

# HANDBOOK OF HOW TO GO **SELF-EMPLOYED** IN MALTA



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# INTRODUCTION

**Are you thinking of going self-employed? Or, are you self-employed but not sure whether you are meeting the necessary regulatory obligations that self-employment brings with it? This GEMMA Handbook is designed to provide you with the necessary knowledge and understanding of the questions you need to ask but to which you have no answers.**

There are plenty of reasons why you may decide to go self-employed. One such reason is that being self-employed may provide you with better opportunities to maximise the financial return of your knowledge, skills and competencies than what you may obtain if you go for a salaried job. Yet, being self-employed has

its downsides. One, for example, is that your health coverage is limited unless you take out expensive insurance that covers loss of business in the event that you get unwell.

What differentiates being self-employed from being an employee? The Table below presents the key differences:

	<b>Self-Employed</b>	<b>Employed</b>
<b>Social Security Contributions</b>	15% on income earned to a maximum pensionable income – that is as follows on the 2020 base year:  Born on and before 1961: €19,017 Born on or after 1962: €24,986	10% on gross basic wage to a maximum pensionable income – that is as follows on the 2020 base year:  Born on and before 1961: €19,017 Born on or after 1962: €24,986
<b>Statutory Annual Bonuses</b>	You do not receive these.	You receive these in March, June, September and December.

## Self-Employed

**Unemployment** You are eligible to unemployed benefits and credits to cover for gaps in your Social Security Contribution payments for the period you are unemployed. You are also eligible to unemployment benefits for up to six months. If you are still unemployed at the end of the six-month period the government will credit your gaps in the Social Security Contribution payments so far as you continue to register.

To be eligible for the unemployment benefit you must have a minimum of 50 Social Security Contributions with an annual average of 20 contributions in the last two years before you submit your claim.

You may qualify for a non-contributory unemployment assistance. This is subject to a capital, income and residence test.

## Employed

You are eligible to unemployed benefits and credits to cover for gaps in your Social Security Contribution payments for the period you are unemployed. You are also eligible to unemployment benefits for up to six months. If you are still unemployed at the end of the six-month period the government will credit your gaps in the Social Security Contribution payments.



## Self-Employed

## Employed

### Work rules

Set by the level of income you decide to earn and depends on the nature of the job

Set by your employer.

### Income

Not consistent. May have periods where income earned is good, and others when you are not doing so well. You have no guaranteed income.

Salary is guaranteed and paid monthly.

### Vacation Leave

None. This is 'downtime' when you are not earning income – so you need to calculate how many days you tend to take as vacation and include the 'cost' in your charge out rate.

Set by legislation.

### Safety Net

Do you have loans to pay? If so, do you have enough of a money 'cushion' that will roll you over during lean periods when you are not earning enough to meet the loan commitments?

You need a rainy day fund that allows you to meet exceptional expenses without having to dig into your savings or credit limit.

### Life changing events

Are you planning of getting married or having a child? Have you thought about whether this is the right time to go self-employed? Given the income you are earning, is it the right time to have a child?

You plan within the context of the wage / salary that you and, potentially, your partner earn, or the potential expected future income, such as a promotion.

## Self-Employed

## Employed

### Working with Colleagues

In the early days, you are likely to be very much on your own. Will you miss working in a collegiate environment?

Although job dependent, if you are working in an enterprise, even if micro, there is work related to social activity that can also positively spill into your personal life.

### Sick Leave

None. This is 'downtime' when you are, potentially, not earning income. So you need to calculate how many working days you are likely to lose because of flu or some other health issue, and include the 'cost' in your charge-out rate.

### Number of clients / employers

Multiple.

Normally one – but atypical employment (that is working 40 hours with more than one employer) is increasing.

### Risk

Assumed by you.

Assumed by your employer.

### VAT

Need to pay VAT.

Not applicable.

### Administration

Need to understand how VAT, income tax, provisional tax, Social Security Contributions, etc. work; and, if not, you need to engage an accountant.

Limited to your income tax return. The FSS deductions and the Social Security Contributions are automatically deducted by your employer from your gross wage / salary.

## Self-Employed

## Employed

### Management of VAT Payment

The invoice you issue includes an 18% VAT payment. This is not part of the income you generate. It is important that that 18% of the fee value is put aside – preferably in a separate bank account – and used only to pay VAT. If you use this 18% of the fee value to grow your business or for personal use, and you end up in a period when revenue is down and you cannot meet your VAT payments, your life can very quickly become complicated. The interest rate for late payment is 1% and compounds per month. Additionally, you may be subject to a VAT audit and you can face an 'ex officio' tax assessment, including penalties. In the worst circumstances you can be jailed.



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## Self-Employed

### Deductions for Expenditure

There are business-related expenses that can be deducted for tax purposes. If you do not know the tax rules in this regard, and you deduct expenditure on the basis of your judgement, and you get it wrong, you are likely to be subject to penalties if your tax declarations are subject to an Inland Revenue tax audit. To be on the safe side it is best to engage an accountant.

## Employed

Deductions are limited to those allowed under the Income Tax legislation, such as expenditure related to school transport. You may also be eligible to tax credits, such as the 25% tax credit (up to a maximum of a contribution of €2,000 paid) in respect of a personal private pension and / or an occupational voluntary retirement pension.

# SETTING UP AS SELF-EMPLOYED

If you decide to set up as self-employed in Malta, you need to apply with the departments concerned regarding registrations.

## Jobs Plus

Before you do anything, you need to register with Jobs Plus, formerly known as ETC, as self-employed either as full time or part time, depending on the size of your business. Registering with Jobs Plus is easy. Just click on the following link [jobs plus form](#) and print the form. Once this is done you can email this form on [hriu.jobsplus@gov.mt](mailto:hriu.jobsplus@gov.mt) or send it to the address provided in the form itself.

## VAT (Value Added Tax)

Self-employment trading activity is to be registered with the VAT Department. This can be done easily through the following link [Vat registration form](#). A copy of your Identity Card (ID) must be

presented at the time of registration.

Before you start your registration make sure you check whether or not you are exempt from VAT. Also, if you make less than €20,000 a year in sales, you qualify as VAT exempt under Article 11 and not under Article 10, and you will need to register as such.

## Article 11

If you are a person whose sales is **below** the established entry threshold of **€20,000** for your type of business activity, then you may apply to register under **Article 11** of the VAT Act in order to be exempted from charging VAT when you supply taxable goods or taxable services.



As a person registered under Article 11, you will not be able to claim deduction of any input VAT that you incur in your economic activity. You will have an identification number without the MT prefix. Once you are registered under Article 11, you can remain so registered as long as your turnover does not **exceed** the “entry” threshold of €20,000.

Although you are registered under Article 11, you need to issue a fiscal receipt or a tax invoice on all supplies made by you and submit a declaration form at the end of each calendar year which must be submitted by the **15th March** of the following year.

### **Article 10**

If you opt to register under Article 10, you will have to charge VAT when you supply taxable goods or taxable services. You may also claim a deduction of input tax incurred by you on purchases and expenses for business use. You will have a VAT identification number with the MT prefix.

However, if you are registered under Article 10, you cannot opt out of this registration and register under Article 11

during the first 36 full calendar months from the date of that registration. You also cannot opt out if your annual turnover exceeds the “exit” threshold of €17,000.

Under Article 10 you have to issue a fiscal receipt or a tax invoice on all supplies (good or services) you make and submit your VAT returns for three months levy period not later than 6 weeks after the tax period expires or as the Commissioner directs.

Remember to keep all of your receipts and invoices for expenses incurred in the line of your business for at least 10 years. Proper records need to be kept available at all times should the department request such documentation.

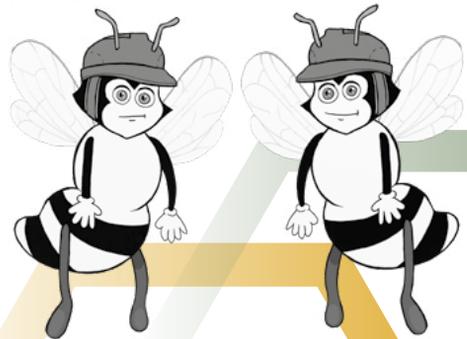
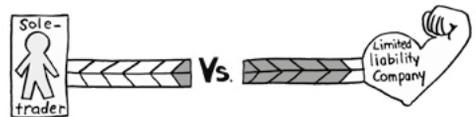
Once you submit a VAT form you will receive the VAT certificate which includes your VAT number and your registered address within a few days. You can then order the VAT receipts book online through the following link **order vat books** and opt to either receive the books at your desired address or pick them from Maltapost in Marsa.

When you set up as self-employed you may wish to operate as a sole-trader or through a limited liability company. In deciding which vehicle you wish to apply for your business, take note of the following:

- There are no major formation costs to operate as a sole-trader. VAT, social security, income tax and other business regulatory conditions require a degree of complexity. Even if you have a good understanding of accounting, GEMMA strongly recommends that you engage an accountant / accounting firm to maintain your books and provide you with financial advice. Keep in mind that legislation changes quite frequently, and the truth is that you will not be able to keep informed of all such changes. This is an administrative burden which requires attention to detail and which takes you away from the reason you went self-employed in the first place, that is, to create a business. Mistakes in the management of the regulatory requirements are expensive – not only in monetary terms but also in opportunity cost – as you will have

to deal with the relative government department/s to sort out the issue and, possibly, bring in lawyers to advise you.

- A major concern of being a sole-trader is that you have no limited liability – that is, your personal finances and assets are not protected if you become bankrupt or a client sues you. In part, depending on the risk exposure of the service you provide, you may wish to mitigate the risk by taking a professional indemnity insurance cover.



- If you decide to operate through a limited liability company, there are structured costs that you will have to incur both when setting up the company and on an annual basis. In registering your company with the Malta Business Registry you need to finance share capital for which the minimum capital accepted is €1,165 (of which, 25% must be paid up prior to registration). As part of the registration process you will need to draw up the Memorandum of Association and the Articles of Association.
- Once you set up a company, you need to produce audited accounts annually – which are to be submitted with the Malta Financial Services Authority annually within a set time frame. Not meeting the submission time frames will result in penalties. Should the business not do well, liquidating the company is not a simple process. It takes time, over a year, and you will need to appoint a liquidator. An audit at the date of liquidation will be necessary and the liquidator will have to confirm that all dues relating to VAT, income tax, etc. have been settled.

**GEMMA advises that as a first step you should go self-employed as a sole-trader. You should only consider moving into a limited liability company vehicle if the business is growing and is past the difficult start-up years and a degree of self sustainability has been reached.**

# EMPLOYING OTHER PERSONS IN YOUR BUSINESS

Under the Employment Law in Malta, if you decide to employ another person as your business grows, you must register with the tax authorities and obtain a PE (Permission to Employ) number by applying online on the following link [apply for PE number](#).

A **declaration form** needs to be printed, signed and uploaded to the application of the PE number. Once this form is submitted, a PE number is allocated to you within a few days. This number needs to be quoted when paying taxes and Social Security Contributions. Once the

PE number is issued, you must register your new employee with Jobs Plus by completing an **engagement form** in respect of the new employee on the same day of his / her commencement.

You will need to deduct your employees' Social Security Contributions and income tax from the payslip and pay the amounts due to the Commissioner of Revenue by the 15<sup>th</sup> of the following month. It is important that you fill an **FS5 form** every month and send it to the Revenue department together with the payment. An **online FS5 form** is available and payment can be made online.



# SOCIAL SECURITY CONTRIBUTIONS



The following is to be noted with regard to the payment of Social Security Contributions:

## You as the Self-Employed Person

Class Two Contributions are to be paid by all individuals who derive income of more than €910 from an economic activity and who are not employed. The Social Security Act defines two categories of persons that are required to pay Class Two Contributions as follows:

**Self-Occupied Persons:** persons who earn income from trade, business, profession, vocation or any other economic activity that exceeds €910 per annum.

**Self-Employed Persons:** persons who receive income from rents, investments, capital gains or any other income.

**The above can be confusing, because while in normal discourse, as**

**well as under the Income Tax Acts, a person is called 'self-employed', under the Social Security Act that same person is called 'self-occupied'.**

Rates for Class Two Social Security Contributions are based on the annual net profit or income for the year preceding the contribution payment year. The weekly rate is equivalent to 15% of the net income (in the case of self-employed) or of the net profit (self-occupied) divided by 52.

**Class 2 rates.** For a business start-up, the rate for the first year is €30.77 per week (for 2020). The due dates for Social Security Contributions (Class Two) are the same as for the Provisional Tax payments, that is, 30<sup>th</sup> April (number of Mondays from January to April), 31<sup>st</sup>

August (number of Mondays from May to August) and 21<sup>st</sup> December (number of Mondays from September to December). An additional contribution of 1% per month is charged on the amount of Social Security Contributions which are paid late or are not paid at all.

## **Your Employee's Social Security Contributions**

All persons who are over the age of 16 and who have not yet reached the retirement age of 65 years, and who are in an insurable employment, are liable to pay Social Security Contributions. Social Security Contributions are paid in weekly rates, and each year of gainful occupation carries 52 or 53 Social Security Contributions (depending on the annual number of Mondays) on the payee's contribution record.

Your employee is liable to pay Class One Social Security Contributions with the applicable contribution rates. Social Security Contributions by employed persons are called Class One Contributions and are paid by direct deductions from the same employee's wages. In a normal case scenario, an

equivalent rate paid or deducted from your employee's wage / salary is also paid by you.

The Social Security Contributions rate due is based on the earnings derived from the 'basic weekly wage'. The basic weekly wage does not include allowances, bonuses and/or overtime earned in a particular week.

Part-time employees who work less than 40 hours per week and who earn less than the National Minimum (weekly) Wage can opt to have their share on Social Security Contributions paid at the rate of 10% of their basic weekly wage. This contribution rate is called the 'pro-rata rate' and does not apply to your share, which is to pay the full applicable weekly rate.

Both your and your employee's share of Social Security Contributions are payable by yourself to the Commissioner of Revenue in monthly payments. The applicable rates due for **Class 1** Contributions can be found at this link.

# INCOME TAX

The following is to be noted with regard to the payment of income tax payments:

## Your Income Tax

During the year, you must make three advance payments on April 30<sup>th</sup> (20%), August 31<sup>st</sup> (30%) and December 21<sup>st</sup> (50%) as Provisional Tax. The advance payment is based on the taxable income for the previous year. For the first year of business you are not obliged to pay any Provisional Tax. You are obliged to pay the tax due for basis year 2019 by 30<sup>th</sup> June 2020, which is the tax return date for the submission of the self-assessment which covers basis year 2019.

Where any provisional tax is not paid by the due date, additional tax at 1% per month (or part thereof) is charged. Such additional tax will continue to run up to the actual date of payment or the relative tax settlement date.

If you are positive that your tax liability for the year will be less than the Provisional Tax 'benchmark', you may fill in the prescribed "**PT Reduction Form**"



and send by post. You can download the **PT Reduction Form online**. On this form you are to indicate the amount of tax which you estimate will be payable for the year.

Great care is to be taken when using the Provisional Tax Reduction Form. If you use this form in order to obtain some undue advantage by reducing the Provisional Tax installments, you will be making yourself liable to Provisional Tax additional tax of 1% per month on any unpaid amount in the event that the tax due for the basis period exceeds the total of the reduced Provisional Tax payments.

The **tax rates** for basis year 2020 can be found at this link.

### **Your Employee's Income Tax**

In Malta, taxation of an individual's income is progressive, that is, the higher an individual's income, the higher the tax paid. The Final Settlement System (FSS), which caters mainly for employees and pensioners, is designed to produce accurate tax deductions from emoluments. This methodology ensures that the correct amount of tax is deducted from gross emoluments as they are received, thus reducing the incidence of large refunds or tax claims. The **tax rates** for basis year 2020 can be found at this link.

You are required to deduct at source, each month, the amount of tax payable on the wage/s and forward such taxes to the Revenue Department through the monthly FS5 form.

Every year, you need to submit the Annual End-of-Year Reconciliation documents (**FS3 and FS7 forms**). If you have less than ten FS3 forms, you have the option to submit the **FSS end-of-year documents either manually or electronically**. Should you have ten or more FS3 forms, you are **required to submit the end-of-year documents electronically**. All manual FSS forms are to be sent to the following address by the 15<sup>th</sup> of February:

**Office of the Commissioner for Revenue  
Central Mailing Unit Block 3  
Floriana**



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# MICRO INVEST SCHEME



Malta Enterprise offers various schemes to undertakings, including start-ups, family businesses and self-employed persons to invest in their business, innovate, expand or develop their operations. Through the Micro Invest Scheme you are supported by means of a tax credit representing a percentage of the eligible expenditure, including the wages of newly recruited employees.

Malta Enterprise will approve a tax credit equivalent to 45% of eligible expenditure. A 65% tax credit applies to undertakings operating from Gozo. The maximum eligible tax credit per single entity is capped at €50,000 over any period of three consecutive fiscal years. The capping for entities operating from Gozo, those registered as a family business or those that have more than 50% of the ownership attributed to female persons is €70,000.

Costs claimed must have been invoiced between 1<sup>st</sup> January and 31<sup>st</sup> December of the year preceding the year in which the claim is submitted. Costs claimed must not be assisted (even partly) through other incentive measures.

Costs claimed are to be covered by the appropriate fiscal documentation.

One can apply for a tax credit on the following costs:

- Wage Costs – eligible undertakings may apply for a tax credit on an increase in wage costs that exceeds 3%;
- Furnishing & Refurbishing Costs – requires photographic evidence;
- Investment Costs – includes machinery, technology (devices, hardware and software), apparatus and instruments;
- Commercial Vehicle Costs;
- PV System Costs.

More information on the Micro Invest Scheme can be found on the **Incentive guidelines** provided by Malta Enterprise. Application forms are submitted **online**.