.10	€35.10	€35.10	€35.10
Additional Bonus (per week)	Lm 1.34 (€3.12)	€3.12	€3.12	€3.12	€3.12	€3.12
Rent supplement (per week)	Lm 0.50 (€1.16)	€1.16	€1.16	€1.16	€1.16	€1.16

EUROMOD notes: The eligibility of recipients of tuberculosis assistance or leprosy assistance is not simulated. The number of months receiving a qualifying benefit is ignored in the simulation. Instead, the bonuses are simulated for a period of one year for all recipients.



3.4 Social contributions

The contributory scheme in Malta is a universal system of contributions whereby an employee, self-occupied, or self-employed person pays a weekly contribution as laid down by the Social Security Act. There are two classes of contributions: the Class One contribution payable in respect of employed persons and the Class Two contribution paid by self-employed/occupied persons. Generally speaking, contributions are payable by all persons between the age of 16 years and the age of retirement. Contributions are also payable by pensioners in gainful employment that retired after the 5 of January 2008. Pensioners who retired earlier than this date are allowed to work without prejudicing their pension rights in the ages of 61 years to 65 years without paying social security contributions, subject to a ceiling on earnings equivalent to the national minimum wage. For this group, ceiling on earnings is removed at age of 65 years and no further contributions are due. For each person, a tripartite contribution is payable: the employed person, the employer and the State each pay 10 per cent of the basic salary of the employee; with the contribution capped to the Maximum Pensionable Income that stood at €16,419 in 2007. The rate of Class Two contributions is equally shared by the State and self-occupied persons (a self-occupied person is defined by the Social Security Act as “a self-employed person who is engaged in any activity through which earnings exceeding €10 per annum are being derived”), whereby the self-occupied pays 15 per cent and the State pays 7.5 per cent of their annual income that is subject to the same ceiling that applies for employees.

3.4.1 Employee social contributions (tscee_s)

Employees pay Class One social insurance contributions. The rate of such contribution by the employee is equivalent to 10 per cent of the basic pay, which in 2007 was subject to a minimum contribution of Lm5.96 (€13.88) per week and to a maximum contribution of Lm13.55 (€31.56) per week. In 2007-2010 the minimum and maximum applicable were as follows:

Table 2.20 Minimum and maximum contribution payable (Euros per week):

	2007	2008	2009	2010	2011	2012
Minimum	13.88*	14.23*	14.65*	15.23*	15.35*	15.81*
Maximum	31.56	31.94	32.33	32.91	-	-
Maximum: for persons born up to 31/12/1961	-	-	-	-	33.03	33.50
Maximum: for persons born from 1/01/1962	-	-	-	-	35.39	37.85

* Or if the employee chooses, 10 per cent of the weekly wage. This rate of contribution entitles the contributor to pro-rata contributory benefits.

Class One contributions imply that any person employed under a contract of service in Malta is considered to be in insurable employment and subject to the payment of these contributions.

The following rules also apply:

- Persons over 65 years of age are not liable to pay, even if they are employed;
- Persons between 61/60 and 65, whose earnings do not exceed the minimum wage, are also exempt;



- A person who is employed in more than one insurable employment shall be deemed to be employed in that insurable employment which carries the higher or highest basic wage or salary;
- Persons who work abroad but who retain their residence in Malta may opt to pay Class One contributions rather than Class Two contributions, without their employer paying any contribution.

The following categories of employment shall not be considered as insurable employment:

- Employment of a casual nature otherwise than for the purposes of the employer's trade or business.
- Employment of a person who is not ordinarily resident in Malta if the employer of that person is not resident in Malta and has no place of business there.
- Employment by any one employer for less than eight hours in a calendar week.
- Employment as secretary or clerk of a society, club, philanthropic institution, school or other similar body or institution, where personal service is ordinarily required only occasionally and outside the ordinary hours of work, provided the hours referred to above are not exceeded.
- Employment of a person who is not ordinarily resident in Malta, if the employer of that person is paying contributions in respect of that person under a scheme of social insurance in another country.
- Employment of any of the directors in any partnership, for the purposes of that partnership, wherein such partnership has been entered into between or among persons that are related to one another, up to and including cousins of the first degree and/or their spouses, provided any such directors are themselves such partners or the spouses of such partners.
- Employment of any majority shareholder in any partnership, for the purposes of that partnership; and for this purpose any shareholder shall still be deemed to be a majority shareholder if, notwithstanding the fact that the number of his shares do not constitute the majority, the value or powers attached to his holding exceed the aggregate total value or powers attached to the holding of the other shareholders in that partnership.
- With effect from the 6th January, 1992, employment of a person who has reached pension age, or a widow, if she so elects, who is in receipt of a pension in respect of widowhood, provided the weekly wage or salary of such person or widow does not exceed the NMW.
- With effect from the 4th July, 1988, employment of a person as a Casual Social Assistant by the Department for the Care of the Elderly of the Government of Malta.

If the employee works less than 8 hours per week then the employee is exempted from paying Class One Social insurance contributions.

EUROMOD notes: Employee social insurance contributions are simulated taking into account the number of months worked during the year. Minimum hours worked per week are simulated using a variable relating to year after the one in which employment income is derived. Categories of non-insurable employment are not simulated. All employment income is considered to be derived in insurable employment. Special lower minima for part-time workers are not simulated. The exemption widows earning below the minimum wage is not simulated.

3.4.2 Employer social contributions (tscer_s)

Employers pay Class One social contributions. The weekly rate is 10 per cent of the basic gross wage. The contribution is capped to a maximum wage ceiling and there is a minimum contribution payable. As shown in the previous table, in 2007 this was as follows:



Table 2.21 Weekly maximum and minimum thresholds for Class One social insurance contributions

	2007	2008	2009	2010	2011	2012
Minimum	13.88	14.23	14.65	15.23	15.35	15.81
Maximum	31.56	31.94	32.33	32.91	-	-
Maximum: for persons born up to 31/12/1961	-	-	-	-	33.03	33.50
Maximum: for persons born from 1/01/1962	-	-	-	-	35.39	37.85

If the employee works less than 8 hours per week then the employer is exempted from paying Class One Social insurance contributions.

The minimum threshold for employer contributions is applicable for all employees working more than 8 hours a week, including employees working less than 8 hours a day and paying less than the minimum.

EUROMOD notes: Employer social insurance contributions are simulated taking into account the number of months worked during the year. Minimum hours worked per week are simulated using a variable relating to year after the one in which employment income is derived. Categories of non-insurable employment are not simulated. All employment income is considered to be derived in insurable employment.

3.4.3 Self-employed/occupied social contributions (tscse_s)

Class-Two contributions are paid by self-occupied and self-employed persons. The Social Security Act distinguishes between self-employed and self-occupied, whereby, a self-employed person is that who is not gainfully self-employed in a business or profession and mainly lives on income from investments/rents, while the self-occupied person is that who derives income from an economic activity and declares net profit/loss. The rate of Class-Two contributions is shared by the state and the self-employed/self-occupied person. While there is a minimum contribution payable, the total contribution is also capped to a maximum wage ceiling.

The weekly rate payable on net income is 15 per cent of the income base subject to contributions. The income base subject to contributions is the net earnings/profit of the previous year for self-occupied persons and net income derived during the previous year (minus some exemptions) for self-employed persons. According to the Social Security Act, 'earnings' means the income derived by a self-occupied person from any economic activity (including the exercise of any trade or profession), and is to be taken net of expenses directly incurred in generating that income, and does not include:

- any income derived by way of any interests on any bank deposits (including any liquid assets, time deposits, bonds, stocks, shares or other securities), rents or ground rents receivable on any property, or
- any other income, if any, which is not directly related to such economic activity, or
- in any case, any income belonging to the spouse of such person;

The following exemptions from payment of Social Security contributions apply:



A self-employed person whose yearly individual income from self-employment/ self-occupation does not exceed:

- Lm630 (€1,467.51) in the case of a married man who is wholly maintaining his wife and who is not herself self-occupied or in insurable employment, or
- Lm430 (€1,001.63) in the case of any other person shall be entitled to be exempted from the payment of Class Two contributions. Alternatively, that self employed person may choose to pay a lower weekly rate Lm8.66 (€20.17) per week in the case of a single person, subject to the possession of a certificate of low income.

Table 2.22 Asset & income limits (per year) to qualify for an exemption to pay Class 2 contributions

	2007	2008	2009	2010	2011	2012
Asset limit- married person maintaining non employed wife	Lm 7000	€16310	€16310	€16310	€16310	€16310
Asset limit-other persons	Lm 4000	€9320	€9320	€9320	€9320	€9320
Income limit-married person maintaining non employed wife	Lm 630	€1005	€1005	€1005	€1005	€1005
Income limit-other persons	Lm 430	€910	€910	€910	€910	€910

In addition to the income test, the person must also pass a Capital Resources test. Account is also taken of the:

- Value of any property belonging to the contributor (excluding primary residence) which could be put or invested to profitable use excluding furniture, jewellery and other personal effects.
- Cash in the bank and in hand including any liquid asset, time deposits, bonds, stocks, shares and other securities
- Capital value of any urban immovable property (excluding the primary residence) which is not being put to profitable use.

Where the Capital Resources exceed the value of Lm4,000 (€9,317.60) for single person and Lm7,000 (€16,305.80) for married couple, the person is not entitled to be exempt from payment of Class Two Contributions.

The following categories of persons are statutorily exempt from the payment of a Class Two contribution:

- a) Persons in receipt of full-time education or training.
- b) Non-gainfully occupied married persons.
- c) Persons in receipt of a pension in respect of widowhood, invalidity or retirement or persons in receipt of a Parent’s Pension.
- d) Persons in receipt of non-contributory Social Assistance or a non-contributory pension.

Contributions are subject to a maximum and a minimum per week as indicated in the below table covering the period for 2007-2012:



Table 2.23 Minimum and Maximum thresholds (Euros per week)

	Minimum	Maximum
2007	24.37	47.38
2008	24.88	47.89
2009	25.50	48.50
2010	26.37	49.37
2011	26.55	53.08*
2012	27.25	56.78**

* Applicable to self-employed/occupied persons born on or after 1/1/1962 and whose annual earnings or income exceeded €18,400

** Applicable to self-employed/occupied persons born on or after 1/1/1962 and whose annual earnings or income exceed €19,682

EUROMOD notes: Self-employment income (i.e. income from property and investments) is collected at the household rather than at the individual level. In establishing entitlement to be exempt from paying Class II contributions, unearned income is allocated to the individual with the highest earnings (as an employee or a self-occupied person).

3.4.4 Social insurance contributions paid by the state (tscgv_s)

The state pays Class One social insurance contributions on behalf of employees and Class Two social insurance contributions on behalf of self-occupied/self-employed persons.

Class One social insurance contributions: the state pays 10 per cent (or half of the total rate paid by the employee and the employer) of the basic gross wage. The contribution is paid on a weekly basis. Minimum and maximum thresholds apply:

Table 2.24 Class One Minimum and Maximum thresholds (Euro per week):

	2007	2008	2009	2010	2011	2012
Minimum*	13.88	14.23	14.65	15.23	15.35	15.81
Maximum	31.56	31.94	32.33	32.91	35.38***	37.85****

*The state always pays half of the sum of the contributions paid by the employee and the employer; the minimum may be lower if the employee pays a pro-rate social insurance contribution that is less than the minimum.

*** Applicable to employed persons born on or after 1/1/1962 and whose basic weekly salary exceeded €30.30

**** Applicable to employed persons born on or after 1/1/1962 and whose basic weekly salary exceeded €78.50

Class Two social insurance contributions: the state pays 15 per cent of the net earnings/net income of the self occupied/self-employed income. The contribution is paid on a weekly basis. Minimum and maximum thresholds apply.

Table 2.25 Class Two Minimum and Maximum thresholds (Euros per week)

	2007	2008	2009	2010	2011	2012
Minimum	24.36	24.88	25.50	26.37	26.55	27.25
Maximum	47.38	47.89	48.50	49.37	53.08*	56.78**



* Applicable to self-employed/occupied persons born on or after 1/1/1962 and whose annual earnings or income exceeded €18400

** Applicable to self-employed/occupied persons born on or after 1/1/1962 and whose annual earnings or income exceed €19682

No contribution is payable by the state when the self-employed/self-occupied person does not pay Class Two contributions on account of her being exempted.

EUROMOD notes: The state Class 1 contributions are modelled as half the amount payable by the employee and the employer. Class 2 contributions are modelled to be equal to the amount paid by the self employed/occupied person.

3.4.5 Credited social insurance contributions (tsct_s)

The Social Security Act also provides that in the event of certain contingencies, credits are awarded. These credits are entitlements not to pay contributions, but this period of non payment still counts as if the contributions were made. Crediting of contributions is allowed during certain contingencies, mainly:

- A widow, where such widow is not gainfully occupied for any period during which she does not remarry.
- An ex-member of the Malta Police Force or the Armed Forces of Malta who retires on a service pension on completion of the full service prior to reaching pension age, for any period during which he or she is not gainfully occupied and has not yet reached pension age.
- A person who goes abroad as a volunteer worker on projects in the areas of human welfare and development and environmental protection for any period he or she is performing such volunteer work and has not yet reached pension age subject to statutory defined criteria.
- A person who is entitled to sickness, injury, or unemployment benefits or to an Invalidity Pension.
- Following the implementation of the pension reform, which is explained in detail below, the categories of persons to whom credit of contributions is allowed has been extended to include persons born on or after the 1 January 1962, who have the legal care and custody of a child who is less than six years old, or ten years old in the case of a child suffering from a serious disability.

EUROMOD notes: Credited social insurance contributions have been simulated to be the minimum total amount applicable to employees, i.e. the minimum amount paid by employees, employers and the state combined. Due to absence of information in the data, credited social insurance contributions have been simulated for a period of 12 months irrespective of the number of months a person would have been eligible for such credited contributions during the year. Finally, credited contributions for ex-members of the Malta Police Force/ Armed Forces of Malta and credited contributions for volunteers working abroad have not been simulated. Likewise, the entitlement of parents of disabled children aged 6 to 10 has not been simulated due to lack of data on disability status among children.



3.5 Personal income tax (tin_s)

3.5.1 Tax unit

Both individual and joint taxation exists in Malta. Married couples may choose whether they opt for individual or joint taxation. The income of a married couple living together is treated as the income of one taxpayer, but for the purpose of calculating the tax payable they may opt for a separate computation. In the later case, the earned income of each spouse is taxed as if they were derived by a single person. The unearned income of both spouses is treated as the income of the spouse with the higher amount of earned income. The income of each spouse qualifies for the tax free portion applicable to single taxpayers and is taxed at the single person's rate.

A widow or separated spouse may be charged tax rates applicable to married couples as long as the following four conditions are met:

- The individual maintained under his/her custody a child who was not over sixteen years of age or, if at that age, was receiving full-time instruction at any educational establishment or was incapacitated by infirmity from maintaining himself/herself, and who was not in receipt of income in his/her own right in excess of Lm 1,000 (Euro 2,329.37);
- A children's allowance was paid in respect of that child, and was recognized as the beneficiary of the children's allowance payable in respect of that child;
- The individual was in receipt of financial assistance in respect of the maintenance of the said child from the other parent of the child; and
- The individual was not living or residing at the same house with the other parent of the said child.

EUROMOD notes: to establish the unit of taxation, EUROMOD optimizes between individual and joint taxation in the case of married couples. More specifically, payable tax is calculated for married couples using first the joint tax regime and then using the individual tax regime. The more advantageous regime (i.e. the one yielding a lower tax liability) is chosen.

3.5.2 Exemptions

The following types of income are exempt from taxation:

- Income from private retirement fund or scheme;
- Disability pensions and pension for the visually impaired;
- Social assistance;
- Age pension;
- Financial assistance received by an individual from his estranged spouse in respect of maintenance of a child;
- Marriage grant;
- Maternity benefit;
- Children's allowance;
- Foster care allowance;
- Disable child allowance;
- Capital sums received by way of commutation of pension, retiring or death gratuity or received as compensation for death or injury;



- Income arising from a scholarship;
- Income from a collective investment scheme other than income from immovable property;
- Interest, discount, premium or royalties derived by any person not resident in Malta; and
- Profits derived by any person not resident in Malta on a disposal of any units in a collective investment scheme and such like instruments.

Furthermore, a number of special provisions, such as, part-time work, investment income and fringe benefits apply also:

- Part-time work

Individuals who work part-time are taxed at a fixed rate of 15 per cent as long as part-time income does not exceed Lm3,000 (€6,988.12) per annum. Any excess should be declared with the individual's other income in the tax return. This tax rate is applicable to full-time employees, pensioners, and full-time students. An individual who has a part-time job and does not qualify under any of the aforementioned criteria does not qualify for the 15 per cent tax rate. However, if an individual is married, even though that person only works on a part-time basis, he/she may benefit from the part-time rate as long as the husband/wife qualifies under any of the mentioned criteria.

- Investment income

A payee has the option of having the payer deduct tax from a payment relating to investment income at the rate of 15 per cent of such payment or include investment income together with all taxable income in the tax return. However, when the recipient receives investment income in the form of dividend, tax shall be deducted at the rate of 35 per cent.

- Fringe benefits

Employment income includes the value of any fringe benefits. The use of a company car or a car allowance, the use of company property, the provision of free or subsidized board and lodging and free non-business travel are among the fringe benefits. Share options become taxable when the option is exercised. A number of specified benefits are exempt under certain conditions, such as health insurance.

3.5.3 Tax allowances

In ascertaining the total income of any person deduction will be made of:

- Expenses incurred exclusively in the production of income, such as interest upon any money borrowed, rent paid by any tenant of land or building, and also any sums expended for repairs of premises in acquiring that income (applies for self-employed only);
- Alimony payments made to an estranged spouse valued as the lesser of the amount actually paid or the individual's chargeable income (total taxable income) for the year.
- School fees valued at the lesser of the amount actually paid or Lm600 (€1,397.62) in respect of each child attending secondary school or Lm400 (€931.75) in respect of each child attending primary school;
- Fees paid for the services of the facilitator in respect of a child shall be deducted against income amounting to a maximum of Lm 4,000 (€9,317.49); and
- Fees paid to childcare centres being valued as the lesser of the amount actually paid or Lm400 (€931.75).

Here, we define tax allowances as any amount subtracted from pre-tax income (including social insurance contributions). Differently from Verbist (2004) there is no distinction between those



that are fixed amounts (tax allowances) and those whose level is a function of pre-tax income (deductions).

EUROMOD notes: the deductibility of fees paid to a facilitator/ minder are not simulated. All the remaining five tax allowances are included in the model. However, the input dataset does not contain usable information about child-care or school fees. As a result, these variables are by default set to zero and, in the baseline, have no effect of the final tax allowance.

3.5.4 Tax base

Incomes subject to the personal income tax include:

- Gains/profits from any business or profession
- Gains/profit from employment
- Dividends, premiums, interest or discounts
- Pensions, charge or annual payment
- Rent, royalties, and any other profits arising from property
- Gains/profits not falling under any of the above

Social insurance contributions (Class One and Class Two) are deducted from the gross income earned.

EUROMOD notes: all pension income is included in the tax base with the exception of the age pension. Sickness and injury benefits are also included in the tax base. No information exists regarding capital gains. As a result, they are not included in the tax base.

3.5.5 Tax schedule

Personal tax is levied on each individual/couple at progressive rates with a maximum rate of 35 per cent, whilst the income tax rate on company profits is of 35 per cent except in the case of distributed dividends. A final withholding tax of 15 per cent also applies to certain categories of investment income.

The respective rates of taxation for married computations are presented in the tables below.



Table 2.26 Rates applicable to single persons and married couples opting for individual taxation

Rates	Annual taxable income (EUR)					
	2007	2008	2009	2010	2011	2-12
0%	0 - 7,570	0 -8,150	0 -8,500	0 -8,500	0 – 8,500	0 – 8,500
15%	7,571 - 12,812	8,151 -14,000	8,501 -14,500	8,501 -14,500	8,501 – 14,500	8,501 – 14,500
25%	12,813- 15,724	14,001 -19,000	14,501 -19,500	14,501 -19,500	14,501– 19,500	14,501– 19,500
35%	15,725.60 +	19,001 &over	19,501 &over	19,501 &over	19,501 +	19,501 +

Source: Income Tax Act

Table 2.27 Rates applicable to married couples opting for joint taxation

Rates	Annual taxable income (EUR)					
	2007	2008	2009	2010	2011	2012
0%	0 - 10,483	0 -11,400	0 -11,900	0 -11,900	0 – 11,900	0 – 11,900
15%	10,484 - 18,635	11,401 - 20,500	11,901 - 21,200	11,901 - 21,200	11,901 – 21,200	11,901 – 21,200
25%	18,636 - 23,294	20,501 - 28,000	21,201 - 28,700	21,201 - 28,700	21,201 – 28,700	21,201 – 28,700
35%	23,295 & over	28,001 &over	28,701 &over	28,701 &over	28,701 & over	28,701 & over

Source: Income Tax Act

In 2012, the income tax rates and bands were left unchanged as in 2011, however, a new band (the “parental computation”) was introduced for working parents supporting children up to 18 years old who are not gainfully employed (or 21 year-olds where they continue their studies to tertiary education). The new bands and rates are as follows:

Table 2.28 Rates applicable for ‘parental computation’

Rates	2012
0%	0 – 9,300
15%	9,301 – 15,800
25%	15,801 – 21,200
35%	21,201 & over

In order to qualify for this computation, a parent must satisfy these conditions:

- The individual is currently being taxed under the ‘single’ tax rate;
- s/he maintained under his/her custody a child or paid maintenance (established or authorised by courts) in respect of his or her child;
- such child was not over 18 years of age, or not over 21 years if receiving full-time instruction at a tertiary education establishment;
- such child did not earn income in excess of €2,400 from gainful occupation.



Investment income may be taxed at a rate of 15 per cent if not received under the form of dividends. If it is received as dividends, a 35 per cent tax rate applies. As a general rule, payors of investment income have the obligation to deduct 15% tax from every payment made. This 15% tax is final and such income will not be subject to any further tax. In fact persons receiving this income should not declare it in their income tax return. If, however, the recipient elects to receive the income without deduction of tax, this income needs to be declared in the tax return. In this case, the income is aggregated with the rest of the income and taxed at the normal rates.

EUROMOD notes: No information exists on the source of investment income in the input dataset. Similarly no information exists on whether a taxpayer with investment income chooses to have it taxed separately rather than together with remaining taxable income. Consequently, investment income is modelled to be taxes separately at a rate of 15% irrespective of source and taxpayer. Note that given the structure of the tax schedule, only payers with low investment income sources and little/no additional income would benefit from including their investment income in the general tax return.

3.5.6 Tax credits

i) Tax credit for women returning to employment:

Women who return to employment or self-employment may benefit from a tax credit. Those who may benefit from this tax credit are:

- a) Women who have children under 16 years of age and who have returned to work after the 1st of January 2010 after being absent from work for 5 years or more; or
- b) Women who had children after 1st January 2007 and continued or had returned back to work in their employment on or after this date.

ii) Other company related tax credits may be available for the self-employed.

EUROMOD notes: None of the tax credits mentioned above is simulated due to lack of data (there is no detailed information on work history in the EUROMOD input dataset).

4. DATA

4.1 General description

The input dataset is constructed using the Maltese section of the European Union Statistics on Income and Living Conditions (EU-SILC) User Database (UDB). This is a rotating panel survey (4 rotational groups), representative of the Maltese population in private households. Sampling takes place at the household level, the household being defined as all persons living at the same address. All members of the household aged 16 and above are interviewed. The SILC User Database is provided by Eurostat. More information regarding the technical aspects of the Maltese SILC can be found in the Intermediate Quality Reports issues by the Maltese Statistical Office:

http://circa.europa.eu/Public/irc/dsis/eusilc/library?!=/quality_assessment/quality_reports/mt&vm=detailed&sb=Title



Table 3.1 EuroMOD database description

EuroMOD database	MT_2009_a3
Original name	SILC_UDB_c09 (ver 2009-1)
Provider	Eurostat
Year of collection	2009
Period of collection	July-October 2008
Income reference period	1 Jan-31 Dec 2008
Sampling	Simple random sample of households
Unit of assessment	Household
Coverage	Private households
Sample size	HH: 3,646 Indiv: 10213
Response rate	79.8%
Final Euromod dataset sample size	HH: 3646; Indiv: 10213

Notes: Figures are taken from the Maltese intermediate quality report:

http://circa.europa.eu/Public/irc/dsis/eusilc/library?l=/quality_assessment/quality_reports/mt/2009_quality_report/_EN_1.0_&a=d

4.2 Sample quality and weights

4.2.1 Non-response

The original gross sample contained 4596 households. Of these, 178 could not be contacted as they either could not be located, they could not be accessed or they were not a primary residence. There are some differences among the four rotational panels with the second panel containing the largest number of non-contacted households. Out of the 4418 households that were contacted, 772 did not complete an interview due to the refusal to cooperate, the entire household being temporarily away, inability to respond due to illness/ incapacity etc. The total response rate was 79.8%.

4.2.2 Weights

Briefly comment on sample weights and any eventual modification. Include a table with summary statistics on weights

The SILC UDB dataset contains several types of weights:

- a) Household cross-sectional weights
- b) Personal cross-sectional weights for household members of all ages
- c) Personal cross-sectional weights for household members aged

EUROMOD outputs household cross-sectional weights. These weights have been calibrated to represent the Maltese population of private households and they have been adjusted for non-



response. No modification of the original set of weights has been operated for the EUROMOD dataset. The table below gives an overview of the household cross-sectional weights:

Table 3.2 Descriptive Statistics of the Grossing-up weight

Number	10213
Mean	39.61
Median	32.99
Maximum	101.81
Minimum	17.77
Max/Min	5.73
Decile 1	23.24
Decile 9	70.14
Dec 9 / Dec1	3.02

4.2.3 Item non-response and under-reporting

Information about the income components is collected at the household and at the individual levels. When missing, household and income components have been imputed by the Maltese National Statistical Office. A summary of item non-response by income component can be found in the Intermediate Quality Report: http://circa.europa.eu/Public/irc/dsis/eusilc/library?l=/quality_assessment/quality_reports/mt/2009_intermediate/ EN 1.0 &a=d

4.3 Data adjustment

Very few adjustments have been carried out. There is some minor data cleaning that ensure that relationships among members of the same household are coherent. So as to ensure consistency between the time reference of income components and household demographic information, children born after the income reference period are dropped from the sample.

4.4 Imputations and assumptions

4.4.1 Time period

The income reference period used for all income components is 1st January-31st December 2008. Some demographic and labour market status variables refer instead to the situation existent at the time of interviewing. The lag between the income information and demographic and labour market characteristics varies between 7 and 10 months.

All monetary information has been collected on an annual basis. These are converted for Euromod purposes into monthly amounts (dividing by 12). No information is collected on the number of months an income component has been paid.

4.4.2 Gross incomes



Incomes have mostly been collected as gross amounts. Where the respondent could not provide a gross amount, the net figure has been recorded. Subsequently, net incomes have been transformed into gross using a conversion table provided by the Department of Inland Revenue. Respondents were asked additional information aimed to differentiate between main and secondary earnings for purposes of correctly converting net incomes to gross.

4.4.3 Other imputed variables

The Standard SILC UDB aggregates information about some income sources as well as aggregating some income components from the individual to the household level. To perform accurate simulations, it has been necessary to disaggregate back some variables. These include:

- a) Individual unemployment benefits- have been disaggregated into four variables corresponding to severance payments, the contributory unemployment benefit, the special unemployment benefit and the unemployment allowance; the disaggregation has been carried out based mainly on benefit rules:
 - a. For each recipients of unemployment benefits, the maximum annual amount of each type of unemployment benefit (UA, SUB, UB) has been simulated based on benefit rules, unemployment duration and household characteristics
 - b. First the capital resources test has been simulated based on financial capital; recipients of unemployment benefits who did not pass the test were considered recipients of unemployment benefit; if the actual amount observed in the variable PY090G was larger than the maximum amount of UB benefits the person could receive, the difference was considered to be severance payments
 - c. Recipients who do pass the asset test and are observed as receiving the energy benefit (HY070G) are assumed to receive unemployment allowance or special unemployment benefit, depending on which one is the more advantageous
 - d. For recipients who are imputed a positive special unemployment benefit (SUB) at the previous step, it is assumed that they qualify for unemployment assistance for all the months of unemployment that are not covered under the maximum duration regulations of the SUB
 - e. Finally, all recipients who have not been imputed a benefit under a-d, are assumed to receive unemployment allowance up to the maximum limit per year; any difference is considered severance payments
- b) Individual sickness benefits have been disaggregated into contributory benefits (sickness benefit and injury benefit) and means-tested ones (mainly sickness allowance). The disaggregation has been carried out as follows:
 - a. A capital resources test is simulated; individuals not passing the test are assumed to be receiving sickness benefit or injury benefit
 - b. For remaining households it is assumed that there is no more than 1 sick person per household; if the observed sickness benefit in SILC (PY120G) is observed to be larger than the maximum sickness allowance for 1 person, the benefit is assumed to be a sickness and/or injury benefit; otherwise the benefit is considered to be a sickness allowance



- c) The old age pensions variable (PY100G) is disaggregated into a variable containing contributory pensions and another one containing the amount of the age pension; the disaggregation is carried out as follows:
 - a. Recipients of old-age pensions are assumed to be receiving contributory benefits if they are aged below 60, or they fail the capital resources test
 - b. The maximum age pension a person is entitled to is computed based on age, marital status and partner age
 - c. If the pension income observed in SILC is higher than the maximum receivable age pension for that person, then any pension income received is assumed to come from contributory benefits
 - d. All remaining recipients are assumed to be recipients of age pension
- d) Months of receipt of an income component are imputed based on the calendar of activities and adjusted to be compatible with income information
- e) Financial capital is imputed based on investment income applying an annual interest rate of 4.6%.

4.5 Updating

The updating factors used to simulate incomes in 2007, 2009 and 2010 respectively are shown in the table below. Any income components not specified expressly in the table are updated based on the default updating factor which is the change in the Harmonized Consumer Price Index (HCPI). No other adjustments are made in the data.

Table 3.3 Updating factors

Index	Income Source/index type	2007/2008	2009/2008	2010/2008	2011/2008	2012/2008	Source
def_factor	Default	0.9552	1.1084	1.0392			
yem	INCOME: employment	0.955	1.0158	1.0629			
yse	INCOME: Self-employment	0.9555	0.7517	0.6788			
ypr	INCOME: Property	0.8498	0.6712	0.8303			
yprrt	INCOME: Property: Rent	0.8498	0.6712	0.8303			
yyi	INCOME: Investment	0.8989	0.9507	0.9002			
ypp	INCOME: Private pension	1.3349	0.9064	0.7532			
poanm	PENSION/BENEFIT: IT: Old-Age: Non Means-Tested	0.9462	1.0312	1.0201			
bunctnm	BENEFIT/PENSION: Unemployment: Contributory: Non Means-Tested	0.7813	0.9863	0.9753			
buncnmt	BENEFIT/PENSION: Unemployment:	0.9863	1.0708	1.0637			



bunctmt	Non-Contributory: Means-Tested BENEFIT/PENSIO N: Unemployment: Contributory: Means-Tested BENEFIT/PENSIO	1.0581	1.2642	1.2486
bunls	N: Unemployment: Lump-Sum BENEFIT/PENSIO	0.955	1.0158	1.0629
bho	N: Housing BENEFIT/PENSIO	1.7799	3.3618	5.4072
boamt	N: Old-Age: Means-Tested BENEFIT/PENSIO	0.9798	1.0412	1.0099
pdi	N: Disability BENEFIT/PENSIO	0.9739	1.0159	1.0392
psu	N: Survivors BENEFIT/PENSIO	0.965	1.033	1.0529
bed	N: Education BENEFIT/PENSIO	1.1577	0.9607	0.9085
bhl00	N: Health: Main BENEFIT/PENSIO	0.9805	0.9491	0.9716
bhlmt	N: Health: Means- Tested BENEFIT/PENSIO	0.9524	1.0431	1.1124
yivwg	INCOME: Imputed value: Wage	0.955	1.0158	1.0629
afc	ASSETS: Finacial Capital	1.0123	1.1321	0.5717
tpr	TAX: Property tax	1.2208	0.8397	0.8043
yds	INCOME: Disposable	0.9158	1.0747	1.0679

Source: EUROMOD F 7.0+

5. VALIDATION

5.1 Aggregate Validation

Albeit the definition of household disposable income in EUROMOD comes very close to the one used in EU-SILC, the two are not identical. More specifically, in EUROMOD we include income from private pensions in household disposable income. However, we do not include the value of a company car, if such a fringe benefit is present. Because tax adjustments usually concern income and taxes from previous years, we do not include them in our definition, as it is often difficult to disentangle to what extent tax adjustments are already captured by our simulations or not. Finally, although EUROMOD does include the most important means-tested benefits, it is possible that some minor and especially ad-hoc and discretionary benefits are left out. There is not enough information to accurately simulate these benefits on the one hand and they are too small to be accurately disaggregated from the EU-SILC social exclusion variable.

Table 4.1 Components of disposable income



	EuroMOD 2007-2012	EU-SILC 2009
	ils_dispy	HY020
Employee cash or near cash income	+	+
Employer's social insurance contribution	0	0
Contributions to individual private pension plans	0	0
Cash benefits or losses from self-employment	+	+
Pension from individual private plans	+	0
<i>Unemployment benefits</i>	+	+
<i>Old-age benefits</i>	+	+
<i>Survivor' benefits</i>	+	+
Sickness benefits	+	+
Disability benefits	+	+
Education-related allowances	+	+
Income from rental of a property or land	+	+
<i>Family/children related allowances</i>	+	+
Social exclusion not elsewhere classified	+	+
Housing allowances	+	+
Regular inter-household cash transfer received	+	+
Interests, dividends, etc.	+	+
Income received by people aged under 16	+	+
Regular taxes on wealth	-	+
<i>Regular inter-household cash transfer paid</i>	-	-
<i>Tax on income and social contributions</i>	-	-
<i>Repayments/receipts for tax adjustment</i>	0	+

Notes:



5.1.1 Validation of incomes inputted into the simulation

A comparison of the number of employees and unemployed in EUROMOD with external administrative data is shown in Table 4.1. Since the underlying dataset in EUROMOD contains incomes referring to the year 2008, it is most appropriate to compare it to external administrative data relating to the same period. The number of employed individuals is relatively close –if a little too high compared to external data. Reasons for the discrepancy might include the different way of computing the two numbers, as well as error in the sense the weights are not perfectly representative of this group in the population. The discrepancy is much more serious in the case of the unemployed. EUROMOD includes almost twice the number of unemployed showing in the administrative records. This pattern is consistent over the six years included in the comparison. It is not entirely clear where the large difference comes from. It is possible that the official number includes only unemployed still receiving some form of unemployment compensation.

Table 4.3 presents a comparison of several market income sources in terms of recipient numbers. Whereas employment and self-employment income are reasonably close to the external benchmark in 2007 and 2008, the situation deteriorates slightly in 2009 -2012. Quite possibly, the decline in employment and corresponding increase in unemployment taking place as a result of the economic crisis is not captured in EUROMOD but does appear in external data. Less significant sources of market income appear to be seriously overestimated in EUROMOD. In particular, the number of recipients of incomes from property, investment and private pension incomes is between 1.5 and 2 times larger than what external data indicate. It is not clear what factors lie behind this large discrepancy.

Table 4.2 Number of employed & unemployed

	Input datasets (I)		External Source (II)					Ratio (I/II)					
	2008	2007	2008	2009	2010	2011	2012	2007	2008	2009	2010	2011	2012
Number of employed	1588	1425	1454	1451	1458	1495	15,806	1.1	1.0	1.0	1.0	1.0	1.0
Number of unemployed	1236	6686	6208	7335	7055	6570	6839	1.8	1.9	1.6	1.7	1.8	1.8

Notes: EUROMOD: Number of employed and unemployed computed based on months in employment (including self-employment)/unemployment. Numbers computed as averages of monthly data over the year. External statistics: Data on employed persons in 2012 refers to the November result. The rest of the information is the annual average.

Sources: EUROMOD F7.0+ and National Statistics Office, Gainfully Occupied Population, Annual Averages 2007 - November 2012; Numbers have been computed as monthly averages in EUROMOD and as quarterly averages in the external data.



Table 4.3 Market Income-Number of recipients

	Input database (I)		External Source (III)						
	2008	2007	2008	2009	2010	2011	2012	2007	2008
Original income									
Employment income	148668	139925	143481	158597	155995	157168	N/A	1.062	1.036
Self-employment income	23329.88	22266	22088	27823	29799	27773	N/A	1.048	1.056
Private pension income	2281.36	1149	1293	2281	2645	2898	N/A	1.986	1.764
Income from capital	238013.6	141336	142306	141648	143677	144587	N/A	1.684	1.673
Property income	15180.09	5509	6252	9173	8044	9338	N/A	2.756	2.428

Notes: N/A-not available. In EUROMOD, the number of recipients is computed as number of people who have received some income of the type indicated during the income reference period.

Sources: EUROMOD F 7.0+ and EU-SILC



Aggregates of market incomes by type in EUROMOD and in external data are shown in Table 4.3. Figures show that both average employment income in and total employment income are quite close to the external benchmark, albeit the mean income is slightly overestimated whereas total income is slightly underestimated. Unlike results in Table 4.3, both property and investment income are underestimated in EUROMOD in all years except the year of the data, although the underestimation is moderate. When looking at 2008 (the year of the data), property income is overestimated while investment income is well captured. This pattern suggests that existing updating factors based on average changes in income components are unable to capture changes in the distributions of these two income components (note also that changes in averages have been relatively large compared with other income sources). The strong overestimation of recipients but not of aggregate amounts indicates that the overestimation of the number of recipients is due to the way household property income is allocated to individuals in EUROMOD. The alignment of employment and self-employment between EUROMOD and external sources worsens somewhat in 2009-2012, especially for self-employment. Arguably, the fall in aggregate employment occurring as a result of the economic crisis is not fully captured in EUROMOD. Similarly, although EUROMOD adjusts via updating for the average annual investment income, this is not enough to account for a large drop in investment income in 2009 and 2010.

Table 4.5 displays annual numbers of recipients of non-simulated benefits, mainly pensions and a few other contributory benefits. The first panel in Table 4.5 shows that old-age benefits are overestimated whereas disability and survivor ones are underestimated in EUROMOD relative to external data, especially in the 2008-the year of the dataset. This result is not surprising when considering the way these types of benefit variables have been constructed in EU-SILC which is the data source for EUROMOD. More specifically, in SILC all benefits/ pensions going to individuals aged over 65 are considered to be old-age irrespective of their actual classification in the national system. As a result, persons over 65 receiving disability or survivor benefits are observed in EUROMOD as recipients of old-age benefits. No adjustment is made in EUROMOD for this peculiarity of EU-SILC. This discrepancy is less pronounced especially after 2009. It is possible that changes in the population have resulted in more old-age pension recipients and fewer disability pension recipients over time.

Likewise, there is a misalignment between the main contributory sickness benefits (sickness benefit and injury benefit) and other sickness benefits. Originally, these types of benefits are aggregated into one variable in SILC. A disaggregation is performed due to the different treatment these benefits have in the Maltese tax-benefit system. Albeit every effort has been made to ensure the disaggregation is as accurate as possible, some errors remain. Finally, the energy benefit is seriously underestimated in EUROMOD compared to administrative statistics. What is more, the underestimation worsens considerably after 2008. Since this benefit is taken directly from the data, it is possible that EU-SILC does not adequately capture the incidence of this benefit in the Maltese population.



Table 4.4 Market Income-Aggregate amounts (Mil. Eur)

	Input (I)	External source (III)	Ratio (I/III)	Up-rated input (I)					External Source (III)					Ratio(I/III)				
	2008	2008	2008	2007	2009	2010	2011	2012	2007	2009	2010	2011	2012	2007	2009	2010	2011	2012
Original income																		
Employment income – mean	14539	13611	1.118	1390 3	1476 3	1542 8	1602 9	1653 7	12999	13826	14469	15045	1553 4	1.021	1.068	1.066	1.065	1.065
Employment income - total	2162	2233	1.065	2067	2195	2294	2383	2458	2029	2387	2374	2550	N/A	0.926	0.920	0.966	0.935	N/A
Self- employment income	423	441	0.995	404	318	287	285	295	425	417	404	375	N/A	0.916	0.762	0.710	0.762	N/A
Investment income	156	164	1.060	140	148	140	96	99	147	156	149	103	N/A	0.851	0.951	0.937	0.931	N/A
Property Income	20	20	1.315	17	13	16	18	19	15	20	21	28	N/A	0.837	0.671	0.765	0.659	N/A
Private pension income	12	8	1.348	17	11	9	9	9	9	12	12	13	N/A	2.135	0.906	0.782	0.714	N/A
Education related allowances	23	20	1.329	26	22	21	21	22	17	23	24	28	N/A	1.318	0.961	0.863	0.775	N/A

Notes: N/A-not available; Amounts refer to total aggregate incomes received throughout the year.

Sources: EUROMOD F 7.0+ and National Statistics Office of Malta.

Table 4.5 Non-simulated taxes and benefits-Number of recipients/payers



	Input database (I)	External Source (III)						Ratio (I/III)					
	2007	2007	2008	2009	2010	2011	2012	2007	2008	2009	2010	2011	2012
Pensions													
Old-age pension	56148	43392	46080	48563	51841	54169	N/A	1.294	1.218	1.156	1.083	1.037	N/A
Disability pension	9269	11280	10616	9729	8963	8414	N/A	0.822	0.873	0.953	1.034	1.102	N/A
Survivor pension	3386	14961	15053	15140	15303	15481	N/A	0.226	0.225	0.224	0.221	0.219	N/A
Benefits													
Sickness benefit (SB) & injury benefit (IB)	8136	21397	21640	21870	20253	21179	N/A	0.380	0.376	0.372	0.402	0.384	N/A
Other sickness benefits	20152	14799	14366	14095	13891	13780	N/A	1.362	1.403	1.430	1.451	1.462	N/A
Energy benefit	40107	59343	118530	111878	83995	109156	N/A	0.676	0.338	0.358	0.477	0.367	N/A

Notes: N/A-not available; In EUROMOD, the number of recipients is computed as number of people who have received some income of the type indicated during the income reference period.

Sources: EUROMOD F7.0+ and Department of Social Security (DSS) Unique Beneficiaries Report; Departmental Accounting System (DAS).



Table 4.6 Non-simulated taxes and benefits-Aggregate amounts (Mil. Eur)

	Input (I)	External source (III)	Ratio (I/III)	Uprated input (I)					External source (III)					Ratio(I/III)				
	2007	2007	2007	2008	2009	2010	2011	2012	2008	2009	2010	2011	2012	2008	2009	2010	2011	2012
Pensions																		
Old-age pension	409.27	262.15	1.56	432.54	446.03	441.23	460.22	475.10	293.99	319.51	337.41	367.72	N/A	1.47	1.40	1.31	1.25	N/A
Disability pension	40.63	46.96	0.87	41.72	42.38	43.35	44.58	46.02	45.37	42.25	40.88	38.33	N/A	0.92	1.00	1.06	1.16	N/A
Survivor pension																		
Sum of all pensions	471.03	399.30	1.18	496.15	511.03	507.64	528.53	545.62	433.40	459.45	513.28	510.94	N/A	1.14	1.11	0.99	1.03	N/A
Benefits																		
Sickness benefit (SB) & injury benefit (IB)	7.82	7.69	1.02	7.98	7.57	7.75	7.62	7.87	7.93	7.60	7.55	7.41	N/A	1.01	1.00	1.03	1.03	N/A
Other sickness benefits	5.79	15.68	0.37	6.08	6.35	6.77	7.19	7.42	15.98	16.35	17.20	17.23	N/A	0.38	0.39	0.39	0.42	N/A
Energy benefit	8.00	0.50	15.98	4.50	15.12	24.32	31.90	32.93	0.56	1.78	4.87	5.05	N/A	8.00	8.47	5.00	6.32	N/A

Notes: N/A-not available. Amounts refer to total aggregate incomes received throughout the year.

Sources: EUROMOD F7.0+ and Department of Social Security (DSS) Unique Beneficiaries Report; Departmental Accounting System (DAS).



The pattern of overestimation of old-age benefits and underestimation of survivor and disability benefits preset in Table 4.5 is maintained in Table 4.6. Again, the misalignment is probably due to the classification as old-age benefits of all pensions given to persons aged over 65. Survivor benefits given to widows/widowers aged over 65 appear as old-age benefits in the EUROMOD dataset and thus lead to an underestimation of total annual survivor pension income and an overestimation of total annual old-age pension income. The row showing the sum of all three pension types confirms this explanation. The sum is quite close to the external benchmark if slightly overestimated (by 14 percentage points in 2008, the year of the data, but by less in other years).

Quite surprisingly, total contributory sickness benefits are close to the external benchmark while non-contributory ones are severely underestimated. This suggests that non-contributory benefits should go to fewer people but should also be larger. However, since the sum of the two types of benefits is smaller in EUROMOD than in external administrative records, sickness benefits are probably not well captured in EU-SILC. Similarly, aggregate energy benefits are too high despite of the too low number of recipients.

5.1.2 Validation of outputted (simulated) incomes

Simulated number of recipients of various social benefits and numbers of tax payers of income tax and social insurance contributions are shown in Table 4.7. Unfortunately, no external data could be found to validate the number of payers of income tax and social insurance contributions. Detailed information about taxes and social insurance contribution is also absent from the data.

Although no external data separating the two components of the child allowance is available, the total number of recipients of child allowance is relatively well simulated, especially in 2008 –the year of the dataset and in subsequent years. The same is not true of unemployment benefits. The simulation of the contributory unemployment benefit closely matches the number of recipients in the data. Given the rules used to approximate the simulation, this is not surprising. However, the simulated number of recipients is less than half that reported in administrative data. Similarly, the number of special unemployment benefit and unemployment allowance recipients is under-simulated. On the one hand, it is possible that the disaggregation of the unemployment benefit variable in EUROMOD into the various types of unemployment benefits and severance payments is flawed. On the other hand, it is possible that the SILC unemployment variable does not adequately capture the incidence of unemployment benefits. In the case of unemployment allowance, it is possible that some of the recipients show up under general social assistance. For the able-bodied the two benefits are essentially one, having identical rules. The fact that very few recipients of general social assistance appear in administrative records suggests that the two benefits should be assessed together. The simulated number of social assistance recipients is strongly over-simulated. However, when considering recipients of unemployment allowance and social assistance together the over-estimation is “only” around 2.5 times. The over-estimation is possibly due to the inability to fully simulate the asset test, as well as to the fact that incomes taken into account usually refer to the previous year. Non-take up may also be partly responsible for the observed discrepancy.

Euromod simulated a number of recipients of social assistance for single unmarried parents roughly 20 to 60 percentage points higher than the external benchmark. Simulation results are worst for 2007 and improve considerably in 2008 and subsequent years suggesting that population changes not captured by EUROMOD and/ or income changes not well captured by



the updating process may be driving these results. Possible factors explaining the misalignment of simulation and external results are lack of a fully simulated asset test, the different time periods for the income taken into account (due to lack of information, we use current year's income instead of previous year's), non-take-up by lone parents, especially if living with other adults. The same three factors may also play a role in the over-simulation of the number of recipients of the age pension. Finally, in the case of supplementary allowance, the over-simulation of the number of recipients is much more limited, at 15 ppt in 2008. Simulation results however worsen after 2010, possibly due to population and/or income changes not captured in EUROMOD.



Table 4.7 Simulated taxes and benefits-Number of recipients

	Input database (I)						Original data (II)	Ratio (I/II)	External source (III)						Ratio (I/III)					
	2007	2008	2009	2010	2011	2012			2008	2008	2007	2008	2009	2010	2011	2012	2007	2008	2009	2010
Benefits																				
Child allowance -flat rate	-	13679.15	13062.47	13543.02	14127.75	14578.25	N/A	N/A	-	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Child allowance-income tested	30220.92	29648.61	30281.27	29794.38	29209.65	28759.15	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Sum of child allowances	30255.85	43327.76	43343.74	43337.40	43337.40	43337.40	N/A	N/A	33869	45714	47666	47045	43503	N/A	0.89	0.95	0.91	0.92	1.00	N/A
Unemployment benefit	1526.68	1488.20	1526.68	1427.22	1343.46	1343.46	1497.35	0.99	3534	2988	4511	3530	2917	N/A	0.43	0.50	0.34	0.40	0.46	N/A
Special unemployment benefit	90.05	128.53	90.05	189.51	273.27	273.27	228.80	0.56	947	832	1008	847	894	N/A	0.10	0.15	0.09	0.22	0.31	N/A
Unemployment allowance	3647.14	3589.59	3420.21	4282.79	4384.08	4367.51	5860.46	0.61	5854	5390	5702	5914	5856	N/A	0.62	0.67	0.60	0.72	0.75	N/A
Age pension	8213.91	7295.23	7223.48	9627.72	8893.02	8798.96	5205.54	1.40	4836	4871	4830	4876	4939	N/A	1.70	1.50	1.50	1.97	1.80	N/A
Social assistance for single parents	3767.21	3733.98	3677.35	3889.11	3821.13	3821.13	N/A	N/A	2346	2678	2945	3131	3158	N/A	1.61	1.39	1.25	1.24	1.21	N/A
General social assistance	10042.33	9918.82	10506.39	11889.19	11642.58	11657.16	N/A	N/A	66	41	26	28	52	N/A	152.16	241.92	404.09	424.61	223.90	N/A
Supplementary assistance	36019.10	33601.59	33742.08	35372.21	35020.21	34735.38	N/A	N/A	29791	29096	28267	27154	26596	N/A	1.21	1.15	1.19	1.30	1.32	N/A
Bonuses	89668.36	89527.23	89365.71	92032.26	91761.34	91734.44	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Taxes																				
Personal income tax	186392.19	185455.3	183412.9	184990.8	185513.3	186944.1	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Social insurance contributions																				
Employee contributions	145495.46	145541.1	145495.5	145519.5	145541.1	145623.8	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Self-employed	67192.36	67028.3	71618.8	52028.4	52028.4	49873.2	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A



	Input database (I)						Original data (II)	Ratio (I/II)	External source (III)						Ratio (I/III)						
	2007	2008	2009	2010	2011	2012			2008	2008	2007	2008	2009	2010	2011	2012	2007	2008	2009	2010	2011
contributions		2	9	4	4	2															
Employer contributions	146722.37	146722.	146722.	146722.	146722.	146722.	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Social insurance contributions paid by the state	197244.64	197234.	199288.	186690.	186690.	185838.	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
		5	4	9	9	3															

Notes:- not applicable; N/A- not available. : In EUROMOD, the number of recipients is computed as number of people who have received some income of the type indicated during the income reference period.

Sources: EUROMOD F7.0+ and Department of Social Security (DSS) Unique Beneficiaries Report; Departmental Accounting System (DAS).

Table 4.8 Simulated taxes and benefits- Aggregate amounts (Mil Eur)

	Input (I)						Original data (II)	Ratio (I/II)	External source (III)						Ratio(I/III)						
	2007	2008	2009	2010	2011	2012			2008	2008	2007	2008	2009	2010	2011	2012	2007	2008	2009	2010	2011
Benefits																					
Child allowance -flat rate	0.00	5.03	4.83	5.02	5.21	7.57	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Child allowance-income tested	24.80	25.47	26.50	26.03	25.50	26.16	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Sum of child allowances	24.80	30.51	31.33	31.05	30.71	33.73	N/A	N/A	28.61	39.54	38.36	37.09	36.46	N/A	0.867	0.772	0.817	0.837	0.842	N/A	
Unemployment benefit	1.05	1.07	1.11	1.11	1.09	1.12	1.15	0.93	1.55	1.67	2.49	2.01	1.39	N/A	0.679	0.639	0.445	0.553	0.784	N/A	
Special unemploye	0.15	0.17	0.16	0.24	0.29	0.30	0.57	0.29	0.78	0.64	0.99	0.84	0.81	N/A	0.193	0.264	0.162	0.285	0.356	N/A	



	Input (I)						Original (II)	Ratio (I/II)	External source (III)						Ratio(I/III)					
	2007	2008	2009	2010	2011	2012			2008	2008	2007	2008	2009	2010	2011	2012	2007	2008	2009	2010
Unemployment benefit allowance	8.94	9.11	7.94	11.00	11.22	11.30	14.17	0.64	17.34	16.19	18.34	18.94	18.64	N/A	0.515	0.563	0.433	0.581	0.602	N/A
Age pension	26.60	26.79	25.84	31.10	31.47	32.25	21.45	1.25	16.11	16.56	17.10	18.24	18.52	N/A	1.651	1.618	1.512	1.705	1.699	N/A
Social assistance for single parents	12.93	13.22	13.63	14.81	14.91	15.17	N/A	N/A	8.01	9.17	10.51	12.72	12.43	N/A	1.613	1.442	1.297	1.164	1.200	N/A
General social assistance	29.67	30.33	32.05	36.01	35.99	37.32	N/A	N/A	0.07	0.05	0.03	0.02	0.05	N/A	449	587	1094	1726	773	
Supplementary assistance	8.99	8.29	8.33	8.77	10.75	10.65	N/A	N/A	6.53	6.34	5.98	5.77	6.71	N/A	1.377	1.308	1.394	1.520	1.601	N/A
Bonuses	40.39	40.31	40.21	41.40	41.28	41.27	N/A	N/A	36.50	41.44	47.86	56.59	58.49	N/A	1.106	0.973	0.840	0.732	0.706	N/A
Taxes																				
Personal income tax	262.17	259.12	229.68	245.62	258.78	277.35	N/A	N/A	204.82	223.56	242.53	281.01	N/A	N/A	1.280	1.159	0.947	0.874	N/A	N/A
Social insurance contributions																				
Employee contributions	175.38	180.66	183.38	189.39	198.10	206.60	N/A	N/A	143.00	152.76	158.28	166.23	N/A	N/A	1.226	1.183	1.159	1.139	N/A	N/A
Self-employed contributions	102.16	104.53	107.82	82.26	79.54	82.64	N/A	N/A	34.04	34.41	34.04	35.34	N/A	N/A	3.001	3.038	3.167	2.327	N/A	N/A
Employer contributions	176.22	181.49	184.26	190.29	198.98	207.44	N/A	N/A	143.00	152.76	158.28	166.23	N/A	N/A	1.232	1.188	1.164	1.145	N/A	N/A
Social insurance contributions paid by the state	277.97	285.60	291.64	272.10	278.06	289.65	N/A	N/A	160.03	169.97	175.30	183.90	N/A	N/A	1.737	1.680	1.664	1.480	N/A	N/A

Notes:



Sources: EUROMOD F7.0+ , National Statistics Office, Inland Revenue Department and Department of Social Security (DSS) Unique Beneficiaries Report; Departmental Accounting System (DAS).



Total aggregate amounts for the simulated income components together with external benchmarks are shown in table 4.8. As in the previous table, we have no separate external benchmarks for the flat-rate and income tested components of the child allowance. When the two are summed up, the total amount in EUROMOD is approximately 20 ppt below administrative figures. Given that the simulation succeeds in reproducing relatively faithfully the total number to recipients, it appears that the average income tested benefit is too small. Since child allowance and supplementary allowance are alternative/ complementary benefits and since the amounts of supplementary allowance are over-simulated, it is possible that incongruities in the time periods of household circumstances and income explain partly the observed difference. In both cases, we use current year's income instead of previous year's income in the simulation and this might constitute another source of divergence.

Simulated amounts of the various unemployment benefits are well below figures from administrative data. The under-simulation becomes worse in 2009 and 2010 compared to 2007 and 2008 (but improves again in 2011), presumably due to the worsening of unemployment in the wake of the economic crisis. Contributory unemployment benefit amounts are very close to amounts found in the data. As in Table 4.8, simulated general social assistance is very large in comparison with external statistics, but when combining unemployment allowance and social assistance the overestimation decreased to about 2 times. Both the age pension and the social assistance for single parents amounts are over-simulated by approximately The over-simulation in the case of old-age pensions is between 50 and 70 ppt. depending on year. In the case of social assistance for lone parents, the benefit is strongly over-simulated in 2007 and 2008 but the overestimation becomes milder after 2009. This may be due to the inability to accurately replicate asset tests, misalignment of time periods and non-take-up.

Employee and employer social insurance contributions are somewhat over-simulated . Two potential explanations are the fact that the number of employees present in the EUROMOD dataset is slightly over the official figures and that the average wage is slightly higher in EUROMOD compared to external data. Self-employed social insurance contributions are over-simulated almost three times (the oversimulation is less severe in 2010). It is not entirely clear what determined this pattern but it is possible that tax evasion is an important factor. It is also possible that to a smaller extent the difference is explained in the different time periods used to compute the figures (current year versus previous year). The over simulation of contributions paid by the state comes almost exclusively from the simulation of self-employed insurance contributions. Finally, personal income tax is over-simulated by almost 16 percentage points in the baseline. It is under simulated in subsequent years presumably due to the fall in employment income which is not captured in EUROMOD.

5.2 Income distribution

All income distribution results presented here are computed for individuals according to their household disposable income (HDI) equivalised by the “modified OECD” equivalence scale. HDI are calculated as the sum of all income sources of all household members net of income tax and social insurance contributions. The weights in the OECD equivalence are: first adult=1; additional people aged 14+ = 0.5; additional people aged under 14 = 0.3.



5.2.1 Income inequality

Indicators of the distribution of household disposable income are quite close to the ones released by EUROSTAT. Mean and median disposable income are slightly higher in EUROMOD compared to the external benchmark in 2007 and 2008 but fall in line in 2009 and 2010.



Table 4.9 Income distribution

Indicator	EuroMOD (I)						External Source (II)						Ratio (I/II)					
	2007	2008	2009	2010	2011	2012	2007	2008	2009	2010	2011	2012	2007	2008	2009	2010	2011	2012
Decile shares																		
1	3.77	3.70	3.63	3.85	3.79	3.50	3.50	3.70	3.40	3.80	N/A	N/A	1.06	0.98	1.13	1.00	N/A	N/A
2	5.31	5.21	5.20	5.25	5.22	5.50	5.50	5.50	5.30	5.30	N/A	N/A	0.95	0.95	0.99	0.98	N/A	N/A
3	6.31	6.25	6.28	6.24	6.29	6.50	6.50	6.50	6.20	6.30	N/A	N/A	0.96	0.97	1.01	1.00	N/A	N/A
4	7.40	7.33	7.35	7.27	7.30	7.40	7.40	7.60	7.30	7.30	N/A	N/A	0.99	0.97	1.00	1.00	N/A	N/A
5	8.33	8.37	8.37	8.41	8.40	8.40	8.40	8.60	8.50	8.40	N/A	N/A	1.00	0.97	0.99	1.00	N/A	N/A
6	9.54	9.46	9.52	9.48	9.53	9.60	9.60	9.60	9.50	9.50	N/A	N/A	0.99	0.99	1.00	1.00	N/A	N/A
7	10.72	10.78	10.84	10.86	10.86	10.80	10.80	10.80	10.90	10.80	N/A	N/A	1.00	1.00	1.00	1.01	N/A	N/A
8	12.28	12.30	12.40	12.42	12.47	12.30	12.30	12.30	12.50	12.40	N/A	N/A	1.00	1.01	0.99	1.01	N/A	N/A
9	14.57	14.74	14.79	14.71	14.70	14.70	14.70	14.60	14.70	14.70	N/A	N/A	1.00	1.01	1.00	1.00	N/A	N/A
10	21.76	21.85	21.64	21.53	21.45	21.30	21.30	20.90	21.60	21.50	N/A	N/A	1.03	1.04	1.00	1.00	N/A	N/A
Median							9302.0	10054.	10654.	9302.0			1.07	1.09	1.00	0.96	N/A	N/A
	9627.72	10145.91	10012.93	10253.82	10458.12	10773.92	0	00	00	0	N/A	N/A						
Mean							10205.	11197.	11962.	10205.			1.07	1.11	1.00	0.96	N/A	N/A
	10778.49	11356.67	11187.87	11512.61	11741.58	12065.91	00	00	00	00	N/A	N/A						
Gini	27.40	27.79	27.73	27.37	27.37	27.35	26.30	27.90	27.20	26.30	N/A	N/A	1.01	1.06	0.99	1.01	N/A	N/A
S80/S20	4.00	4.11	4.12	3.99	4.01	4.01	3.90	4.20	4.00	3.90	N/A	N/A	1.00	1.05	0.98	1.00	N/A	N/A

Notes: Based on household disposable income (HDI) equivalised by the “modified OECD” equivalence scale. HDI are calculated as the sum of all income sources of all household members net of income tax and social insurance contributions; computed at the individual level.

Sources: EUROMOD F7.0+ and EUROSTAT statistics database http://epp.eurostat.ec.europa.eu/portal/page/portal/statistics/search_database



5.2.2 Poverty rates

Table 4.10 At risk of poverty rates by gender and age

Indicator	EuroMOD (I)						External Source (II)						Ratio (I/II)					
	2007	2008	2009	2010	2011	2012	2007	2008	2009	2010	2011	2012	2007	2008	2009	2010	2011	2012
40% median HDI																		
Total	2.87	3.19	3.27	2.94	3.14	3.22	4.00	3.60	4.20	2.90	N/A	N/A	0.72	0.89	0.78	1.01	N/A	N/A
Males	2.85	3.23	3.26	3.01	3.18	3.28	3.80	3.50	4.00	2.70	N/A	N/A	0.75	0.92	0.81	1.11	N/A	N/A
Females	2.88	3.15	3.28	2.86	3.09	3.17	4.30	3.80	4.50	3.00	N/A	N/A	0.67	0.83	0.73	0.95	N/A	N/A
50% median HDI																		
Total	8.68	9.19	9.13	8.85	9.08	9.17	7.50	7.50	8.50	7.50	N/A	N/A	1.16	1.23	1.07	1.18	N/A	N/A
Males	8.88	9.29	9.35	8.97	9.21	9.32	7.10	7.20	8.00	7.00	N/A	N/A	1.25	1.29	1.17	1.28	N/A	N/A
Females	8.49	9.09	8.91	8.72	8.95	9.02	7.80	7.90	8.90	8.00	N/A	N/A	1.09	1.15	1.00	1.09	N/A	N/A
60% median HDI																		
Total	15.67	16.23	16.64	15.97	16.01	16.07	14.00	14.80	15.00	15.30	N/A	N/A	1.12	1.10	1.11	1.04	N/A	N/A
Males	15.42	16.02	16.55	15.97	16.05	16.09	13.30	14.40	13.60	14.70	N/A	N/A	1.16	1.11	1.22	1.09	N/A	N/A
Females	15.92	16.44	16.73	15.96	15.98	16.04	14.70	15.30	16.40	15.90	N/A	N/A	1.08	1.07	1.02	1.00	N/A	N/A
70% median HDI																		
Total	24.31	25.18	25.12	24.95	24.62	25.07	22.50	23.20	25.60	24.40	N/A	N/A	1.08	1.09	0.98	1.02	N/A	N/A
Males	23.78	24.56	24.85	24.89	24.49	25.05	21.20	22.10	23.70	23.20	N/A	N/A	1.12	1.11	1.05	1.07	N/A	N/A
Females	24.84	25.80	25.39	25.02	24.76	25.08	23.80	24.20	27.40	25.70	N/A	N/A	1.04	1.07	0.93	0.97	N/A	N/A
60% median HDI																		
0-15 years	18.46	18.95	19.86	18.80	18.87	18.94	16.80	18.90	19.70	21.00	N/A	N/A	1.10	1.00	1.01	0.90	N/A	N/A
16-29 years	14.85	15.45	16.09	15.84	15.83	15.91	9.50	11.10	9.00	11.70	N/A	N/A	1.56	1.39	1.79	1.35	N/A	N/A
30-44 years	12.59	13.21	14.16	13.98	13.94	13.99	10.50	11.60	11.20	12.80	N/A	N/A	1.20	1.14	1.26	1.09	N/A	N/A
45-64 years	14.54	15.12	14.96	14.24	14.34	14.40	13.90	15.30	14.90	13.50	N/A	N/A	1.05	0.99	1.00	1.05	N/A	N/A
65+ years	22.67	23.12	22.24	20.45	20.66	20.66	24.20	20.70	24.70	20.90	N/A	N/A	0.94	1.12	0.90	0.98	N/A	N/A

Notes: Computed for individuals according to their household disposable income (HDI) equalised by the “modified OECD” equivalence scale. HDI are calculated as the sum of all income sources of all household members net of income tax and social insurance contributions.

Sources: EUROMOD F 7.0+ and EUROSTAT statistics database http://epp.eurostat.ec.europa.eu/portal/page/portal/statistics/search_database



Poverty rates as derived from EUROMOD are compared to EUROSTAT figures in table 4.10. Poverty at the bottom is underestimated. On the contrary, poverty rates at slightly higher poverty thresholds are overestimated suggesting that some of the near-poor in EUROMOD simulations might actually experience much lower levels of disposable income. This may be explained by the large number of means-tested benefits in Malta which are over-simulated to a larger or lesser extent by EUROMOD. Finally, EUROMOD over predicts poverty for teenagers and young persons. The oversimulation of the number of poor is especially strong in the case of 16-29 year olds. It is not clear what accounts for this pattern.

5.2.3 Validation of minimum wage

Finally, table 4.11 shows a comparison of some basic results with and without the minimum wage. Including the minimum wage in the simulation has virtually no effect with the exception of a very small increase in the poverty rate. This may be due to a raising of the poverty threshold coupled with a prevalence of poverty among non-employed households.



Table 4.11 Impact of minimum wage (Mil. Eur)

	Baseline (I)						Minimum wage included (II)						Ratio (I/II)					
	2007	2008	2009	2010	2011	2012	2007	2008	2009	2010	2011	2012	2007	2008	2009	2010	2011	2012
Disposable income (total)	2793.97	2942.86	2904.79	2990.86	3049.21	3133.01	2797.85	2946.81	2908.91	2995.07	3068.99	3152.05	1.00	1.00	1.00	1.00	0.99	0.99
Gross employee earnings (total)	2006.75	2101.31	2134.51	2233.48	2322.79	2398.22	2010.72	2105.33	2138.67	2237.80	2293.84	2367.73	1.00	1.00	1.00	1.00	1.01	1.01
Income tax (total)	262.17	259.12	229.68	245.62	258.78	277.35	262.34	259.28	229.82	245.77	259.33	277.44	1.00	1.00	1.00	1.00	1.00	1.00
Employee SICs (total)	175.38	180.66	183.38	189.39	198.10	206.60	175.38	180.66	183.38	189.39	196.75	205.11	1.00	1.00	1.00	1.00	1.01	1.01
Social assistance (total)	51.53	52.66	53.62	61.82	35.99	37.32	29.76	30.43	32.14	36.09	35.74	36.97	1.00	1.00	1.00	1.00	1.01	1.01
Gini (Eq HDI)	27.40	27.79	27.73	27.37	27.37	27.35	27.33	27.72	27.66	27.30	27.17	27.16	1.00	1.00	1.00	1.00	1.01	1.01
At poverty risk (60% median HDI)	15.67	16.23	16.64	15.97	16.01	16.07	15.51	16.16	16.45	15.94	15.81	15.99	1.01	1.00	1.01	1.00	1.01	1.01

Source: EUROMOD F7.0+



5.3 Summary of “health warnings”

This section summarizes the most important issues to be kept in mind when using the Maltese model existent in EUROMOD.

- The year of the underlying data set is 2008. No adjustments are made for changes in employment or the demographic characteristics of the population in 2007, 2009, 2010, 2011 or 2012.
- 2008 incomes are adjusted to their average values in 2007, 2009, 2010, 2011 and 2012. However, although every effort is made to use detailed uprating factors, the exact distribution of incomes in 2007, 2009, 2010, 2011 and 2012 cannot be reproduced
- Due to lack of information on average incomes in 2012, 2012 incomes are updated by using average income component increases between 2008 and 2011 couples with the change in the Consumer Price Index between 2011 and 2012
- Several variables in the under-lying dataset that enter the micro-simulation model are the result of a disaggregation. The disaggregation is generally based on benefit rules and other external information. However, significant error is likely to persist.
- Several means-tested benefits are oversimulated. This is due to the inability to accurately replicate some eligibility conditions (asset test), use of current year instead of previous year’s incomes in the simulation of the income test and very likely non-take up.
- Social insurance contributions for the self-employed are seriously over-simulated. Possibly this is an indicator of pervasive tax evasion among the self-employed.
- Several very small benefits-means-tested or contingency based (such as for example leprosy assistance or milk grant) are ignored in the simulation.
- Severe poverty is under-simulated whereas moderate and near poverty is over-simulated possibly due to the over-simulation of means-tested benefits.

6. REFERENCES

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