

# Ministry of Finance

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## Directorate General (Financial Administration)

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The core area of competence of this Directorate General includes Public Finance Management; EU matters relating to Budgetary Provisions and Financial Control, as well as compliance with the requirements of the Fiscal Surveillance Procedure arising out of Malta's obligations under Chapter 11 of the *Acquis*; International Relations on financial matters; and the Treasury.

### **Economic and Fiscal Surveillance**

For the purpose of these obligations, submissions were made to DG Ecofin relating to the Fiscal Notification for 2004 with regard to the deficit and debt levels in Public Finances. As from May 2004, the original annual submissions are due for update by end September. These submissions are due on an annual basis from all Member States and candidate countries so that the Commission could assess their economic and fiscal convergence under the Maastricht Agreement.

Following evaluation of the Fiscal Notification by the Commission, Malta's submissions were generally accepted as reflecting Government's thrust and efforts to bring down the deficit and debt levels to 3% and 60% of GDP respectively.

Assistance was also made available to the Economic Policy Division of the Ministry to enable it to submit the first Convergence Programme for Malta which will be updated on a bi-annual basis.

The purpose of this Convergence Programme is to provide direction for the economic development of the country which is monitored with the purpose of securing the attainment of convergence with that of the Union. This programme is discussed at a plenary meeting of the Ecofin Committee of the EU Commission and brought together in one single report by the DG Ecofin and referred to the Ecofin Council of Ministers.

### **Financial and Budgetary Control of EU Funds made available to Malta by the Commission upon accession**

Another task that is being implemented by the Directorate General for Financial Administration within MFIN is that related to Financial and Budgetary Provisions (of the EU) and Financial Control (of funds to and from the Union). Earlier last year the Own Resources Co-ordination Unit that is headed by the Director General (Financial Administration) participated in the April meeting of the EU Commission's Advisory Commission on Own Resources (ACOR) where Malta's forecasts for Own Resources Contribution for the transition period 2004-2006 were discussed and where the amount that would be due for the first year of accession was agreed. ACOR holds regular weekly meetings in Brussels where technical issues are discussed and other biannual meetings where policy issues are received.

With regard to the funds that Malta will receive upon accession these will flow under the Regional Policy Chapter and within the framework of the Single Programming Document. The Single Programming Document brings together a number of measures related to initiatives, programmes, and projects for the implementation of the Economic Programme. The SPD was discussed and agreed upon with the Commission as the basis of financial aid that the Union makes available to Malta upon accession by way of Structural and Cohesion funds.

By 31 December 2004, Malta has contributed Lm14.1 million to the European Union and received back Lm23.6 million in grants and budgetary compensations, leaving a net favourable balance of Lm9.5 million. Fund under Structural and Cohesion has not yet started to be reimbursed in 2004 as there was not enough time to generate expenditure the Single Programming Document was agreed by the Commission and projects/initiatives started to be implemented.

## **Financial Control**

The function of financial control is provided for through a layout of systems and structures within Government mainly in the Ministry of Finance, the Department of Contracts, and The Treasury, as well as the Internal Audit and Investigations Directorate. The main system is based around the Extended Decentralised Implementation System (EDIS) under which Malta could have own control on the management of EU pre-accession funds with the close monitoring of the Internal Auditor on behalf of the Commission and of representatives of the Commission itself.

## **Amendments to the Financial Administration and Audit Act, 1962**

During the year amendments to the Financial Administration and Audit Act of 1962 took place. These amendments provided for measures against fraud and irregularities that include both administrative penalties and legal action for the recovery of any amount, deficiency, loss, improper payment earned or made as a result or in the course of any such irregularity or fraud. The amendments provided also ministerial authorisation of sums for the purposes of expenditure that had not been appropriated for under the relevant Appropriation Act subject to informing the House of Representatives accordingly within one month from such authorisation.

## **Budget Preparations**

Another activity of the Directorate General (FA) relates to budget preparations. These preparations included continual consultations by the Parliamentary Secretary at the Ministry with the social partners on the Malta Council for Economic and Social Development.

## **EU PAYING AUTHORITY DIRECTORATE**

In November 2003 the International Relations Directorate was designated as the EU Paying Authority Directorate and, therefore, the operations of the Directorate became more focused on EU-related matters. However, the Directorate also performs other important non-EU-related tasks, among which are Investment Guarantee Agreements, loans from foreign sources and relations with international financial institutions.

## **EU-RELATED MATTERS**

### **EU Financing**

Efforts to maximise the utilisation of the high amount of Pre-accession funds made available to Malta in terms of Council Regulation 555/2000 could only materialise through sound financial management and proper accountability across Government by all entities involved in the pre-accession process. To attain this objective two Manuals of Procedures were in fact compiled, the first one issued in February 2004 catering for a system where ex-ante controls were still exerted by the Commission. Meanwhile, a revised version to take into account the removal of ex-ante controls (brought about by the granting of EDIS) was circulated to all users across government in July 2004.

With regard to the Transition Facility the Directorate was responsible to negotiate a Memorandum of Understanding (MOU) with the EC and draw up a Note of Instructions to ensure that the key players and

the Implementing Authorities are fully aware of their respective roles and responsibilities within the framework of the MOU.

### **Structural and Cohesion Funds**

The main task in this regard was for the Directorate to re-organise itself into an effective and efficient Paying Authority in order to be able to assume all responsibilities emanating from the relative Council Regulation 2001 1260/1999 and Commission 438/2001.

Again, this entailed a lot of strenuous work, including compilation of effective procedures, training of staff – both locally and abroad – compilation of questionnaires on Article 5 to convince the Commission services that the Paying Authority will be an effective instrument of financial management and the drawing up of a special covenant with the Managing Authority following intensive discussions. Besides, the Directorate also gave an extremely valid contribution to the creation of a database for the management of Structural and Cohesion Funds and had the onerous task to ensure proper monitoring of sound financial management practices within the line ministries as these relate to post-accession funding operations.

### **EDIS**

Although Malta was the last country among the new Member States to join the Pre-Accession funding process it was among the first to apply to be accorded EDIS which is an Extended Decentralised System of Fund Management where there are no ex-ante controls by the Commission except in certain cases like project selection. The application was made some three years ago on the initiative of this Directorate in full consultation with DG Enlargement and for which the National Authorising Officer shouldered sole responsibility. The year 2004 was the culmination of years of hard and intensive efforts and finally, in June 2004, Malta was the first country among the new Member States to be granted EDIS which was also extended to include Twinning in August of the same year. This was a unique achievement considering that other Member States had engaged the services of international firms to help them reach their objectives.

### **Contributions to and from the EU**

The Directorate has to set up the necessary administrative accounting structures to ensure that Malta's contributions to the EU Budget were made in the proper manner and within the specified time-frames. This also applied to those lump sum contributions which Malta had to receive up to end 2006 in turns of the Accession Treaty.

This was achieved following protracted and intensive negotiations with respective services within DG Budget and the CBM authorities. It is a great satisfaction that the system is working without any hitches.

### **EU Travel**

Again, an ad-hoc administrative and accounting system had to be set up as a basis for the proper financial management of funds made available by the EU for Travel to Council and Commission Meetings. In this regard the line Ministries were formally informed of the procedures that had to be followed through a circular letter on EU-related travel. Full accountability has to be given to the Commission services regarding the utilisation of these funds.

### **INVESTMENT GUARANTEE AGREEMENTS**

Activity in this area went on unabated. During 2004 the Director EU Paying Authority carried out negotiations on the respective IGA with the following countries: Denmark, Lithuania, Romania, Ukraine, Latvia, India, Chile, Liechtenstein, Albania, Morocco, Georgia and Argentina.

Negotiations with Lithuania were successfully concluded and the agreed text initialled by the Director on behalf of Malta in June 2004. Besides, the constitutional formalities regarding the IGA with Turkey were completed from our side while the IGA with Austria entered into force in this same year.

## **INTERNATIONAL FINANCIAL INSTITUTION**

The Director EU Paying Authority was the official correspondent for a number of institutions in so far as the Ministry of Finance is concerned. Among these one can mention the World Bank and its affiliate MIGA as well as the IMF. Malta honoured its obligations and commitments without fail and through its vote gave a valid contribution to ensure that the policies and administrative upgrading of the World Bank and MIGA were implemented. The Director EU Paying Authority was responsible to advice the Ministry on all such matters.

## **INTERNATIONAL FINANCE**

The Director was *de facto* the desk officer and correspondent for the European Investment Bank and the Council of Europe Development Bank. During 2004 Malta did not submit any request for loan funding from these institutions although excellent working relationships have been maintained.

## **THE TREASURY DEPARTMENT**

### **SALARIES AND PENSIONS**

The primary objective of the Salaries and Pensions Section is to provide a timely service to the public sector by the prompt issue of Salaries and Treasury Pensions.

In order to secure this objective, the Salaries Section has to ensure that the Database for Government Employees Payroll is properly maintained by effecting the changes in data captured at departmental level which in turn is transferred to the main system at Treasury.

- *4-weekly salary payments system:* The year under review was the first full year where the Treasury operated its 4 weekly salary payments system coupled with that whereby all beneficiaries receive their salary payments electronically in the personal bank account of their choice.
- *HR, Payroll, Pensions integrated IT System:* The Treasury, together with the Management and Personnel Office and MITTS Ltd are currently working on a fully fledged system for HR, Payroll and Pensions. A Project team established in 2003, commissioned MITTS Ltd to carry out a Risk Assessment exercise with a view to identify the short-comings in the current 4 major computerised systems (namely, the HRIMS, PayPer, Treasury Payroll and Treasury Pensions systems) being used in the management and payment of human resources within the public service and, in turn, to propose a new long term IT business solution. By mid-year the Risk Assessment exercise was completed and a Final Report was submitted to the Project Team. Steps are underway at the Treasury to review and evaluate the recommended action plans with a view to conclude an agreement by the Project Team before taking up Phase II of the Project. Phase II would focus on the procurement and implementation of the integrated IT solution.
- *Support Services:* The Treasury continued to provide various support services, including financial projections, requested by the MPO for use as background material in the negotiation of Collective Agreements within the Public Service, as guidelines for decisions put forward by the Office of the Ombudsman, and the preparation of various financial estimates.

Towards the end of December 2004, Treasury took on the initiative to introduce an enhancement feature in its departmental monthly reporting system whereby Heads of Department/Director Corporate Services

are notified 3 months in advance of those employees whose contract date is due to expiry. This monthly reporting system would ensure as far as practicable that contract employees would not continue to be paid under an expired contract.

An enhancement applied to the Bonus Payment System would now enable Treasury to determine whether the payment of each yearly Bonus/Income Supplement is issued either as a separate payment or as part and parcel of the 4 weekly salary payment. As from December 2004 the recipients of the bonus payment commenced receiving their entitlements directly in the same bank account in use for crediting of their salary.

- *Public Service Reform*: The department also continued with the implementation of the Collective Agreement provisions and the Addenda to such agreements relating to the payment of progressions, appointments and other financial entitlements due to each class of employees.

## **TREASURY PENSIONS**

### **General Data**

By the end of the year the Pension Payroll stood at 13,681, being a net increase of 280 pensioners over 2003. The new pensioners for the year under review approved by the President reached 696 comprising the following: Civil Servants 487; Police Officers 66; AFM Personnel 48; Widows & Orphans 95.

Pensioners who passed away and ceased to be on the payroll during 2004 reached 408. The total payouts in pensions during 2004 rose to Lm 21,610,760 (an increase of 6% over the previous year).

By end of December 2004 the amount paid as Gratuities was Lm 7,027,718, an increase of Lm44,518 over the previous year. Out of the total pensions paid to beneficiaries during the year, 64% of such payments were effected through the direct credit system operated with local banks.

Other tasks carried out by Treasury involved the re-computation and payment of pension arrears and difference in gratuity arising from the amendment to the Pensions Ordinance, Cap. 93 with respect to ex-government employees who retired from designated public entities as stipulated under the Ordinance.

## **GOVERNMENT ACCOUNTING OPERATIONS**

### **Establishment of the Accounting Methodology and Compliance Unit**

The Unit was set up in May 2004. Its primary function is to ensure that all ministries and line departments adhere to the Government Accounting Standards, general Finance Policy and Administration and other procedures related to the accounting function. This is being achieved through:

- monitoring of adherence by departments and ministries to the various standards and regulations;
- organisation of training in conjunction with SDO and MITTS Ltd regarding the introduction of new standards, regulations and procedures; and
- taking action as necessary in case of non-adherence to Treasury circulars and instructions.

In attaining these objectives, the Unit liaises with Director, Policy and Planning in the Ministry of Finance regarding established procedures and standards; National Audit Office and Internal Audit and Investigations Directorate regarding adherence to procedures and standards related to the accounting methodology; and accounting bodies (local and international) to keep abreast of the developments in Public Accounting, accounting methodologies, and treatment of transactions.

The Unit provides assistance to accounting officers responsible for the provision of accrual accounting returns, in compliance with the various accrual accounting circulars issued by the Ministry of Finance and

the Treasury. It ensures that the returns, which are prepared on a quarterly basis, are submitted in a timely manner and as accurately as possible. The objective is to utilise the information provided as input for the compilation of the Government's Financial Statements and for other important financial reports required by the EU Commission.

The Accounting Methodology and Compliance Unit is currently taking over from MITTS Ltd. the implementation of accrual accounting concepts within all government ministries and line departments, namely: asset management, cash-flow management, debtors and creditors management, prepayments and accruals. During the last few months of the year the Unit has helped in the provision of training regarding Stock Control Procedures as per TR Circular 6/2004. It is also being increasingly involved in the implementation of these procedures, such as the distribution within government departments/ministries of the relative software and ongoing support to the users.

Members of the Unit, over the year under review, have succeeded in creating awareness about the importance of the accrual accounting information, in light of Government's intention to adopt the accrual accounting methodology. It is expected that it will continue to provide the required assistance to government departments so that the process will be fine-tuned, with the intent to achieve a full rate of compliance and accurate accounting information.

### **Development of the Government Accounting System Intranet**

Several accounting and technical queries are raised by public officers on a daily basis, including accounting practices and procedures, interpretation of financial legislation and Treasury Circulars. As a measure to improve work practices, the Treasury embarked and completed during the year the Government Accounting System (GAS) Intranet project. It is the first intranet site within the specialised field of Government Accounting to be launched in the Public Service. The official launch will take place in February 2005. It aims to facilitate and speed up the transfer of information and by so doing, to provide the way forward and give solutions.

### **Cash Management**

The so-called *Swing Operation*, whereby Treasury determines the cash borrowing on a weekly basis, still featured as an important task on Tuesday mornings. The Treasury has the role and responsibility of determining Government's cash requirements. The Cash Section collates and consolidates cash flow projections submitted by government departments so as to derive the extent of the required borrowings, if any. Continuous liaison is kept with the Public Debt Office of the department.

### **Bank Reconciliation Exercise**

2004 proved to be a year during which continuous effort and support was given to the exercise. In an effort to increase the percentage of automatically reconciled transactions, the Treasury issued Treasury Circular 8/2004 – Procedure for Deposits at the Central Bank of Malta. The Treasury is monitoring closely the departmental adherence to the Circular. Besides strengthening the human resources complement, further enhancements to the system were also made during 2004.

### **EU Financing Unit**

During 2004, the EU Financing Unit continued to process payments in respect of EU Pre-Accession Funding and also started to process related payments for Structural and Cohesion Funds.

To achieve more effectiveness in its operations it was felt necessary to carry out DAS enhancements in respect of EU-post accession programmes. This has been completed and will be implemented with effect from January 2005.

## FINANCING AND ADMINISTRATION

The main functions of this Division are the monitoring, accounting and servicing of the Public Debt – Local and External. The Local element represents Malta Government Stocks and Short-Term borrowing – Treasury Bills, whilst the External element represents Foreign Loans. Public Debt Servicing during 2004 amounted to around Lm82m.

### Treasury Bills

Treasury Bills, which are offered by public auction on a weekly basis, have a dual role: primarily, to cover the temporary liquidity shortfalls of Government and secondarily, to maintain the Treasury Bill market.

The outstanding balance of Treasury Bills at any point in time is regulated by an enactment of the House of Representatives. While the current limit is Lm300 million the outstanding balance as at 31 December 2004 was Lm245,355,000.

During 2004, interest rates ranged between a low of 2.6555% for 3 month Bills (7<sup>th</sup> May, 2004) and a high of 2.9755% for 1 year Bills (1<sup>st</sup> October, 2004).

The Treasury accepted the following number of offers, by tenor, and the respective amounts of the Bills:

Tenor	Applications	Amount
28 days	24	51,500,000
91 days	315	325,944,000
182 days	56	58,009,000
273 days	71	67,520,000
364 days	75	105,826,000

The money market determines the rates for short-term borrowing and this, in turn, is influenced by the Repo Market rates.

### Government Stocks

The Division is responsible for the issue of Malta Government Stocks in accordance with the government programme. Stocks are normally issued to finance a long-term budgetary deficit. Apart from new issues, existing issues may also be converted into new tranches, as the case may be.

The Division has to service the half-yearly issue of dividends to existing stockholders. During 2004 there was the redemption of Lm44.5m worth of stocks and the issue of new stocks amounting to Lm144.5m.

### Foreign Loans

These Loans are specifically issued to finance Capital projects. A total of Lm4m was repaid according to the Re-Payment Schedule resulting in an end of year balance of Lm68.7m.

VINCENT GRECH

*Director General (Financial Administration)*



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# Special Projects Division

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## BACKGROUND

The Special Projects Office has the function to undertake and implement initiatives that are of a corporate nature. The major project undertaken in the year under review was to oversee the implementation of accrual accounting in government ministries and departments.

The introduction of accrual accounting will be a major change in the way the internal financial business of Government is conducted. This financial reform process will cross ministerial and departmental organisational boundaries and have a major impact on the way each department will conduct its day-to-day financial administration. Accrual accounting will provide more meaningful financial information, so as to enhance the quality of the Government's financial decision-making process.

## COMPLETED ACTIVITIES

The achievements that have been registered during the relevant period include:

- implementing a change management programme through the delivery of information seminars to general service administrative employees;
- completion of a comprehensive training programme in accounting for employees involved in the accounting functions in the departments. A professional accounting firm conducted this accounting training programme. Over 400 employees have participated in the training programme that had a duration of 18 months, attending one half day per week;
- providing further training in conjunction with SDO, leading to the “A” level Matsec accounting examination for employees who are willing to continue their studies in the accounting field. Twenty participants are being prepared for the examination to be held in the year 2005.
- Implementing of stock control procedures and low cost application software in all government departments. This initiative has been undertaken in conjunction with the Treasury Department and MITTS Ltd. The procedures are aimed at minimising departmental stock levels thus reducing purchases and lowering the materials and supplies expenditure of departments.
- conducting regular training seminars in stock control, asset management, management of debtors and creditors, and cash flow management. These sessions were attended by all government employees who have the responsibility for these accounting functions.
- developing of computer based training courses (CBT) in general accrual accounting and asset management. The CBT courses are being initially distributed through CD media and will in the long to medium term be provided on the Department of Treasury Intranet for a wider and more cost effective distribution. This initiative is a joint undertaking with the Treasury Department.
- establishing of the Accounting Methodology and Compliance section within the Treasury Department to ensure that departmental returns regarding stocks, fixed tangible assets, debtors and creditors, cash flow forecasts and other financial information are complete, accurate and timely.
- compiling of financial statements under partial accrual accounting rules for all ministries and their respective departments for period ending 31 December 2002. These financial statements have been prepared for internal evaluation and have the objective of gradually developing the accounting accuracy base for the full implementation of accrual accounting in Government.
- drafting of the technical and business systems requirements tender specifications for the replacement of the Departmental Accounting System (DAS). The draft specifications prepared by MITTS Ltd have the

objective of changing the Government's accounting basis from the current cash accounting method to an accrual accounting methodology.

## **PROGRESS**

The Special Projects Office has registered progress on the following activities:

- monitoring and providing assistance to the various departments in the implementation of asset management; fixed tangible asset management; management of debtors and creditors; prepayments, accruals and capital commitments; and cash flow management procedures;
- supporting departments for the compilation of trial financial statements under (partial) accrual accounting rules at year ending 31 December 2004, in conjunction with the Treasury Department and MITTS Ltd;
- maintaining a repository on the Malta Government web page regarding accrual accounting that includes stock control management; fixed tangible asset management; management of debtors and creditors; prepayments, accruals and capital commitments; and cash flow management procedures. The repository also contains the Malta Government Accounting Standards;
- authoring in co-operation with the Treasury Department of a computer based training course in the Management of Debtors and Creditors to be placed on the Treasury Department intranet, so that all Government employees may have unlimited access to this self training mechanism;
- preparing of studies by a professional accounting firm to provide guidelines on valuation for property, plant and equipment; identification and valuation for immovable property; identification and valuation for assets and amounts due arising on expropriated property; and for depreciation of property, plant and equipment;
- commencing (in conjunction with MITTS Ltd) of comprehensive I.T systems audits of all Government financial systems. These IT systems audits will provide the basis for interfacing all Government's financial systems with the accounting package that will eventually replace DAS.
- undertaking an initiative whereby, government entities which do not have a formal obligation to submit financial reports as per Companies Act or do not adhere to the international financial reporting standards (IFRS) will abide by the Malta Government Accounting Standards (MGAS). This initiative has the objective of ensuring that all government entities adhere to international accounting standards; strengthening the level of corporate governance; and facilitating the work conducted by Finance Management Monitoring Unit, National Audit Office, and the Internal Audit and Investigations Department.
- preparing of a study regarding the relationship between the European System of Accounts (ESA95), General Finance Statistics (IMF GFS2001) and the International Finance Reporting Standards (IFRS);
- initiating preliminary work regarding gender mainstreaming within the Ministry of Finance.

## **CONCLUSION**

The Special Projects Office intends to participate in other projects that are of interest to the Ministry of Finance within the available resources. However, its current priority is the implementation of accrual accounting in Government. The Special Projects Office has prepared an implementation strategy to ensure that accrual accounting is implemented professionally and smoothly within the departments without over burdening the internal resources of the various ministries and their respective departments.

Finally, the Special Projects Office is committed to utilising as much as possible the internal resources of Government, such as, MITTS Ltd, MEU, SDO and the Treasury Department to minimise the implementation expenditure of the initiatives and projects undertaken.

**EMANUEL CAMILLERI**  
*Director General (Special Projects)*

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# Economic Policy Division

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The Economic Policy Division provides Government with expert advice and assistance in the formulation of economic policy and the management of economic activity, with the aim of attaining Government's overall objectives of economic growth and development, high employment, low inflation and a sustainable external sector. Currently, the main challenges facing the Maltese economy are to attract foreign direct investment, to continue to develop the tourism industry, to improve the competitiveness of the domestic economy, to support small and medium sized enterprises, to reduce excess bureaucracy, to support creativity and innovation and to restore fiscal sustainability. Within this context, the Economic Policy Division provides Government with the relevant technical input, so that the implementation of policy measures is done within the framework of Malta's economic developmental goals.

## ECONOMIC STRATEGY DIRECTORATE

### BUDGETARY PROCESS

The Economic Policy Division participates in the budgetary process, which is an essential tool in the implementation of Government's economic strategy. The Division provided information on the latest developments and outlook for the Maltese economy as well as on the international economic environment. This information is important in order to ensure that the appropriate economic policy measures are formulated. The Division is also engaged in the process of the proposal of reform measures and their respective economic impact.

### EU ECONOMIC POLICY CO-ORDINATION

Following Malta's accession to the European Union, the Economic Policy Division started participating more actively in the EU economic policy co-ordination processes. After participating as an observer since the signing of the Accession Treaty, the Division is now participating as an EU Member State in the Economic and Financial Committee (alternates) and the Economic Policy Committee. The Division is also engaged in the preparation of briefings for the Ecofin meetings as well as for European Council meetings.

During 2004, the Division provided direct input in the preparation and submission of Malta's first *Convergence Programme 2004-2007*. This is an important document within the framework of the EU's multilateral surveillance of budgetary positions and the surveillance and co-ordination of economic policies. The Convergence Programme, which was presented to the Commission in May 2004, was compiled in collaboration with the Budget Office and the Financial Administration Directorate General of the Ministry of Finance, with important inputs being received from various Ministries and entities, including the Central Bank of Malta, the National Statistics Office and the National Commission for Welfare Reform. This document sets out the fiscal policy objectives within a macroeconomic policy framework. It presents the medium-term projections of the key macroeconomic variables and fiscal projections, together with an analysis of Government revenue and expenditure. Sensitivity analyses of the budgetary projections are also included together with an analysis of the long-term sustainability of public finances.

An update of this Convergence Programme was submitted to the Commission in December 2004. This Update reflects the recent developments in the economic situation as well as in the fiscal position, and in particular takes into account the measures presented by Government in the Budget Speech for 2005.

During 2004, the Economic Policy Division participated in the implementation of the EU's excessive deficit procedure for Malta. In particular, it presented Malta's position in the Economic and Financial Committee (alternates) and contributed towards the preparation for the relevant Ecofin meeting.

The Division participated in the country examinations held by the Economic Policy Committee in January 2004. These discussions concerned the structural reforms undertaken in product, capital and labour markets and are an important input in the process leading to the Broad Economic Policy Guidelines (BEPGs) recommendations for Malta, which were adopted by the Spring European Council. For the second time, the Division provided a direct input in the preparation of the *Malta Report on Economic Reforms: Product and Capital Markets*. This report, which was submitted to the Commission in October 2004, was compiled with the Central Bank of Malta, with important inputs from various government ministries and entities. Subsequently, in December, the Division participated in the Economic Policy Committee's country examinations. The aim of these discussions was to assess the implementation by Malta of the BEPGs recommendations adopted earlier in the year and to prepare for the next round of BEPGs recommendations.

The Economic Policy Division took an active part in the discussions with the Central Bank of Malta on the coordination of economic policies with a view to ascertain an optimal macro environment for further economic growth. This includes issues related to Malta's participation in ERM II. In addition, the Division also contributed in meetings with representatives from the International Monetary Fund (IMF) who visited Malta specifically to discuss the Government's strategy in this area.

The Division continued to provide information on the domestic economic situation and on the economic policies and measures that are being pursued by Government to the European Commission and other relevant parties. During 2004, the Division coordinated closely with Malta's desk officer in DG Ecofin. In particular, meetings were held during a visit by this officer to Malta in September 2004.

## **MALTA COUNCIL FOR ECONOMIC AND SOCIAL DEVELOPMENT**

The Division is represented in the Malta Council for Economic and Social Development and participates actively in its proceedings. During 2004, the Division was engaged in the discussions which were undertaken with the aim to reach an agreement on a social pact which would improve the competitiveness of the Maltese economy. Furthermore, as in previous years, the Division computed and presented the relevant cost-of-living adjustment for 2005 as stipulated in the Incomes Policy Agreement of 1990.

## **NATIONAL ECONOMETRIC MODELLING**

During 2004, the Division pursued work related to strengthening its econometric modelling capability. The Division has two econometric models of the domestic economy. One model is used to produce short-term forecasts for the main macroeconomic indicators. The purpose of the second model is to undertake economic policy simulation exercises and to provide a framework for medium-term forecasts. Work on the construction and maintenance of these models is undertaken in conjunction with foreign experts.

Following the publication of the relevant data by the National Statistics Office, the Division reviewed the short-term model in order to make it based on national accounts components according to ESA95 methodology. This model was used to produce economic forecasts in March and October 2004. Discussions on these forecasts were held with Malta's desk officer in DG Ecofin. The Division presented these forecasts during the Spring and Autumn Economic Forecasts Meetings held between the Commission and the EU Member States. Forecasts were also prepared for the preparations related to Government's

budget for 2005. As regards the second disaggregated model, this is being further fine-tuned in order to reflect better the realities of the Maltese economy.

### **INTERNATIONAL INSTITUTIONS**

The Economic Policy Division provides information on the performance of the Maltese economy as well as on Government's economic strategy to representatives of international organisations. As in previous years, the Division coordinated the periodic assignments carried out locally by international credit rating agencies. During 2004, the Division held discussions with representatives of Standard and Poor's regarding the credit rating assessment of Malta's sovereign bonds. As the credit ratings assigned to Malta bear a direct influence on the interest rate charged on loans raised from international markets, the Division assigns significant importance to its interaction with these agencies.

### **RESEARCH AND PUBLICATIONS**

The professional staff at the Division carries out research work on various issues. Moreover, the Division published the *Economic Survey* for the January-September 2004 period. This document which is presented to the House of Representatives at the beginning of discussions on Government's budgetary estimates, provides a comprehensive analysis of Malta's economic performance and emerging economic trends, as well as an overview of international economic developments.

The Division continued to collaborate with the Central Bank of Malta in areas of mutual interest, as well as to discuss local economic developments and prospects. The Division also continued to sustain contacts with similar organisations abroad.

### **PARTICIPATION IN PUBLIC BOARDS AND COMMITTEES**

Officials from the Division are appointed as members of the Employment Relations Board, Malta Statistics Authority, State Aid Monitoring Board, National Commission for Sustainable Development and the Integrated Pollution Prevention and Control Committee.

Furthermore, the Division was represented in the core group relating to the *National Action Plan for Employment* and participated actively in the discussions which were undertaken in connection with this document.

The Division is also represented in the Project Selection Committee which was set up in order to appraise and select the projects that would be financed from the EU Structural Funds. During the year, this Committee reviewed the projects submitted by various entities which would be financed from the Structural Funds allocated to Malta for the 2004-2006 period.

### **HUMAN RESOURCE DEVELOPMENT**

The Division attaches importance to the enhancement of its human resource potential. Training of professional staff was also pursued and in particular an officer completed a post-graduate degree in Economics at a UK university. Staff members also participated in training courses organised by the Staff Development Organisation and other training institutes, as well as in various conferences and seminars held both locally and abroad.

The Economic Policy Division has been further enhanced through the appointment of a Director International Economic Relations.

## **INFORMATION SYSTEMS AND SUPPORT**

The Division continued to work to ensure that it has the appropriate IT systems to support its professional staff in their work as well as its desktop publishing capacity. The EPD also continued to maintain its extensive information base on international economic affairs, in particular relating to the EU and the WTO.

## **INTERNATIONAL ECONOMIC RELATIONS DIRECTORATE**

The International Economic Relations Directorate provides expert advice and assistance to Government in the formulation of international trade and economic relations policy, in particular, advice upon Malta's position within the framework of implementation of the common commercial policy as evidenced in Article 133 of the EC Treaty. Furthermore, through its participation in the Commission Working Parties and Article 133 formations, the Directorate, bearing in mind Malta's interests, objectives and priorities, strives to influence positively the pertinent issues and strategies concerning the EU's common commercial policy. The Directorate provides appropriate analysis and appraisal of Malta's international, regional, bilateral and multilateral obligations, together with the necessary strategy and leadership in contributions to international and supranational organisations and institutions.

During 2004, the International Economic Relations Directorate has enhanced its liaison, consultation and coordination with other Ministries/Organisations, in particular the Ministry of Foreign Affairs, on issues involving international economic and trade relations. Where necessary, follow-up action has been taken. Furthermore, the International Economic Relations Directorate has concentrated its attention on providing an efficient and effective input in the preparation of national positions on international trade and economic issues. The necessary liaison with the EU Unit within the Ministry of Finance has been further enhanced.

In May 2004, Malta joined other Member States in a customs union with common arrangements for imports from and exports to third countries. These common arrangements are discussed, agreed and administered through the Community's 'Common Commercial Policy' (CCP).

Where issues which affect the Community's CCP are being discussed in international fora, all twenty-five Member States co-ordinate their position on policy in order to present a cohesive Community external policy. Furthermore, in the multilateral World Trade Organisation negotiations, the Commission speaks on behalf of the Community and its Member States.

At the European Council, the highest level of decision on issues dealing with External Trade Relations are taken at the session of GAERC which takes place on a monthly basis. However, these issues are first discussed in the *Article 133 Meetings*. Most decisions are taken at the 133 meetings (which are participated to by Directorate officers) and only the most contentious issues are later on discussed and decided at a COREPER or Council level.

## **ARTICLE 133 COMMITTEE**

The Article 133 Committee (Titulaire and Deputies) is a trade co-ordination, advisory and decision taking committee to the EU on all aspects of trade policy. The International Economic Relations Directorate is constantly monitoring developments in the Article 133 Committee in order to ensure that the views and interests of Malta are taken into account in the formulation of the EU's common commercial policy.

The Committee, named after the relevant article of the EC Treaty, is technically a Working Group of the Council. It is comprised of representatives from each Member State and chaired by whichever Member State holds the EU Presidency. The Commission consults the Article 133 Committee and acts upon the recommendations made.

The two highest forms of Article 133 Committee Meetings are those referred to as *titulaire* which take place once a month and the Article 133 Deputies Meetings which take place once a week. The Director General at the Economic Policy Division attends the titulaire meetings.

The Article 133 Deputies Meetings take place once a week in Brussels. The Article 133 Deputies is attended by the trade attaché who is based in Brussels. The International Economic Relations Directorate has kept close liaison with the trade attaché and with the competent authorities in Malta on issues that are on the agenda of this Committee.

The Article 133 Committee is further organised in a number of subcommittees that are monitored and followed by officers of the International Economic Relations Directorate. These subcommittees are the Article 133 Services, Article 133 Textiles, the General System of Preferences Working Party, Article 133 Anti-dumping and Anti-subsidy committee and the Safeguards Committee.

Other Commission meetings on different trade areas take place regularly in Brussels and normally experts from the capitals attend these meetings. Participation is at times covered jointly by officers within the International Economic Relations Directorate and Malta's trade attaché in Brussels. Those having a more pronounced trade content are the Working Party on EFTA and the Working Party on Trade Questions. Normally, all these meetings are covered by the trade attaché in Brussels.

### **COMMITTEE ON RULES OF ORIGIN AND THE EUROMED WG ON RULES OF ORIGIN**

The Directorate and Customs liaise and co-ordinate the issues in question. The PanEuroMed Cumulation of Origin system has been discussed in these meetings.

### **MARKET ACCESS ADVISORY COMMITTEE**

This Committee which meets on an *ad hoc* basis seeks to address market access opportunities to EU exporters. The Market Access Database which is now available to Maltese businesses free of charge as a result of membership is an indispensable tool for identifying new export opportunities to third markets. Recently the International Economic Relations Directorate assisted the Commission to receive feedback regarding the use of the database in Malta, also through the collaboration of Malta Enterprise.

### **EU BILATERAL NEGOTIATIONS WITH THIRD COUNTRIES**

The International Economic Relations Directorate, in coordination with the Ministry of Foreign Affairs and other competent authorities, has monitored and submitted feedback on the following free trade areas with third countries:

- *EU-Chile Free Trade Area:* The EU's negotiations with Chile for the establishment of a free trade area were launched concurrently with those of Mercosur, namely in 1999 and concluded in April 2002. Earlier on during the year, the International Economic Relations Directorate submitted Malta's feedback to the Commission concerning liberalisation in the services sector.
- *EU-Mercosur Free Trade Area:* Negotiations with Mercosur (Argentina, Brazil, Paraguay and Uruguay) were launched in 1999. After the round of negotiations held between the Commission and Mercosur in Argentina in March 2004, the Commission carried out a process of drafting an offer to Mercosur. This offer was presented to all Member States for any comments that they might want to make. The International Economic Relations Directorate submitted Malta's views to the Commission.
- *EU-Mexico Free Trade Area:* The EU-Mexico Free Trade Area has been ratified by the Council in 2000. In October 2004, the Commission invited Member States to comment on a proposed document concerning liberalisation in trade in services with Mexico. The International Economic Relations Directorate reviewed all the relevant documentation pertinent to Malta's position, consulted the competent authorities on Malta's position and submitted its final position to the Commission.

- *WTO Doha Development Agenda:* For the EC the key priority is to conclude the Doha negotiations with results that boost the European economy, trade and employment; that better integrate developing countries in the multilateral trading system and the global economy; and that strengthen at the international level the tools to manage globalisation. With respect to the WTO draft text on the Doha Work Programme, Malta has expressed its views with the EU Commission on the main areas of interest.

Subsequent to the fall of the WTO Cancun talks in August 2003, the Doha Development Agenda pursued the so-called July Package. WTO Member States had to agree on a package being proposed to further liberalise and regulate trade in the international arena. The Economic Policy Division played an active role in the process of formulation of the July Package with consistent liaisons with the Ministry of Foreign Affairs, through its Permanent Representation in Geneva and in Brussels, its role in the Article 133 Committee and with the presence of the Director General of the Division in Geneva during the negotiations of the July package.

The International Economic Relations Directorate is consistently monitoring and following developments concerning the Doha Agenda, in view that WTO MS have committed themselves to the obligatory principles of the July Package.

### **VISIT BY EU COMMISSION DELEGATION**

In June, an EU Commission Delegation on anti-dumping and anti-subsidy issues visited the Economic Policy Division to discuss Regulations relating to trade defence instruments and Malta's participation and voting in the anti-dumping and anti-subsidy advisory committee.

### **VISIT BY UK TRADE DELEGATION TO EPD**

A delegation from the UK Department of Trade and Industry visited Malta on 3 December 2004 for informal trade discussions with the Economic Policy Division.

## **MARKET SURVEILLANCE DIRECTORATE**

The Market Surveillance Directorate (MSD) co-ordinates, reviews and assesses market surveillance operations and enforcement related to product safety undertaken by government organisations. In conjunction with related government organisations, the Directorate plays a critical role in the development of market surveillance policy in Malta as well as creating a coordinated and uniform approach to ultimately ensure that consumers come across safe products and that business entities work within a fair and level playing field.

### **MARKET SURVEILLANCE**

During 2004 the MSD focused primarily on coordinating all the efforts being done by various government organisations through a number of co-ordination meetings related to both the food and non-food sectors. Through these meetings, coordination further developed with the Consumer and Competition Division, the Commerce Division, the Malta Standards Authority, Customs, the Freeport, the Malta Maritime Authority, the Building Construction Industry Department, the Malta Communications Authority, the Medicines Authority and Wireless Telegraphy Department, the Occupational Health and Safety Authority, the Health Division, MEPA, the Food Safety Commission, the Plant Health Department, the Food and Veterinary Regulation Division, the Public Health Department, the Malta Tourism Authority, the Fisheries Conservation and Control Division, including the establishing of primary contacts within a large number of units of most of these government organisations.

The scope of these meetings was mainly to ensure as much as possible a coordinated transition period both before and after Malta became a Member State within the European Union mainly in relation to



government organisations involved in both food and non-food safety aspects. A number of government organisations were helped to contact each other on various issues and to find practical solutions to their existing problems. Since this Directorate's responsibility stretched across both the non-food and food sectors, it was felt important that this coordinative role was given primary importance during 2004.

Co-ordination was also quite strong between this Directorate and the Secretariat for Small Business and the Self Employed whereby this Directorate participated in various additional coordination meetings organised by the Secretariat related to both government organisations as well as private enterprise. This mainly ensured that even businesses were fully aware of their responsibilities whilst at the same time, it made most of the government organisations, including this Directorate, more aware of the existing problems faced by the small businesses in Malta.

Indeed the MSD liaised principally with the Consumer and Competition Division and the Malta Standards Authority, being the main key-players within the market surveillance system. Various meetings and continual contact with these two organisations helped to ensure an effective means of solving most of the day-to-day problems faced by the market surveillance system itself.

### **TWINNING PROGRAMME AND TRANSITIONAL FUNDING**

Following the successful completion of the Twinning Light Programme with LACORS in October 2002 the Directorate endeavoured to continue implementing recommendations put forward in the Twinning Light Programme. Further to the MSD entering into memoranda of understanding with various government organisations during 2003, the MSD also successfully negotiated with the other key departments involved in market surveillance activities other memoranda of understanding. A memorandum of understanding was established with the Malta Maritime Authority to cover the Recreational Craft Sector, while another Memorandum was finalised with the Customs Department to facilitate the implementation of EU Regulation relating to the imported items from third countries, in particular, with reference to Council Regulation 339/93. The MSD also signed a Memorandum of Understanding with the Occupational Health and Safety Authority with regard to certain product sectors found within the work environment.

The MSD was also instrumental in establishing a newly furnished project fiche relating to the "Additional Support in Specific Technical Areas for the continued implementation and operation of the Market Surveillance System in Malta". This was fully coordinated with both the Malta Standards Authority and the Consumer and Competition Division and approved by the Commission in Summer 2004. It is envisaged that a number of additional government organisations will also benefit from this project fiche. Of particular importance are the three Twinning-Light Projects within this project fiche, covering: Medical Devices, Recreational Craft and Lifts; RTTE, Construction Products, Machinery, PPE and Noise Emission; Chemicals.

Other areas within the project Fiche focused on aspects related to training of MSA staff in Toxicology and Risk Assessment Techniques, training in Humidity measurements, the procurement on the part of MSA of Metrology Equipment – which were all developed by the MSA itself, in coordination with MSD.

### **INTERNATIONAL LIAISON**

The MSD extended its operations in the international dimension during 2004 and continued to participate in Product Safety Enforcement Forum of Europe (PROSAFE), Transitional Rapid Exchange of Information on Dangerous Products (TRAPEX) and Rapid Alert System for Non-Food Products (RAPEX) meetings. It also started participating in the General Product Safety Directive (GPSD) Standing Committee and the European Network as established by the new GPSD 2001/95/EC which came into force as from January 2004. MSD continued to participate in some of the European Administrative Co-operation (ADCO) Groups related to market surveillance. This Directorate also participated in the International Consumer Product Health and Safety Organisation (ICPHSO) meeting held in London in November 2004.

During this year, the Director was also appointed to form part of the Chair-group of PROSAFE itself. All this helped the Directorate to keep up to date with the latest trends in market surveillance.

Of particular importance was the possibility of establishing an understanding with one of the market surveillance authorities in the Netherlands in order to be able to test, free of charge, some of the products that may need to be tested by the Consumer and Competition Division. It is envisaged that this informal agreement will start to be implemented as from 2005.

### **RAPID ALERT SYSTEM**

This Directorate closely followed throughout the year day to day developments featuring on the Rapid Alert System (RAPEX). The system constitutes a system for the rapid exchange of information on dangers arising from the use of consumer products. The system is designed for handling urgent situations caused by consumer products that present a serious and immediate risk to the health and safety of consumers. Within this context MSD liaised closely with the Consumer and Competition Division regarding products featuring on RAPEX.

JOSEPH RAPA

*Director General (Economic Policy)*

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# Department of Contracts

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## INTERNAL RESTRUCTURING

The Department has strengthened its organisational structure with the appointment of two Directors, one responsible for Operations and the other for Compliance. The former is primarily responsible for the management of the key functions of the Department, while the latter will ensure that government departments and contracting authorities comply with the provisions of the Public Contracts Regulations and the relevant EU Directives. The EU Unit was also further strengthened with the recruitment of two policy officers. However, the Department still lacks the services of an Assistant Director (Pre-contracts).

## THE NEW PUBLIC CONTRACTS REGULATIONS

Malta's membership into the European Union led to the introduction on 1 January 2004 of Legal Notice 299 of 2003 transposing EC Public Procurement Directives 97/52/EC and 98/4/EC into Maltese Law. These regulations were amended by Legal Notice 377 of 2004 which came into effect as from 1 May 2004.

In order to cope with the demands of these regulations the Department successfully carried out a Twinning Light Project with Italian counterparts from the Ministry of Economy and Finance.

The new Regulations provide that tenders above the EU threshold have to be published in the Official Journal of the EU. Appeals procedures were further strengthened to comply with EU directives and a new section on public procurement by Utilities was also included. During 2004 the Department geared itself to these new directives by implementing new practices and procedures in its operations.

The Department, in conjunction with the Staff Development Organisation, successfully organised an intensive three-week training programme on these regulations for all departments and contracting authorities. This course was attended by 150 participants and it was the first of its kind organised on such a large scale on public procurement. This training programme succeeded in offering all contracting authorities hands on experience in all tendering procedures, and to keep procurement officers directly involved in the field of Public Procurement abreast of the impact of these regulations. The training was carried out by Italian experts under the Twinning Light Project mentioned above. In order to offer further assistance to departments, two Public Procurement Guidebooks drawn up by the Management Efficiency Unit were made available to public officers engaged in procurement.

The Department also delivered a presentation on the new regulations to the business community during a seminar organised by the Malta Business Bureau.

It is envisaged that the Department takes the necessary steps to implement the new European Parliament and EU Council Directives (17/2004/EC and 18/2004/EC) by January 2006. Initial plans to start preparing for the introduction of the new legislation have been taken in hand. In fact, preparatory work on transposing these directives into Maltese law is under way. Inquiries on a possible Twinning Light Project with a foreign partner to carry out the necessary training were also instigated.

## **EXTENDED DECENTRALISED IMPLEMENTATION SYSTEM**

A major achievement in 2004 was the granting by the EU Commission of the Extended De-Centralised Implementation System (EDIS). In practice this means that Tender Dossiers, Evaluation Committees and Evaluation Reports are no longer referred to Brussels for approval but are approved locally. This facilitated the decision making process with regard to the awarding of EU funded projects. The Department also chairs the Evaluation Committee for all Twinning Light Projects.

## **EU MATTERS**

The Department of Contracts is heavily involved in the Structural Sub-Committee on Pre-Accession and Transition Facility Assistance for Malta. In fact the Department is a member of this committee and attends both the Sectoral Monitoring Sub-Committee (SMSC) and the Joint Monitoring Committee (JMC) meetings.

The Pre-Accession Programmes for Malta for the years 2001 and 2002 have been completed successfully during this year while the Pre-Accession Programme for Malta for 2003 moved forward at a steady rate. The Transition Programme for 2004 and the Structural Funds Programmes for Malta of 2004-2006 are at the initial stages of their implementation.

The Department also contributes to the development of public procurement methodologies adopted in the EU. A senior official from the EU Unit actively participates in meetings of the Advisory Committee on Public Procurement and informal meetings for new Member States. However, other important meetings, such as the quarterly EU Public Procurement Learning Lab, and a meeting on Public Procurement Statistics, were not attended due to lack of funds.

## **GENERAL CONTRACTS COMMITTEE**

The General Contracts Committee held 101 sittings during which 993 cases were considered. The committee evaluated reports and recommendations submitted by contracting authorities resulting in the issue of 329 Letters of Acceptance by the Department. The committee also advised the Minister on all matters relating to public procurement.

## **PUBLIC CONTRACTS APPEALS BOARD**

The Public Contracts Appeals Board held various sittings that dealt with eight objection cases, five of which were upheld.

## **WEBSITE**

The website contains information on the workings of the Contracts Department. Prospective bidders are provided with essential facts on public procurement. The site offers links to details of published tenders, General Contracts Committee recommendations, awarded contracts, objections and Appeal Board Sittings. The site is also a source of information on all relative legislation on public procurement. A link is also available to the EU procurement SIMAP website.

## **STATISTICS**

The Department published 375 calls for tenders, resulting in over 1,500 offers being submitted. The total value of contracts awarded by the department in 2004 reached Lm18,295,895. The following is a breakdown of the contracts awarded:

Purchase of Pharmaceuticals	Lm	9,249,702
Miscellaneous	Lm	2,473,325
Various Construction Works	Lm	2,353,117
Roads Construction	Lm	1,147,637
Period Contracts	Lm	1,042,516
Purchase of Food	Lm	526,000
Maintenance on Schools	Lm	517,214
Purchase of various equipment	Lm	393,565
Housing Construction	Lm	178,668
Construction of Factories	Lm	145,753
Hire of Vehicles	Lm	137,780
Installation of Lifts	Lm	125,868
Sale of various items	Lm	3,750

The Department also issued tenders which were fully or partially financed from EU funds. These tenders originated from the Financing Memoranda signed for the years 2001, 2002 and 2003, from the Financing Memorandum signed for the Transition Facility for 2004 and also from the Single Programming Document for the years 2004-2006.

From the Pre-Accession Programmes 2001, 2002 and 2003 the EU Unit processed 12 Twinning Light Projects, 1 Twinning Covenant, 68 Works, Supplies and Service Tenders, 5 Framework Contracts and 8 Grants Contracts. The value of tenders issued was over the 1.4 million Euro figure, while the total value of awarded tenders was that of 6.64 million Euros.

From the Transition Facility 2004 the Department processed 9 Twinning Light Projects and 9 Twinning Covenants. The value of tenders issued was 4 million Euros, while the total value of awarded tenders was close to 1.50 million Euros.

From the Structural and Cohesion Funds the Department issued 2 Supply and 2 Service tenders estimated at 2.18 million Euro.

**EDWIN ZARB**

*Director General (Contracts)*

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# Inland Revenue Department

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## GENERAL

The Inland Revenue Department is committed to collect taxes and social security contributions effectively and efficiently in order to ensure that all taxpayers and social security contributors pay their fair share, in accordance with the relevant legislation. In doing so the Department endeavours to provide the Ministry responsible for finance with guidance in enacting such legislation and to provide taxpayers and social security contributors with quality and timely service and to simplify procedures while minimising the cost of collection and the burden to taxpayers, in order to encourage compliance.

The Inland Revenue Department continued to strive for more compliance and enforcement, combined with a cost effective collection of revenue.

A wider range of online services are being offered and the Taxpayer Service moved to upgraded premises, offering a better service in adequate surroundings for the benefit of all taxpayers who call for assistance.

The Tax Audit Section increased the number of successful productive audits and implemented further processes in order to clamp down on tax evasion.

The International Tax Unit proceeded with further Double Taxation Agreements and the fine tuning of technical matters with other countries.

Ongoing training programmes to various grades of the staff were held during 2004, in order to increase professionalism and enhance the knowledge and skills needed to deal with the tax and social security regimes administered by the Department.

## INCOME TAX

### Legislation

The Income Tax Act and the Income Tax Management Act were amended by the Budget Measures Implementation Act (Act II of 2004). The more important amendments were the following:

- Removal of the exemption from Capital Gains Tax on inherited property
- Establishment of a final capital gains tax of 7% on the selling price of property acquired before 25/11/1992
- Enabling provision for CAP and similar subsidies to be exempted
- Enabling provision to implement EU directives affecting the Income Tax Acts
- Amendments regarding collective investment schemes
- Amended provisions regarding the prescription period for the issue of assessments and the collection of tax.

Act XIII of 2004 comprehensively amended the Trusts Act. It also contained amendments to the Income Tax Acts relating to the taxation of Trusts.

The following legal notices were also published during the year:

LN 187/2004	IT Exemption (Philanthropic Work) Notice <i>exemption to Tigrinja Palazz Foundation for Charity</i>
LN 267/2004	EU Directives Regulations <i>applicability of EU Directives</i>
LN 289/2004	Fiscal Exemptions (Institutions of the European Communities) <i>exempts EU institutions</i>
LN 306/2004	Commencement Notice <i>re EU directives in Budget Measures Impl. Act</i>
LN 307/2004	Collective Investment Schemes (Amendment) <i>amendment re UCITS</i>
LN 337/2004	DTR (Taxes on Income) (Lithuania) Order <i>treaty with Lithuania</i>
LN 349/2004	DTR (Taxes on Income) (Kuwait) Order <i>treaty with Kuwait</i>
LN 372/2004	Fiscal Representatives (Financial Services Undertakings Exercising a European Right) Regs <i>obligation to appoint local fiscal reps</i>
LN 415/2004	IT Exemption (Philanthropic Work) Notice <i>exemption to Jesuit Refugee Service</i>
LN 425/2004	IT (Form of a Return for a Company, Body Corporate or Undertaking) (Amendment) Rules <i>substitutes Company return</i>
LN 426/2004	IT (Form of Returns) (Amendment) Rules <i>substitutes an Individual's return</i>
LN 427/2004	IT (Declaration Form)(Amendment) Rules <i>substitutes Decl. Form</i>
LN 428/2004	Residents Scheme Regulations <i>rules regulating permanent residents</i>
LN 462/2004	IT (Form of a Return for a Company, Body Corporate or Undertaking) (Amendment No.2) Rules <i>adds schedules to Company return</i>
LN 494/2004	Trusts (Amendment) Act – Commencement Notice <i>Comm. Notice re parts amending the ITA and ITMA</i>
LN 495/2004	I.T.M.A. – Notice of Appointed Date <i>commencement date to provision emanating from Trusts law</i>
LN 513/2004	IT Exemption (Philanthropic Work) No. 3 Notice <i>exemption to Dar Pirotta</i>
LN 530/2004	EU Directives (Amendment) Regulations <i>amendment re interest and royalties</i>

## FSS Tax

During 2004 the number of employers who submitted the FSS annual reconciliation documents for 2003 amounted to 9,577. The FSS division captured and reconciled data covering 262,273 employees for 2003; 112 employees for 2002; 549 employees for 2001.

The FSS division also issued 3,821 notices for collection of outstanding tax and social security contributions due by employers.

FSS enforcement efforts resulted in Lm1,469,369 in FSS tax and Lm1,797,675 in SSC as well as Lm42,287 in additional taxes being collected over and above the normal monthly tax revenue through employers' payroll.

The division also issued 1,576 clearances to the Expatriate Division of the OPM for the renewal of work permits to foreigners.

## Assessments

During the period under review, the Department continued with its drive to clear the backlog of assessments and to collect arrears of tax. A total of 41,447 assessments for past years prior to year of assessment 1999 were served on taxpayers.

## Self-assessment Returns for Y/A 2004

A total of 69,150 self-assessment returns for 2004 were processed up to 31<sup>st</sup> December 2004 apart from 131,365 tax declarations. These resulted in 200,515 statements for the year being issued to taxpayers up to the end of December 2004.

## Outstanding Book Balance

The outstanding book balance is a fluctuating figure which is automatically inflated whenever assessments are raised and similarly reduced whenever tax is paid in settlement and assessments under objection revised

following agreement. In view of the re-structuring of the Tax system with the introduction of Self-Assessment and the Year by Year Accounting system from Y/A 1999 onwards, the book balance is being presented in parts; the balance for the years of assessment from 1949 up to 1998 and the book balance for year of assessment 1999, year of assessment 2000, year of assessment 2001, year of assessment 2002, year of assessment 2003 and year of assessment 2004.

#### *Book Balance for Years of Assessment up to 1998*

The Debit balance up to year of assessment 1998 as on 31.12.2004 was Lm 129,311,138. This figure represents the total outstanding balance of all claims issued since 1949 less all payments of PAYE/FSS and Provisional Tax for the years of assessment for which assessments have been raised, less settlement tax. Against this book balance of Lm 129.3 million one has yet to set off any overpayments of PAYE/FSS and Provisional Tax held in Suspense in respect of which assessments have not as yet been raised, claims for settlement of tax not legally due, and the difference resulting from the revision of “best of judgment” assessments following settlement of objections.

#### *Book balance for years of assessments 1999 to 2003*

The following table shows the book balance, estimated tax and tax in dispute for Y/A 1999 to 2004 as at end 2004:

Y/A	Book Balance		Estimated Tax		Tax in Dispute	
	Taxpayers	Amount Due (Lm)	Taxpayers	Estimated Tax (Lm)	Taxpayers	Amount in Dispute (Lm)
1999	17,816	30,546,003	11,582	28,700,239	78	967,274
2000	16,773	9,593,625	11,635	8,107,824	63	1,052,875
2001	19,913	12,742,656	13,111	9,962,229	74	5,217,332
2002	22,997	15,287,107	14,898	12,496,319	43	276,818
2003	25,099	18,189,962	16,885	16,223,433	10	70,823
2004	31,814	41,201,544	22,198	38,116,368	1	1,767

Included in the book balance is an amount of Estimated Tax charged to taxpayers who did not submit any form of Tax document. This book balance will be reduced by the difference between the value of self-assessment returns submitted after end 2004 and the estimated tax charged. A number of assessments were issued against which the taxpayer filed an objection (reflected in the Tax in Dispute column).

The book balance in Foreign Currency for Years of Assessment 1999 to 2004 as on end 2004 stood at Lm7,367,074, of which Lm78,061 represents Estimated Tax in Foreign Currency in respect of taxpayers who did not submit any form of Tax document.

#### **Tax Audits**

During the year, the Department continued to conduct tax audit enquiries. A total of 1,467 new cases were opened while 1,197 cases were concluded, resulting in an increase in income brought to charge of Lm10,792,607. Cases in hand at the beginning of the year were 248, while at the end of the year the cases in hand were 518.

During the year a total of 192 new objections were received by the department against assessments raised under the self-assessment system. A total of 118 objections were concluded, resulting in an increase in income brought to charge of Lm1,161,489. At the beginning of the year the objections in hand were 123, while at the end of the year the objections in hand were 197.



## Computerisation

The Department continued with its endeavour to give a better service to the taxpayer. Consequently the computer system had to be enhanced in order to achieve this goal. Some of the most important introductions during 2004 were:

- Tax Declaration and Self Assessment modifications due to Budget 2004 and legislative updates, namely Pension Arrears, TCU agreement, CGT payments and Tax Advice;
- implementation of the new rules for the reduction of Additional Taxes;
- software to register withholding payors for the Farmers' Tax Incentive and related changes to the payment processing modules;
- software updates for the IRD Systems to maintain information of Form FS5A used by Employers to recover the One Time Bonus paid out in March 2004 to employees;
- issue of Arrears Notices to employers and taxpayers;
- EU Accession (preparation of reporting requirements for Payers in line with the EU Savings Directive and registration of Permanent Residents Applications);
- replacement and upgrade of the Work Management System, including new Document Image modules, Tax Payer Call registration modules and Standard Letter modules;
- facilities for Tax Practitioners to submit Corporate Income Tax Returns off line;
- improved software validations for the FSS end of Year Processing.

## Web Related

- General Enhancements to the Static Website, mostly updates to the information contents
- IR Services On-Line: Services for employers to submit End of Year FS7 and FS3 Documents only over the Internet in a secure web site
- Processing of Payments received over the Internet for Individual Taxpayers to pay Self Assessment, Provisional Tax and Social Security Class 2 Contributions and Settlement Tax.
- Other web initiatives that were completed but not implemented: Filing of Individual Income Tax Returns over the Internet and processing of payments received from Internet Banking.
- Other web initiatives: Improvements for Tax Practitioners to download personalised spreadsheet (to be implemented in 2005).

## Workflow Management System

The Workflow Management System was introduced to manage and control the work flow devolving on the various units of the Department. For the year, 57,746 work items were received and forwarded for processing, while 51,092 cases have been closed.

## Objections

### *Individuals*

The number of pending objections of individual taxpayers against one or more assessments on 1 January 2004 stood at 28,617. There were 3,078 new objections registered during the year whilst objections settled by the Department for the year were 9,515, leaving 22,180 objections outstanding as end 2004.

### *Companies*

At the start of 2004, there was an outstanding balance of 7,984 objection years. During the year, 164 new objections, representing 419 years of assessment, were registered. During the same year 2,322 objection years were settled. This leaves an outstanding balance of 6,081 years of assessment under objection, as at end 2004.

## Board of Special Commissioners

In terms of Section 35 (1) of the Income Tax Management Act, a taxpayer is entitled to file an appeal with the Secretary of the Board of Special Commissioners. The First Board held 47 sittings whilst the Second Board held 42 sittings. Chairmen and Members of both Boards were re-appointed for years 2003 and 2004 in exercise of the powers conferred by Article 34 of the Income Tax Management Act, 1994. The number of cases pending before both Boards on 1 January 2004 was 38 while 51 new cases were filed during the year. Thirty-three decisions were taken, 12 by the First Board and 21 by the Second Board. Further to these decisions, 14 more cases were dismissed after agreement was reached between the appellants and the Commissioner of Inland Revenue, leaving a balance of 42 cases pending as at 31 December 2004. A preliminary decision was also taken by the First Board.

## Cases Before the Court of Appeal

The number of cases involving the Court of Appeal during 2004 was as follows:

<i>Cases before Court of Appeal in 2004</i>		<i>Law Court sittings</i>	
Cases pending as on 01.01.04	20	Court of Appeal	28
New cases for 2004	6	Civil Court	9
Concluded cases	10	Magistrates Court	1
Total cases pending 31.12.04	16		

## Revenue

Revenue from Income Tax collected in 2004 totalled Lm211.2 million. The Department also collected Lm189.6 million in Social Security Contributions. The Department has been responsible for the collection and enforcement of Social Security Contributions since 1998. The following table shows the revenue collected over the past 7 years and the percentage variance from the previous year:

<b>Year</b>	<b>Revenue</b>		<b>Variance from previous year</b>	
	<i>Lm million</i>	<i>Lm million</i>	<i>Lm million</i>	<i>%</i>
1998	110.6		0.1	+ 0.1
1999	128.4		17.8	+16.0
2000	149.5		21.1	+16.5
2001	166.3		16.8	+11.2
2002	190.1		23.8	+14.3
2003	205.2		15.1	+ 7.9
2004	211.2		5.9	+ 2.9

The table below gives a breakdown of the revenue collected in 2004:

<b>I INCOME TAX</b>					
	<b>Settlement Tax Lm</b>	<b>PAYE/FSS Lm</b>	<b>Provisional Tax Lm</b>	<b>Self-Assessment Lm</b>	<b>Total Lm</b>
Government/Parastatal Employees	1,214,887	20,584,216	1,128,561	1,479,659	<b>24,407,323</b>
Dockyard Employees	65,168	1,378,839	39,379	74,287	<b>1,557,673</b>
Private Employees	1,515,748	58,463,385	1,810,494	1,923,185	<b>63,712,812</b>
Shareholders	74,444	0	107,068	95,869	<b>277,381</b>
Expatriates	187,095	0	1,774,722	1,120,551	<b>3,082,368</b>
Business, Trade, Profession & Ecclesiastic Entities, Clubs	1,367,049	0	5,764,741	3,566,053	<b>10,697,843</b>
Rentiers	412,221	0	754,728	732,823	<b>1,899,772</b>
Companies (local)	2,038,614	0	50,561,719	12,412,206	<b>65,012,539</b>
Companies (foreign)	40,448	0	536,044	420,106	<b>996,598</b>
Other Categories	964,263	0	72,283	247,735	<b>1,284,281</b>
Capital Gains	0	0	21,924,848	0	<b>21,924,848</b>
Tax at Source	0	0	682,243	0	<b>682,243</b>
15% Withholding Tax	0	0	14,004,170	0	<b>14,004,170</b>
Others	1,605,502	0	2,803	28,431	<b>1,636,736</b>
<b>Total</b>	<b>9,485,439</b>	<b>80,426,440</b>	<b>99,163,803</b>	<b>22,100,905</b>	<b>211,176,587</b>
<b>II SOCIAL SECURITY CONTRIBUTIONS</b>					
All categories	<b>Lm 189,657,189</b>				

### Cash Office Receipts

The number of receipts issued by the Cash Office in respect of Income Tax and SS Contributions were:

<b>Revenue</b>	<b>Receipts</b>	<b>Value</b>
Income Tax	286,205	Lm 174,541,611
Social Security Contributions	144,575	Lm 87,013,95

### Enforcement

The Collection Section commenced judicial action on a number of individuals and companies to secure revenue in the eventuality of tax falling statute-barred. Defaulting taxpayers were served with Demand Notices requesting them to regularise their position. Various cases were concluded while others were offered instalment plans.

<b>Pre Y/A 1999 - Individuals</b>		
<b>Type of Enforcement</b>	<b>No</b>	<b>Value (Lm)</b>
Demand Notices issued	2,581	4,120,879
Judicial letters created	1,776	3,568,595
Agreements	1,909	1,363,013

<b>Pre Y/A 1999 - Companies</b>		
<b>Type of Enforcement</b>	<b>No</b>	<b>Value (Lm)</b>
Demand Notices issued	574	5,651,366
Judicial Letters created	230	2,398,318
Agreements	34	268,213

<b>PAYE/FSS Pre-2003</b>		
<b>Type of Enforcement</b>	<b>No</b>	<b>Value (Lm)</b>
Demand Notices issued	309	5,966,072
Judicial Letters created	249	3,291,192
Agreements	111	2,681,853

<b>Year by Year - Individuals</b>		
<b>Type of Enforcement</b>	<b>No</b>	<b>Value (Lm)</b>
Default Notices issued	6,700	11,707,934
Demand Notices issued	5,111	21,638,504

<b>Year by Year - Body of Persons</b>		
<b>Type of Enforcement</b>	<b>No</b>	<b>Value (Lm)</b>
Default Notices issued	2,341	20,141,095
Demand Notices issued	2,152	17,237,372

There were 146 court cases sittings during the year.

## Outdoor Inspections

The services of the Revenue Security Corps (RSCS) were regularly availed of to help the Department in its drive against tax evasion and for tax collection. Outdoor inspections were carried out mainly to identify cases of persons liable to tax who had failed to register as taxpayers, to ensure payment by employers of outstanding remittance of tax/SSC deducted from salaries/wages under the FSS system, and tracing taxpayers who fail to claim assessments sent by Registered Mail.

Inspections by RSC carried out in 2004 were:

Cash Escorts	625
Collection purposes	1,133
Investigation	213
Bank Cheque Defaulters	1,000
Capital Transfer Duty Branch	1,417
PAYE	229
General enquiries	57

In addition, members of the RSC Investigation Section were engaged on a special exercise carried out in December 2004 to conduct enquiries and collect outstanding payments for Final Settlement Systems (FSS) and Social Security Contributions (SSC) from various taxpayers/employers. This exercise consisted of 124 documents and the amount collected was Lm637,096.

## Taxpayer Service

The Department operates a one-stop-shop taxpayer service to address the needs of taxpayers, especially pensioners and individuals. During 2004 the Department's Taxpayer Service Office (Help Desk):

- dealt with 29,140 personal encounters
- registered 2,694 new taxpayers
- reached 890 direct agreements for programmed tax payments by individuals
- reached 829 agreements with employers on behalf of taxpayers for programmed payments of tax.
- amended 2,690 addresses
- issued 10,856 Income Tax Returns

## Expenditure

The total recurrent expenditure, inclusive of all personal emoluments and other operating expenses, to administer income tax collection was Lm2.25 million. This figure does not include the amount of Lm2.36 million paid in tax refunds which should not be considered as an item of expenditure.

Thus, the cost per Lm1 of income tax collected during 2004 works out at 1c. When considering also the actual revenue collected from social security contributions, the cost per Lm1 of revenue collected from both sources works out at 5 mils.

## Refunds

A total of 4,789 refunds of overpaid tax amounting to Lm676,664 was issued for years of assessment prior to 1999. Up to 31 December 2004, the total of refunds issued for Y/A 2004, which also in some cases included Y/A 2003 and Y/A 2002, was 19,065, amounting to Lm13,147,232.

## Social Security Contributions

During 2004 the Social Security Division continued with the verification and enforcement of social security contributions. The major tasks carried out during 2004 were the following:

- 2,361 personal encounters;
- 595 determination of class one contributions for persons working abroad;
- 2,183 adjustments of receipts;
- 64 refunds issued, amounting to Lm35,000;
- 761 pensions scheme applications.

## **INTERNATIONAL TAX UNIT**

### **Double Taxation Agreements**

The double taxation agreements with Kuwait and Lithuania have entered into force. The double taxation agreements with Kuwait and Lithuania were published in the Government Gazette. Negotiations at the technical level were concluded with Greece, San Marino and the United Arab Emirates and continued with Spain.

### **Work Processed**

During 2004 the International Tax Unit processed:

- 1,018 requests for certification of exemption from duty under the provisions of the Duty on Documents and Transfers Act;
- 383 claims for refunds;
- 302 applications for new Advance Revenue Rulings;
- 27 applications for renewals of Advance Revenue Rulings;
- 63 exchanges of information with foreign tax authorities.

### **Revenue**

During the year, Lm1,630,000 were transferred to revenue from tax paid by companies dealt with at the International Tax Unit

### **EU and OECD Affairs**

Members of the International Tax Unit attended 17 meetings in connection with EU/OECD related matters abroad.

### **Tax Law Amendments**

The International Tax Unit took part in the drafting of major amendments to tax law concerning trusts, shipping and EU-related matters.

## **CAPITAL TRANSFER DUTY**

### **Duty on Documents**

During 2004 the Department examined 15,929 notarial deeds, out of which 5,711 cases were inspected by the Department's engineers. As a result, 4,669 original assessments were raised. During the same period 812 objections were filed, 949 revised claims were issued and 870 objections were settled. 21 refusals were issued in anticipation of appeals for the consideration of the Board of Special Commissioners for Duty on Documents and Transfers.

Besides duty on the transfer of immovable property, revenue under this source included also the duty collected in respect of share transfers, insurance policies, bank credit cards and other duties payable on various documents.

Total revenue collected from this source amounted to Lm36,687,550 (Duty on Documents) whilst outstanding balance of assessed duty, including disputed duty up to and including 31 December 2004 amounted to Lm14,433,146. This included revenue in respect of *causa mortis* transmissions. Besides arresting the further growth of arrears of revenue under the Duty on Documents and Transfers, the Department succeeded in reducing the arrears figure by circa Lm1,500,000 through intensified action of collection and conclusion of objections.

Since its inception, late in 1992, the *Causa Mortis* Section received 22,123 declarations of *causa mortis* transfers, mainly consisting of multiple transferees or beneficiaries in respect of Malta and Gozo. During the year, 3,145 *causa mortis* returns were processed and 390 declarations filed by notaries were referred to the Department's technical experts to verify the valuation of immovable properties declared therein.

The Department receives and investigates a number of deficient returns. In fact, during the year, 2,405 claims were issued and 694 revised assessments were raised.

During the same period 500 objections were filed by transferees against the said *causa mortis* claims, while 857 objections have been concluded; appeals to eventual refusals will have to be finally considered by the above-mentioned Board.

### **Death and Donation Duty**

The number of returns of chargeable transmissions filed during the period was 178 - all were processed and no outstanding returns remained. Duty claimed was Lm29,314. Revenue collected, including prepayments on account and from arrears, totalled Lm93,163. Outstanding balances of assessed duty, including disputed duty up to end 2004, amounted to Lm2,643,094.

### **Acquisition of Immovable Property by Non-Residents**

Malta is now a full member of the European Union. During pre-accession negotiations, Malta successfully reached an agreement with the EU regarding the acquisition of immovable property. As a result of this agreement, the situation regarding AIPs will be retained on a permanent basis even after membership although EU law allows EU citizens to purchase property in any EU country without restrictions.

During negotiations, the EU agreed that considering the limited number of residences in Malta and the limited land available for construction, which can only cover the basic needs of the present residents, Malta may maintain restrictions, on a non-discriminatory basis, on the right of EU citizens, without five years continuous residence in Malta, to acquire and hold secondary residences.

This means that Maltese and EU citizens without five years continuous residence seeking to buy a secondary house in Malta will still need to apply for authorisation and satisfy conditions as is now. They will also not be entitled to buy more than one property unless they have resided in Malta for at least five years.

The five-year period as a residence requirement was the balance that was struck between the two diametrically opposed positions in Maltese and EU law. Under Maltese law, foreigners can never have full rights to buy immovable property in Malta unless they obtain Maltese nationality. Under EU law, EU citizens would have full rights to buy as much immovable property in Malta as they like without any need to reside in Malta.

Instead, Malta agreed to give equal rights to EU citizens to buy immovable property freely for secondary residence purposes in Malta only if they first resided here for a period of five years. In practice, this means that only those EU citizens who settle in Malta permanently can do so.

This was done in order to eliminate the possibility of foreigners freely buying as much property in Malta as they like. More importantly, Malta wanted to reduce the possibility of an increase in property prices because of EU membership.

The following new provisions were enacted under Chapter 246 of the Laws of Malta so that the legislation would comply with the *acquis communautaire* of the EU:

- (a) Citizens of all European Union member states, including therefore Maltese Citizens, who have resided in Malta continuously for a minimum period of five years at any time preceding the date of acquisition may freely acquire immovable property without the necessity of obtaining a permit under Chapter 246 of the Laws of Malta.
- (b) Citizens of all European Union member states, including therefore Maltese Citizens, who have not resided continuously in Malta for a minimum period of five years may only purchase their primary residence or any immovable property required for their business activities or supply of services without the necessity of obtaining a permit under Chapter 246 of the Laws of Malta.
- (c) Citizens of all European Union member states, including therefore Maltese Citizens, who have not resided continuously in Malta for a minimum period of five years, require a permit under Chapter 246 of the Laws of Malta to acquire immovable property for secondary residence purposes.
- (d) Individuals who are not citizens of a European Member state may not acquire any immovable property unless they are granted a permit in terms of Chapter 246 of the Laws of Malta.
- (e) There are defined zones in Malta, referred to as special designated areas, where there are absolutely no restrictions to acquisition. There is also no restriction on acquisition through inheritance and there are also several other special exemptions. Different rules apply to the acquisition by bodies of persons.

## Revenue

The total revenue collected in Malta and Gozo during the year was:

	<b>Lm</b>
Death and Donation Duty	73,156
Duty on Documents and Transfers	36,687,556
Fines and Late Fees	5,242
Fees on A.I.P. Permits	67,100
<b>Total</b>	<b>36,833,054</b>

## Preliminary Agreements

The registration of Promise of Sale Agreements at the Capital Transfer Duty Department was introduced. A Promise of Sale is to be registered within 21 days from its completion whereby the transferee is obliged to pay in advance 20% of the amount chargeable under the Duty on Documents and Transfers Act. By the end of 2004 the Department registered a total of 9,908 Promise of Sale Agreements, of which 879 were registered in Gozo.

## Il-Monti

Il-Monti advances money on pledges of precious metal. Below is a record of its activities during 2004:

Pledges accepted	4,208
Pledges redeemed	4,578
Money loaned	Lm 185,876
Money received back	Lm 206,102
Interest received	Lm 17,613

The number of pledges remaining on hand at end 2004 was 9,519 against which Lm405,130 had been advanced. Besides advancing money on pledges, Il-Monti also holds regular Court deposits lodged for safe keeping. On 31 December 2004 a total of 693 deposits were still held.

### **Assay and Valuations Office (Office of the Consul)**

This Office regulates the marketing and distribution of precious metal articles. The Goldsmiths and Silversmiths Act which came into force on 1 April 2004 requires that all marketed goods must be hallmarked either by an Assay Office Hallmark or by a manufacturer's or sponsor's hallmark as authorised in Malta or in an EU Member State.

The price of gold and silver, on which valuations made by this Office are based, is determined daily on the values quoted by the Central Bank of Malta. The number of articles assayed, weighed and valued during the period is shown below.

	<b>Gold</b>	<b>Silver</b>	<b>Total</b>
Articles received	42,357	222,938	<b>265,295</b>
Assays	571	582	<b>1,153</b>
Articles weighed and valued	372	0	<b>372</b>
Articles broken up on being found to be made of an inferior standard	0	1,316	<b>1,316</b>

Revenue from fees on assays, hallmarking, valuing and manufacturers/sponsors registrations was Lm4,068.

Expenditure incurred in running the Consul's Office was Lm59,427 including salaries, overtime and bonus.

**ADRIAN CHETCUTI**

*Director General (Inland Revenue)*



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# Customs Department

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## MANAGEMENT

A milestone for the Maltese Customs was reached on 1 May 2004 with Malta's membership of the European Union. This event had a significant effect on the operations of the Maltese Customs.

One of the greatest impacts is the application of EU Customs legislation in its entirety. To these one must add Malta's obligations under:

- The various Treaties e.g. EC and EU
- Large number of international agreements concluded by the Community
- Several hundreds of regulations
- World Trade Organisation Agreements on customs duties and non-tariff barriers
- World Customs Organisation mainly in the area of tariff classification.

On the national level, the Department operates under the provisions of the Import Duties Act, Excise Duties Act, the Customs Ordinance and the Customs Regulations in so far as these do not conflict with EU Customs legislation.

Being part of a Customs Union, Maltese Customs have to operate in a completely different environment with much wider political and economic objectives.

Since membership, Maltese Customs is obliged to implement a customs policy which is based on customs law which is used as a dynamic tool to ensure the collection, at importation, of customs, agricultural and anti-dumping duties, as well as VAT on importation and excise duties, while contributing at the same time to the fight against fraud.

One very important area concerns the protection of Intellectual Property Rights, in which the Maltese Customs is recognised as an administration which is giving excellent service and obtaining impressive results in order to protect the EU citizens and industry. The eight Customs officials who are seconded with the Security Service must also be mentioned.

As a new member state, this Department has set its objectives and expectations as a Customs Service to function and integrate fully in the EU mechanics thus becoming a useful part and fully compatible with other Member States Customs Administrations. These objectives have necessitated the use of more and complicated IT-based systems, training of staff and a re-organisation.

Full membership of the EU also means that our focus has, as from 1 May 2004, moved towards the protection of the EU external border. This meant the placing of trained officers on the border and inland in order to implement new legislation, protect society and the Community Market of which Malta forms an integral part.

Another very important impact of membership is that relations with DG TAXUD and with the other Member States Customs Administrations have been strengthened with everyone working together towards a common goal.

## PERSONNEL AND TRAINING

### Human Resources

During 2004 the Section was actively involved in the management of the Division's human resources. Timely action was taken to process various applications lodged by staff in the Division. Returns and reports were drawn up and submitted as required and expenditure related to emoluments payable to staff was monitored to ensure that funds suffice till the end of the financial year.

One criminal case was initiated in terms of PSC regulations.

### Training

During 2004, the Training Unit organised a total of 654 hours of in-house training. Out of these, 369 hours were measured on courses to staff and 285 hours to the private sector. Courses totalled 76, of which 47 were delivered to Customs staff and 29 to the other groups. Half of this training was specialised (52%) whilst the others were seminars (28%), basic training (11%), and briefings (9%).

A total number of 1,572 participants were invited, of whom 1,065 consisted of staff and 507 traders, agents and others.

Overall, 20 in-house facilitators/trainers and 8 external trainers (6 foreign and 2 from local organisations) conducted or were involved in the above courses. Co-operation was received from four external training entities and we benefited from their programmes, which were tailored to our needs, resulting in 7 courses being sponsored by them. Whereas in previous years numerous courses were being identified, planned and targeted through other foreign assistance-programmes (like the Euro Customs Work programme), during 2004 almost all courses were identified, planned and organised entirely by the Training Unit and delivered by our in-house trainers.

### Other External Training Organised by the Training Unit in collaboration with other Local Training Organisations

Apart from the above-mentioned courses, the Unit nominated various staff members to attend courses at other training organisations. These courses covered a wide spectrum of subjects from Vat legislation, management to fire fighting and Health and Safety issues.

### Secretariat

This Section handled the following cases:

#### Unsettled Post Entries and other Revenue Due

New Entries	84
Settled	59
Pending	25
Amount collected	Lm 15,126
Amount still due	Lm 5,657

#### Incorrect Declarations

New Cases	137
No of cases settled	462
No of cases referred to MFIN	63

#### Amounts collected

	<b>Lm</b>
Fines	38,534
Import Duty	51,221

Excise Duty	2,296
Levy	82,031
VAT	70,778
Rent	12
<b>Total</b>	<b>244,872</b>

Lm175 were collected as charges for the provision of Customs certificates. There were 52 requests for the issue of misplaced Customs documents. The amount of Lm100,619 was collected as licence fees from the 35 Bond Operators utilising the warehouses at Hal Far Groupage Bonds.

The Section, in co-ordination with the C & E Yacht Marina Section, continued the monitoring of yachts and pleasure craft which were on a suspensive regime. The amount of Lm2,189,552 taxes were collected under the 5% concession offered by the Ministry of Finance.

### Registry

This section continued to ensure that all incoming and outgoing correspondence and the movements of files were recorded in a timely and correct manner.

### FINANCE

The Branch is responsible for all business and financial accounting comprising preparation of the business and financial plan; preparation of the annual estimates for the Department; monitoring development thereof by ensuring that revenue due is collected and by controlling expenditure incurred by the Department; provision of accurate forecasts and financial data to the Management Committee.

The Finance Branch takes care of general administrative matters, procurement of supplies and general maintenance of Customs premises

The year under review has been marked by various activities, which reached their peak with Malta's formal entry into the European Union. As in previous years, a concerted effort has been made by all sections, forming part of this branch, in order to attain optimum results and to offer an efficient and timely service to other government departments and to the public in general.

### Accounts Section

Revenue collected during 2004 totalled Lm99,233,509:

Import Duty	Lm 7,877,495
Excise Duty	Lm 54,431,057
VAT/ETI	Lm 34,996,035
Levy	Lm 1,416,934
Other Fees etc.	Lm 511,988

Deposits raised amounted to Lm5,433,270 whilst deposits refunded totalled Lm655,780. Lm1,392,023 were collected as charges for the attendance of Customs personnel.

Recurrent expenditure for 2004 totalled Lm5,403,824 of which Lm4,623,567 were paid out as personal emoluments. In relation to expenditure under Programmes and Initiatives, the following payments were registered:

Refunds of Duty and Drawback	Lm 111,129
Refunds of Levy	Lm 65,764
Refunds on Petroleum Products	Lm 612,599

## **Cash Office**

This Office was accountable for the receipt of direct payments of import taxes on the CES, and Asycuda declarations processed through the Entry Processing Unit. Payments have also been effected in relation to Store Rent, Hal Far Groupage Warehouse Rent, Sales of the Customs Tariff and Removal Expenses. 47,345 receipts were issued during 2004.

The Office also settled deposits in respect of overdue Temporary Imports. The Section has duly remitted the daily receipts to the Central Bank.

## **Customs Debt Unit**

The Customs Debt Unit was responsible for preparing monthly 'A' Accounts with funds due to EU Budget in respect of Import Duties collected, and quarterly 'B' Account returns to the EU Budget Office.

This unit monitored the Accounting Customs Electronic System by checking 104 SADR's and where these were found to have been erroneously created, funds were recouped through SADM's. Wrong SADR's numbered 45 and amounted to Lm 28,671.

The Customs Debt Unit was also responsible for refunds of duties and credit notes. In fact 215 refunds, amounting to Lm34,750, and 106 credit notes were issued.

Monitoring of Bank Guarantees was also effected by this unit and consisted of renewals or cancellations of 177 Bond Operators, 423 Cheque and 113 Burdnara guarantees in all.

## **Common Agricultural Policy Unit**

In the pre-accession phase, the Unit continued in its preparations for post accession procedures and functions. The main emphasis was laid on the prospect of having to control the exports earmarked to benefit from export refund. The unit was responsible for becoming conversant with the regulations governing controls over future exports for refund purposes; establishing procedures for these controls; and writing instruction manuals to officers due to effect the controls.

The Unit was assisted by expertise provided by the Irish Customs under the Customs 2007 exchange programme. Officers from this Unit were given the opportunity to visit the Irish Customs to gain hands on experience on how to conduct the controls. In turn, two Irish Customs experts visited the unit to supervise our progress in our pre-accession preparations. During this period, the Unit had also visits from the Peer Review Team sent from Brussels.

The Unit was also responsible for delineating the functions for which the Customs is the competent authority, in a Memorandum of Understanding that was signed between our Department and the Paying Agency.

Upon accession, the Unit embarked upon controls in relation to:

- the Inward Processing authorisation for sugar granted to a local company,
- the state aid given to purchasers of sugar from the EU,
- the manual approval on the CES of imported consignments under an agricultural quota system,
- the control of goods arriving in Malta under the transit procedure (T5) for consumption on cruise ships and oil rigs.

The CAP Unit was directly involved in assisting Ministry for Rural Affairs and the Environment personnel to set up procedures to register potential beneficiaries of export refunds. Members of the Unit attended four Trade Mechanisms Committee meetings held in Brussels. The CAP Unit managed to forge links with the Italian Customs who offered their assistance in conducting laboratory analysis which cannot be performed

at the National Laboratory. The service was availed of by the Unit for the analysis of samples of high quality common wheat.

The CAP Unit conducted two half-day briefing sessions to Customs Officers regarding the controls that would need to be affected according to the regulations governing the export refund system.

### **Procurement and Stores Section**

Five departmental tenders were issued in 2004. The inventory system is operated through the computerised Asset Management System. The recording of inventory items that were purchased and their distribution was carried out simultaneously and in full detail. Unserviceable items are also being recorded and struck off the inventory database pending disposal in due course.

### **Health and Safety Unit**

During 2004, the Unit continued to monitor the Health and Safety aspects programme at various places of work initiated during the previous year. Discussions with personnel from various sections were held in order to pinpoint the needs for improving safety issues at places of work.

Protective clothing and equipment were provided on demand and it was noticed that these are being utilised regularly by the personnel requesting them.

Lectures on First Aid and Fire Fighting, as per OHS Act, were organised by the Unit's Training section in collaboration with the Red Cross and Civil Protection Department.

## **INTERNATIONAL AFFAIRS AND EXCISE**

### **EUROPEAN UNION MATTERS**

#### **Adoption of the Customs and Excise *Acquis***

During 2004 this Directorate was responsible with the completion of the adoption of the *acquis* with the continuous implementation of provisions in Chapter 25 (Customs Union) and Chapter 10 (Taxation re Excise Duties).

#### **Other Co-ordination**

The Directorate also co-ordinated with other Offices of Review and Directorates regarding other Chapters of the *acquis* falling under their responsibilities, the EU Negotiations Secretariat, the EU Directorate, and wherever necessary with the Maltese Representation in Brussels. Moreover, it has also been responsible for the preparation of position papers, Instruction Notes and Memoranda on various Council and Commission Proposals, related documentation and reports.

#### **Business Change Management Plan**

- Following the departure of the Pre-Accession Adviser, early in 2004, this Directorate took over completely the work involved with the Change Management within the Division.
- The new Customs Electronic System (CES) came into production in early 2004 and more information can be found under the section 'Computer Section' in the heading Excise and Systems Controls later on in this Chapter.
- The Eurocustoms Contract continued to be implemented and a heavy programme was undertaken before accession.

- This Directorate also provided the necessary inputs to both the Joint Monitoring Committee (JMC) and to the Interim Evaluation of Pre-accession projects which was launched in December 2003 and commissioned directly by the European Commission.

### **Transition Facility**

Following a call for proposals issued by the Planning and Priorities Co-ordination Division of the Office of the Prime Minister, the Department prepared a document entitled *Measures to assist the Customs Department in ensuring that new areas of work post-accession meet all the requirements*. The overall objectives were to improve customs operations in Malta following its accession to the EU. It was also proposed that this new project was to be done in conjunction with Eurocustoms following the successful implementation of three projects covering training under the Business Change Management Plan.

The purpose of the project was to provide practical assistance and guidance in implementation and application in the following new areas of operations following accession:

- Procedures with Economic Impact
- Common Agricultural Products (trade mechanisms)
- Post Clearance Audits
- Excise
- “Blue” channel controls
- Tariff Quota management
- TARIC Management
- Binding Tariff Information
- Transit
- Implementing Provisions

The Department’s proposal was favourably accepted and the sum of €100,000 was allocated and it is envisaged that the implementation of this project will be completed by the third quarter of 2005.

### **Seminars and Meetings**

The necessary preparations were also undertaken by this Directorate so that Customs Officials attended the various seminars and meetings of Working Groups (WG) – both pre-Accession and then after May 1<sup>st</sup> – where our representatives participated actively. These seminars and WG meetings were mostly held through the Customs 2007 and Fiscalis 2007 programmes.

The Directorate has been entrusted by the European Commission to organise during 2005 a Fiscalis Seminar on the ‘Classification of Alcoholic Beverages for Excise Duty purposes’. The outcome expected from this seminar is an increased level of understanding as concerns the classification and definition of alcoholic beverages for excise purposes and of Member States’ policy in this field. The seminar is also expected to suggest possible solutions for the problems encountered.

## **EXCISE AND SYSTEM CONTROLS**

### **Auction Sales Office**

The number of lots brought over from 2003 was seven. Throughout 2004 a further seven lots of several consignments were received at this office, thus bringing a total of 14 lots. Two sales held during the year yielded the sum of Lm2,623. Several consignments were destroyed as they were declared unsaleable. Five lots were to be carried over to 2005.

## **Barriera Bonded Stores**

Excise Duty generated through operations at Barriera Bonded Stores was Lm4,610,355, Levy was Lm192,635, Import Duty was Lm28,660 and VAT collected was Lm1,702,355, bringing the revenue collected to a total of Lm6,534,005, a decrease of 17% over figures for 2003. This loss in revenue is mainly attributed to the removal of Levy on wine, tobacco products and beer which was deducted gradually during the first four months of 2004 and was eventually removed by 1 May 2004 with Malta's accession to the EU.

Rent collected during 2004 was Lm51,186, a decrease of 13% over 2003. Total operations carried out at Barriera and Private Bonds were 7,830, a decrease of 66% over those effected in 2003. The decrease in store-rent of 13% is partly due to the fact that eight traders became authorised warehouse keepers and thus operated their own private tax warehouse as well as the fact that some arrears in store-rent were recorded.

## **Computer Section**

During 2004 the Computer Section adopted and deployed new software solutions to comply with EU technical and legal requirements.

It had initially been expected that the new Customs Electronic System would be fully implemented from 1 January 2003 so that both traders and Customs personnel would have time to become fully conversant with its workings by accession, but the start date was delayed to February 2004 due to technical problems. In order to soften the impact of the new system's introduction, it was decided to use the system solely for importations arriving directly from non-EU countries, and keep on using the old Asycuda system for goods coming from the EU. On accession the system would still be used for exports from Malta. The retention of this system would also provide us with a contingency solution in case of problems with the CES.

In anticipation of the start of operations, Section members visited out-stations and designed working procedures in consultation with the various section heads; training was given to those who had still not received any, and an information campaign was launched, targeting the trading community in particular.

As well as the CES this section also installed and implemented various other new software packages in line with EU requirements. These included the Tariff Quota System and the client applications for Surveillance, the SMS and ISPP. The section also collaborated in the development of the new Omera package and a staff member is the system administrator for the BTI application.

The impending accession date meant that this Unit had to increase its efforts to ensure the smoothest transition possible from the national TARIFF to the EU TARIC as from 1 May. Preparations included the upgrading of the internet Portal to include new functionalities and information. A new database instance was created on the production environment to house the TARIC information.

A staff member was attached for six months with DG TAXUD in Brussels, to familiarise himself with the crucial TARIC database. Three other section members, who administer all Tariff Quota applications and provide surveillance information on a regular basis to the Commission, attended courses abroad on the legislation and in the use of applications.

Since accession this Section has continued to provide help to traders, respond to literally thousands of queries, and ensure that problems are followed up so that they would not recur. It was made possible for Excise Duty and for the relevant VAT on goods from the EU to be accommodated in and calculated by the system. The Section also continued to work to improve system functionalities and reliability, although some modules, Export, Risk Analysis for Manifest and EVITA, still have to be implemented.

Immediately after accession, major changes were being planned for the Custom Code – changes which have a significant impact on present IT systems. In order to allow for the integration of Customs

administrations while opening up the entire spectrum of systems to EU traders, all present national IT systems will have to be transformed to allow for full interoperability. The Section has joined a User Requirements Work Group to study what the other customs administrations are doing and to share ideas, and to come up with proposals while cushioning as far as possible the impact of the changes on Malta's national administration and resources.

## **IT Centre**

The Customs Electronic System (CES) was launched on 6 February 2004. All equipment connected to the LAN was checked and configured to meet the new requirements. New LAN infrastructure was set up at the Yacht Marina Customs Offices, at the Enforcement Unit and Verification Unit amongst others.

More new e-mail accounts (both personal & generic), internet, NT logins and other ICT services were allocated to users. This was a direct consequence of the widespread connectivity and the distribution of new hardware.

Assisted Seaport Terminal (Baggage Room) in their dealings with VISET regarding the transfer of ICT connectivity to the new premises. This included the running of the telephone system over structured cable.

The MCC (transit) application was installed at the various out stations. The system was also set up at the Training room for users' hands-on training. Intrastat software was also installed at various locations in the department.

The MS Software Update Services (SUS) was installed on all machines at off-site areas to enable the automatic update of new patches. Later the ePolicy orchestrator was also installed on all machines to enable the automatic updates of the corporate anti-virus application. A major issue also encountered this year was the change over of the IP addresses to a DHCP system by MITTS Ltd.

During the course of the year a new Malta Customs website [www.maltacustoms.gov.mt](http://www.maltacustoms.gov.mt) was developed by MITTS Ltd. IT Centre undertook the onus of regularly updating this website.

IT Centre staff received an average of 139.2 calls for support/assistance monthly amounting to 6.4 calls daily or 1,670 calls in one year. This year was particularly laborious where viruses and spyware were involved. Members of the IT centre staff attended various courses and seminars.

## **Excise Section**

During the year this section saw an expansion in its operations and it is now known as the Excise Control Unit which is divided into two smaller units. One Unit caters for the local production and the other is concerned with imports and intra-community traffic in excise goods. Local production of locally manufactured spirits, beer and tobacco products was regularly supervised by the first Unit. Visits to production establishments and auditing of production books continued to be carried out as required by regulations.

During the year the following amounts were collected:

- Lm83,170 Excise duty/VAT on alcohol released to local blenders (7,327 litres);
- Lm3,155 on 1,261 litres of locally produced alcoholic beverages;
- Lm119,504 from the sale of locally produced beer;
- Lm13,917 on the sale of manufactured tobacco such as cigars and pipe tobacco;
- Lm164,132 on imported manufactured tobacco;
- Lm165,845 Excise Duty/Import Duty/VAT on imports or intra-community goods brought in by Excise Registered Traders;
- Lm1,816,409 Excise Duty/VAT on goods sold to passengers on EU flights;



- Lm22,511,280 Excise Duty on cigarettes. From May 2004 the Department introduced a new Tax Band which in itself is based on ultra modern technology and is considered to be quite impossible to counterfeit.

## **Fuel Section**

During the year no importation of Benzene P was effected in line with the decision to ban such product. A 15% increase over 2003 has been registered in imports of Benzene Unleaded.

Gas Oil imports have also registered an increase of 17%. This increase confirms the fact that more use is being made of this product. A decrease of 73% was registered on exports.

As in the previous year Kerosene was imported as part of Jet A1 Fuel. An increase of 15% was registered in the sale of Kerosene whilst a 41% decrease was registered in the importation of Jet A1.

During the year there was an increase of 32% in imports of Avgas 100 over the corresponding figure for last year. No increases in exports of this product were registered during the year.

Fuel Oil imports have registered an increase of 11% over last year but showed a very big decrease in exports of this product and has declined by 94%.

Imports of Light Cycle Oil continued to show a further increase of 203% over the previous year. Such a hefty increase may be the result because the product is seen as more viable than Gas Oil which is much dearer in price for blending purposes.

LPG products during the period under review registered a slight decrease of 1% in imports.

Total duty collected on all fuels shows an increase of 3% over the previous year bringing the amount to Lm25,058,877. Bunkering Tax collected amounted to Lm145,521 which results in a slight decrease of 6% over 2003.

## **Newport Bonded Stores**

The number of consignments received during the year was 243 whilst the number of deliveries was 212. The total amount of Duty, Excise duty, Vat and Levy collected during the year was Lm67,716. Rent collected amounted to Lm12,290.

## **Private Bonds/Frozen Foods**

During the year 949 trailers/containers were unstuffed, representing a very significant decrease over the previous year's figures. This is the result of accession to the EU where cargo of EU origin is not controlled by customs. Of the total, 779 units contained refrigerated cargo.

During the period 5,142 vehicles were warehoused whilst 3,648 vehicles were released from bond and a reasonable number were also exported. Lm683,688 in Duty and Lm2,144,099 in VAT were collected on the release of these cars from bond.

Warehousing and releasing operations in other genre of goods continued throughout the year. A number of importers were authorised to operate new customs warehouses and several other applications are in the processing stage.

## COMPLIANCE

As envisaged in the Business Change Management Programme, the Compliance Directorate was set up to improve the operational capacity of the Customs Department. This directorate is currently subdivided into two sections namely Processing Services and Landing and Releasing and it is foreseen that during 2005, the Excise and System Control will also form part of this directorate.

Various sections had to be restructured to meet new challenges following Malta's accession into the EU. In addition, processes had to be adjusted and modernised as Customs is continuing to face changes in the operating environment. New sections namely Binding Tariff Information, Binding Origin Information, Compliance Verification Unit, Customs Economic Procedures Unit and Common Agricultural Policy Unit were formed while Entry Processing Unit, Customs Central Intelligence Unit, Outdoor Services and Industries Sections were disbanded.

As from accession into the EU, the traditional customs formalities on all imports ceased to be applied on goods arriving from and dispatched to EU countries. As a result, the physical control was drastically minimised and focus was primarily directed on the verification of accompanying documents such as T2L, AAD, invoices, etc.

The training unit organised various training courses regarding the adoption of the new procedures and use of computer programmes such as CES and MCC. This preparation made it possible for Customs to retain its efficiency and adhere to the new legislation. To achieve these goals, the officers had to work as a team not only within the section concerned but also with other sections, thus avoiding different working methods at various outstations.

An extensive exercise was carried out prior to accession to estimate the post-accession workload and deploy the available resources in accordance with the projected requirements. After accession, systems were re-visited and staff was re-deployed to meet the Department's needs.

## PROCESSING SERVICES

### Customs Economic Procedures Unit

Up to end April 2004 the Entry Processing Unit consisted of four different divisions; namely, the Data Input Section, the Long Room, Front Office and the Industries Section. The introduction of new procedures on 1 May 2005 transformed the Long Room into the Verification Unit and the Industries Section into the Customs Economic Procedures Unit.

During the first four months of 2004, 6,123 export documents were processed while 137 TSBs, 5,000 EUR1s and 330 GSPs were issued. Besides, 489 deposits were settled and 23 claims for drawback were refunded. During post accession period, May – December, 6,724 T2L, 124 Temporary Importations, 20 T2M, 320 EUR1 and 50 ATR were issued. Drawbacks amounted to 27 and 3,508 export documents were processed. The amount of Lm3195 was collected in respect of sale of seals.

The following authorisations were issued by the section:

Inward Processing under the Suspension	28
PCC (Processing Under Customs Control)	21
Drawback System	17
Outward Processing	3

Up to the end of April 2004 most of the manufacturing concerns were utilising the suspension system. During this period this Unit, in liaison with personnel from Malta Enterprise, was involved in advising individual companies on the best procedure to be adopted after 1 May 2004.

The processing of import documents ceased on 1 May 2004 while new procedures for transit and export were introduced. Transit documents for fishing vessels were also handled for the first time.

### **Binding Origin Information Unit**

Until April, Malta had to comply only with the Association Agreement which Malta had with the EU. However, after May Malta had to operate within the framework of Agreements which the EU has with various countries or groups of countries.

The principal in charge of this unit attends the Origin meetings held periodically in Brussels. In these meetings matters regarding origin are discussed between delegations of the Member States of the EU. When decisions are taken regarding the interpretation of certain rules of origin, these are communicated to the Customs personnel for compliance to these rules. Apart from these meetings this principal also attended two Meetings of the Pan Euro Med where discussions are going on in order to extend the present Pan Euro cumulation to the Mediterranean partner countries.

### **Data Input**

The main activity of the Data Input section is the inputting of manually filled import declarations presented by the traders or their representative, into the Customs Electronic System. This is a service provided by Customs to traders who do not have on line access to the CES. At present this service has been extended also to declarations in respect of excise goods.

The Section is also responsible to input statistical data regarding intra community trade arriving from and departing to other EU Member States as per the 'intrastat' forms presented by traders. Post clearance input of Export declarations are also effected at the Section.

### **Compliance Verification Unit**

The Unit, which commenced operations on 1 May 2004, effects documentary checks of declarations which were not selected for control. 7,232 documents were scrutinised for fiscal and non-fiscal infringements. 1,061 documents were queried and 89 post-entries were raised generating revenue to the tune of Lm58,626. The Unit also performs post clearance verification of intra community documents which translated into 928 verified documents and the raising of 300 queries.

The surveillance of the Customs Electronic System, as regards risk analysis, also falls under the responsibility of this Unit. The Unit creates and updates parameters and profiles in the Risk Analysis module. 751 declarations were selected for physical inspection while 162 declarations were chosen for documentary checks. The outcome of the introduction of verification of T2L certificates in November 2004 was that 1,477 documents were selected for checking while 98 were queried.

### **Front Office**

This office is responsible for processing of documents regarding the importation of personal effects and vehicles by persons coming from third countries, transshipments and shipping bills, EU TARIC database queries, refunds and correspondence in connection with Euro 1 certificates, issuing and keeping of records of Burdnara licences, registration and settlements of temporary importations, ATA Carnet and other work connected with vehicles such as Temporary Importations, concessions granted to TIT permit holders, export of vehicles to third countries, exemptions granted by the Ministry of Finance, settlement of vehicles sold to government officers retiring from the public services, parastatal and government-owned cars; vehicles granted diplomatic concessions and second-hand vehicles imported from third countries.

## Customer Care

The Customs Information Office was instrumental in providing customers with updated information, directions and guidance relating to both the Customs Department and other departments.

This included the provision of replies to specific and generic e-mails submitted both locally and overseas by both Maltese and foreign customers and the provision of replies to all enquiries made by telephone or in person. Any complaints were dealt with in the office immediately and replies submitted to all points raised by the complainants, including the recording and monitoring of customers' feedback. The Customs Information Office contribution during the transition period as a result of Malta's Membership of the EU was very valid as Customs notices to all importers, clearing agents, shippers and customs staff were distributed in time. The Office assisted traders in inputting online declarations and providing new codes as quoted on the EU TARIC Database and in registering VAT certificates for the Customs Electronic System. Processing the rates of exchange and updating it on all customs databases was carried out throughout the year, together with office duties which may be required from time to time by other heads and department sections.

## Valuation Office

During 2004 the importation of second-hand vehicles from third countries, mainly from Japan, remained on the same levels of 2003. As from 1 May 2004, valuation exercises for vehicles coming from EU Member States began to be undertaken by the Malta Transport Authority.

The valuation exercises on sea-craft which commenced in December 2003 continued during the first four and a half months of 2004. The number of applications was evidently remarkable. Apart from boosting revenue it helped to settle the status of a substantial number of boats which for a number of years were on a suspended regime.

The Valuation Section was requested by the Enforcement Unit to offer its expertise in the case of illegal importations concerning firearms/ammunition, bird-skins, live birds/fauna, alcohol, cigarettes, wireless and telegraphy equipment.

Valuations were also requested by other Customs Sections while enquiries from the general public, mostly concerning importation of vehicles, were dealt with on a daily basis. It is also envisaged that in the near future Post Clearance audit visits will be carried out regularly across a wider spectrum of imports.

The following statistics refer to part of the workload performed:

	<b>Viewed</b>	<b>Customs Value Lm</b>
Vehicles	4,139	7,386,292
Motorcycles	84	58,225
Seacrafts	252	19,874,922

## Binding Tariff Information Unit

This Unit provides tariff information to importers and Customs officials. Importers may request either a Binding Tariff as set out in the EU Regulations which carry legal responsibilities or otherwise request verbal or written advice. It is also responsible to follow the daily Commission's correspondence regarding classification of goods.

A number of meetings of the Customs Code Committee Tariff and Statistical Nomenclature Section were also attended in Brussels to follow and discuss classification problems, decisions and regulations. Reports of each meeting were discussed with the management and all updates noted.

## Laboratory Section

Analytical and chemical work was executed during the period under review as follows:

Locally produced fruit juices & nectars for Drawback	308
Ethyl alcohol pure imported in bulk for determination of strength	2
Alcohol for determination of denaturant	18
Kerosene, aviation turbine fuels for flash point and/or specific gravity determination	5
Diesel & other mineral oils for the determination of the fiscal marker	129

A total of 462 samples were examined at the Customs Laboratory for the establishment of the correct classification and rate of excise or import duty thereon. Moreover, about 300 samples were regularly submitted by Releasing Officers and by the Binding Tariff Classification Unit for the determination of the correct HS Code Number.

Prior to Malta's accession to the EU, invoices continued to be submitted daily by the Long Room & Industries Sections to the Laboratory for examination. A total of 592 entry forms (240 from the Long Room and 352 from the Industry Section) were submitted until 30 April 2004. Following Malta's accession and the change in Customs procedures, the Verification Unit started to submit to the Laboratory documents relating to goods imported from non-EU countries for vetting. A total of 260 documents were checked.

In August, the Laboratory was equipped with a Perkin Elmer Series 200 High Pressure Liquid Chromatography apparatus for the determination of the Sudan Marker/Solvent Yellow 124 fiscal marker in mineral oils.

## Archives/Records Section

In order to facilitate retrieval, a new reorganising system had to be adopted. During the period under review, the following activities were carried out:

Files requested by Registry	1,090
Files received from Registry to be put away	2,900
Files received from different stations etc for processing, insertions etc	1,300
Release orders / supporting documents received and filed in batches of hundred each	248,000
Export documents sorted as per ship's manifest in monthly boxes	1,100
Airfreight, Hal Far and other stations' supporting documents/release orders for 2002-2003 shelved in boxes	1,767
Sorting and shelving various boxes with Customs documents received from different stations/sections	790
TSB's received and filed	2,400
Court attendance on behalf of the Comptroller of Customs, retired personnel, valuation, etc	30

## LANDING AND RELEASING

### Deep Water Quay

During 2004 a total of 453 vessels discharged and/or loaded the following cargo at the Deep Water Quay:

<i>Discharged</i>	<i>Loaded</i>
9,540 full load containers/ trailers	2,414 full containers/trailers
96,679 metric tons of conventional cargo	1,111 metric tons of conventional cargo
203 empty containers/trailers	4,073 empty containers/trailers
4,733 cars	1,926 cars

Road circulation fee by non-Maltese registered commercial vehicles was abolished as from 1 January, 2004 by Legal Notice 406/03.

On Malta's accession to the EU in May 2004 there were some changes in certain procedures. 'C' status containers/trailers could be discharged from vessels arriving in Malta and leaving the quay without Customs controls. The same would be the case for despatch of containers/trailers to other EU territories. Two vessels, viz. m/v Żebbuġ and m/v Island Seaway, were granted a 'regular shipping line' status entitling all cargo discharged or loaded onto them to be considered as goods in free circulation within EU territories unless otherwise declared by the shipper/agent. A Transit Document was introduced to despatch T1 status containers/trailers to other Customs sections pending a declaration under a Customs regime.

## Freeport

During 2004 the following activities were performed at the Freeport.

- 1,614 *pratiques* were carried out, of which 431 were for vessels coming from non-EU countries and were not boarded and 457 were carried out on board vessels coming from EU countries and arriving during the last three months of the year;
- 29,647 containers were discharged, of which 7,413 were despatched with Customs seals;

During 2004 there were several changes in the Freeport operation. After Malta's accession into EU, only containers with T1 status and selected for Customs examination were sealed before being despatched to other sections or to importers' premises. Towards the end of the year the Exit Gate was closed and opened at another site nearer to Terminal 2. All computer hardware and communication systems had to be moved to the new premises which offered better facilities both to the staff and the operations. In order to facilitate the flow of container/trailer traffic within the Freeport all Customs documents were vetted at Valletta Customs House before the units were despatched from Freeport.

## Malta Shipyards

During 2004 the Section carried out the following duties:

Consignments received ex seafreight	120
Consignments received ex airfreight	209
Consignments received ex Parcel Post	14
Customs declarations received, processed and settled	365
Transshipment/Shipping Bills delivered on board	575
Consignments despatched for export	76
Containers and trailers examined and released	100
Collected as Duty	Lm 1,507
Collected as VAT	Lm 17,362

## Luqa Airfreight

During 2004 the following activities were carried out at this Section:

- 5,995 Aircraft manifests were registered;
- 37,003 Customs documents were processed, of which 10,823 were selected for control;
- Lm3,365,275 were collected as VAT;
- Lm623,709 were collected as Duty;
- Lm3,299 were collected as Excise Duty;
- Lm17,341 were collected as post entries;
- IPR Officers were called 29 times.

The Section was one of the most affected areas with Malta's entry into the EU. Although the Customs Electronic System was put into operation in February, there was a great impact when it came into full operation in May. It was only through the great co-operation from both staff at Airfreight and Computer Section that the section functioned regularly. A limited number of industrial concerns continued to benefit from a simplified procedure which facilitated release of urgent cargo. As the majority of air cargo arriving in Malta is already in free circulation in the EU, Air Malta was given full responsibility to run the cargo shed keeping Customs informed of all movements and calling Customs personnel whenever 'T1' cargo was going to be released. Notwithstanding, the Customs Department held its prerogative to carry out inspections/investigations as and when it deemed fit.

### **General Examination Shed**

During 2004 the following activities were carried out:

- 604 Containers/trailers were stripped and searched for illicit goods between 1 January and 30 April;
- 951 Containers/trailers were examined by permanent staff at the above premises between 1 May and 31 December;
- 478 Containers/trailers were examined by other staff attached to the Section at importers' premises between 1 May and 31 December;
- 757 Containers/trailers consisting of second hand vehicles and parts were examined at Laboratory Wharf;
- 14 Containers were inspected by the Customs Fraud Section using the mobile X-ray unit;
- 163 discrepancies were detected, of which 59 constituted incorrect declarations;
- Lm42,013 were collected as Post Entries involving Levy, Duty and VAT;
- Lm11,166 were collected as additional amount pending possible fines;
- 14 inspections by the Fraud Section were carried out throughout the year.

As in other sections, Malta's accession in the EU made an impact in the sense that several changes in procedures took place. As payment of dues could only take place after Customs examination, payments were made in a suspense account in the CES system. The Outdoor Services Section was disbanded on accession and selection of containers/trailers to be released at importers' premises started being carried out by Principal in-charge of the Section; selection for Customs control started to be performed by the newly-appointed Verification Unit.

### **Hal Far Groupage Complex**

During the year under review the following activities were carried out:

- 5,420 Containers/trailers (containing EU and non-EU cargo) entered the complex;
- 1,109 Containers/trailers were unstuffed and tallied under Customs supervision;
- 2,907 Co-loads, i.e. part cargo carried for other Bond Operators;
- 202 instances where spot inspections on EU cargo were carried out;
- 47,218 Exit Gate Passes were collected;
- 3,807 Merchant's requests were processed;
- Lm34,265 were collected from Post Entries.

The day 1 May 2004 marked a significant change in the Section's operations. Containers/trailers with groupage 'C' status cargo were despatched from outer quays (Freeport, DWQ, Laboratory Wharf), without Customs seals or escort to be unstuffed at the bonds. This was as stipulated by Legal Notice 82/2003 issued by the Ministry for Transport and Communications. EU goods were stacked separately from others that are not in free circulation and could be collected by importers/agents from the bonds without any Customs controls – except for random checks at the Exit Gate by members of the S.I.A.T. team. T1 loaded groupage containers/trailers were despatched from the outer quays against a Transit Document and under a Customs seal. 'T1' goods were unstuffed in the bonds either under Customs supervision or without; this was left to the discretion of Officer-in-charge. 'T1' manifests were deconsolidated and discharged after physical checks. Consignments were released against Customs documents on which it was indicated

whether goods were to be released after controls or not. A cashier point was opened to facilitate payments (only by cheques) as these could only be affected after Customs controls when it was the case.

### Laboratory Wharf

During 2004 the above section generated the following activities:

<p><b>Discharges</b></p> <p>307 Vessels (hailing from EU and non-EU countries)          6,841 Containers/trailers          4,328 New vehicles, of which 133 arrived for transhipment          63 Second hand vehicles          806 Live animals          1,403 pieces loose cargo          5 Caravans          4 Boats, of which 1 was intended for transhipment          1 Patrol boat          1 MAAFI tractor unit          1 Bowser          346,926 Metric tons of bulk cargo including sand, cement, marble chippings          570 Metric tons of crude oil          40,750 Metric tons of animal feed          175,885 kgs Bananas          140,000 kgs Salt (not for human consumption)          13,293,218 Metric tons of wheat, maize, barley, etc</p>	<p><b>Loading</b></p> <p>33 vessels with various items including scrap metal          1,740 Full load containers/trailers, of which 96 were intended for transhipment          1,615 Empty containers/ trailers          205 New vehicles, of which 98 intended for transhipment          3 Second hand vehicles          19,541 Metric tons of scrap iron          21,120 Metric tons of wheat          563 Tons of loose cargo</p>
	<p><b>Releases</b></p> <p>1,310 containers stuffed with the following cargo were transferred from Freeport:</p> <p>3,822 Second hand vehicles          37 Containers with second hand vehicle spare parts          22 Second hand heavy plant machinery          45 Agricultural tractors          30 New motorcycles</p>

As in other sections, Laboratory Wharf experienced several changes in its daily operations. Containers/trailers discharged from 'regular shipping lines' did no longer fall under Customs control either on import or on loading and destined to EU territories. 'C' status units discharged from other vessels underwent the same procedure; 'T1' status units had to undergo normal procedures of sealing and/or Transit documentation. Staff scrutinised ships' manifests to determine the status of units before despatch.

### Parcel Post Office

The above section generated the following activities during the year in review:

- Lm24,069 were collected as Duty from PPO, EMS and Branches;
- Lm261,838 were collected as VAT from PPO, EMS and Branches;
- Lm151 were collected as LEVY from PPO, EMS and Branches;
- Lm33,860 collected as Deposits were passed to Revenue;
- Lm13,348 collected as deposits pending production of proper certificates;
- 2,927 Customs documents were processed;
- 7,416 Deposits settled;
- 38 Transhipment Shipping Bills;
- 27 Exports;
- 8,550 Counterfoil receipts.

This Section has also undergone some changes since Malta's accession into the EU. The Customs Electronic System was introduced so that the staff could have an independent access and settle manifests electronically. Random scanning of parcels for illicit and/or illegal goods continued to take place although with limited resources. Parcels are randomly checked and separated between those in free circulation and non-EU. Those selected for examination await documentation and clearance from Customs while the rest are delivered by PPO staff thus facilitating release.



## **Weighers Section**

During 2004, weighing fees amounted to Lm1,487 and there were 1,283 requests for services. Reimbursement and overtime charges amounted to Lm10,607. This drastic decrease in services compared with previous years was due to the removal of taxes/levies assessed according to the weight of the goods.

## **Outdoor Services**

Between January and April 2004 the following activities were carried out at this section:

- 4,136 full load containers/trailers were examined;
- 8,650 full load containers/trailers were released without examination;
- 4,008 releases for exports were performed;
- NIL merchant requests from Arrears Book were settled;
- Lm11,457 were collected from Post Entries;
- Lm2,219 were collected from Additional amounts;
- Lm2,238 were collected from sale of seals.

The above section was disbanded on 30 April 2004 and staff was transferred to other sections.

## **ENFORCEMENT**

### **Frontier Control**

The duties of the Branch include the clearance inwards and outwards of ships, yachts, aircraft and passengers; censorship of video tapes and software; watching and escorting of uncustomed goods; patrols on land and sea in Customs areas, supervising the landing and loading of all cargo imported/exported by air and releasing of goods imported by couriers.

### **Grand Harbour**

During the year, 4,892 vessels were admitted to pratique and 4,965 were cleared outwards. These figures include Arrivals/Departures at Marsamxetto, Marsaxlokk and Mġarr harbours. Rummages on arriving vessels amounted to 41. Passenger arrivals totalled 87,322 whilst departures amounted to 107,549. Duty collected amounted Lm4,535 while the sums of Lm5, Lm168 and Lm25,359 were collected as Levy, Excise Duty and VAT respectively.

### **Airport**

A total of 10,530 aircraft landed in Malta. Duty, Levy, Excise Duty and V.A.T amounted to Lm24,965, Lm88, Lm862 and Lm94,016 respectively. The sum of Lm3,769 was collected as fines on dutiable goods undeclared by passengers passing through the Green Channel. Freight landed amounted to 7,713,038 kilos whilst 8,919,757 kilos were exported.

### **Yacht Marina**

A total of 2,623 yachts arrived at the Msida and Gozo Marinas and Grand Harbour with departures amounting to 2,101. Duty collected amounted to Lm16,357 and VAT Lm2,053,473 whilst the sum of Lm200 was collected as fines. 18 rummages were carried out on yachts.

### **Prohibitions and Restrictions**

A total of 1,553 video tapes were submitted for censorship, one of which was withheld. Total duty collected was Lm20,282 whilst VAT amounted to Lm97,217. The sum of Lm10,100 was collected as

finances in terms of the Customs Ordinance whilst the sum of Lm29 was collected as fines in terms of the Excise Duty Act. A total of 93,140 pieces of software were submitted for censorship, 1,032 of which were viewed. 203 were withheld, 154 of which were appealed and 49 were released by the Printed Matters Appeals Board. Post entries in respect of Software amounted to Lm125 Duty and Lm248 VAT. The sums of Lm11,468 Excise Duty, Lm2,874 Levy, Lm249 Import duty and Lm7,863 were collected in respect of shortages found during stocktaking at the various duty free operators at the seaport.

### **Courier Office**

A total of 17,114 Bags were received in the Courier Shed, of which 3,704 contained Documents whilst the other 13,410 contained Declarable goods.

### **Enforcement Unit**

The year under review was the first full year after the amalgamation of the Anti Fraud and Anti Drug units – now referred to as the Enforcement Unit. Without doubt the hallmark for the year was the investigations/operations in connection with duty-free diesel. A total of 103 fuel samples were elevated from various outlets and tested. Petrol stations, garages, yachts, bowsers, lorries, and quarries were targeted. Two daytime roadblocks co-ordinated with the Armed Forces also gave positive results in detecting illegal use of duty-free diesel. The operations also shed new light on the improper use of kerosene. This eventually led to a change in legislation.

Enforcement personnel also succeeded to seize an amount of narcotics mainly cannabis (10.6kgs) mostly from the Malta International Airport. Various operations assisted by the dog section were held at different importation posts such as the Parcel Post, Sea Port, Hal Far and Airfreight. Trailers and containers were also targeted.

From targeted trailers arriving with merchandise, quantities of wine, spirits, ammunition and silver were found concealed in the flooring. Three auctions sales of vehicles seized by the Department yielded Lm35,965 while Lm9473 were collected from debtors.

The IPR unit was very active and from numerous inspections carried out, 74 new files were opened. Counterfeit items withheld included auto parts, outer wear, DVDs, footwear and computer cartridges. Just over 49 million cigarettes resulted to be counterfeit and were also seized.

### **Special Investigation Action Team (SIAT)**

This unit is based in Hal Far with specific duties to assist in the releasing of groupage cargo by the Landing & Releasing Officers. Suspected trailers were tallied in the presence of officials from this unit. Following Malta's accession into the EU the targeting of trailers/containers by the CIS was stopped and Bond operators instructed to separate 'community Status' cargo from consignments arriving from third countries. From inspections carried out up to 30 April, 43 proved positive resulting with an added revenue of Lm14,109.

### **Post Clearance Audit (PCU)**

The Officers attached to this unit visited 193 importers' premises at which they conducted audits. A number of importers were guided to the proper H.S. code while others were asked to raise Post Entries. The total amounts collected from such adjustments were the following:

Customs Duty	Lm	1,986
VAT	Lm	2,875
Fine	Lm	84

## **Economic Procedures Enforcement Unit (EPEU)**

The Officers of the EPEU conducted sixty eight audits of different companies. The unit proved to be of great assistance to factories and companies. In fact most of the factories visited either cancelled or renewed their authorisation. Some factories even switched to Procedure Codes which suited their needs. The unit was also instrumental in collecting Lm9,641 Customs duty, Lm43,420 VAT and imposed Lm6,712 as fine.

## **Legal Office**

This section was quite active during 2004 and its officials attended no less than 923 court sittings (Malta and Gozo). Of these, 408 were civil cases while 515 were Criminal ones. On conclusion of investigations by Customs and/or Police, 69 Letters to Prosecute and 61 Seizure Notes were issued. A total of 42 cases (33 Criminal, 9 Civil) were decided and the fines inflicted by the courts amounted to Lm53,664. Several cases were also settled in virtue of Section 63A and 63 yielding another amount of Lm44,776.

## **Duty Free Cars**

This section keeps records of vehicles which are imported or exported temporarily from Malta. From 1 May the number of permits issued has obviously decreased from 2,567 temporary imports in 2003 to 447 in 2004. The temporary exports also decreased from 1,111 to just 183. The number of permits to be issued during this year (first full year within the EU) should continue to decrease. However, the section is a reference point to various queries from within the Department as well as outside regarding the importation and exportation of vehicles.

## **Container Monitoring Unit (CMU)**

The unit reviewed 1,534 manifests during the year. In addition, 7,677 transit containers were scanned of which 169 were physically examined. A total of 23 containers were seized either because the contents were falsely described or were counterfeit.

## **Customs Intelligence Section**

The Unit's main tasks are gathering, analysing and disseminating information to combat the evasion of duty; illicit trafficking of drugs; and Customs fraud. Out of the 97 cargo alerts issued, 7 gave positive results whilst another 10 positive results were recorded out of 94 passenger alerts.

JOHN MIFSUD

*Director General (Customs)*

# Value Added Tax Department

## AIM

The principal aim of the Department is to ensure that the VAT revenue target set out in the annual Budget is attained, in line with the Government's policy of ensuring sound public finance and with the minimum cost and burden to registered persons.

## VAT LEGISLATION

During 2004, the following legal notices were published under the VAT Act 1998:

- LN 131 VAT (Collection of Supplementary Information), Regulation 2004
- LN 149 VAT Act (Amendment of Eight Schedule) Regulations, 2003 (Amendment) Regulations 2004
- LN 158 VAT (Forms) Regulations, 2004
- LN 219 VAT Act (Cap. 406) VAT (Refund of VAT to taxable persons not established in Malta but established in the territory of the Community and who realise only in Malta operations allowed by these regulations), Regulations, 2004
- LN 220 VAT Act (Cap. 406) VAT (Refund of VAT to taxable persons not established in the territory of the Community as well as taxable persons not established in Malta but established in the territory of the Community and who realise in Malta operations not allowed for refund under regulation 2 (a) and (b) of Legal Notice No. 219), Regulations, 2004
- LN 250 VAT Act (Cap. 406) VAT (Amendment of Fifth Schedule) Regulations, 2004
- LN 251 VAT Act (Cap. 406) VAT (Amendment of Eight Schedule) Regulations, 2004
- LN 252 VAT Act (Cap. 406) VAT (Forms) (Amendment) Regulations, 2004
- LN 318 VAT Act (Cap. 406) VAT (Adjustments relating to Input Tax on Capital Goods) Regulations, 2004
- LN 319 VAT Act (Cap. 406) VAT (Refund to Non-residents) Regulations, 2004
- LN 376 VAT (Amendment of Eight Schedule) No. 2 Regulations, 2004
- LN 436 VAT (Amendment of Eight Schedule) No. 3 Regulations, 2004
- LN 489 VAT (Amendment of First Schedule) Regulations, 2004
- LN 520 VAT (Amendment of Fifth Schedule) Regulations, 2004

## REVENUE AND EXPENDITURE

### Compliance Rate

VAT returns continued to be issued regularly each month. The following table shows the returns issued and received during 2004. The overall compliance rate as on due date, expressed as the percentage of returns received over the number of returns issued, was 80.03%, increasing to 89.76% by end year.

	<i>Returns Issued</i>	<i>Returns Received as on Due Date</i>	<i>Compliance Rate as on Due Date</i>	<i>Returns Received up to End of Year</i>	<i>Compliance Rate as at End of Year</i>
<b>Total</b>	<b>112,879</b>	<b>90,343</b>	<b>80.03 %</b>	<b>101,322</b>	<b>89.76 %</b>

*Note: The increase in the compliance rate over time reflects the submission of returns by defaulters after the due date following various enforcement measures. The residual non-compliance is mainly due to the number of persons submitting their application for deregistration.*

## Revenue

During 2004, gross revenue collected under the VAT Act 1998, the CET Act 1997 and the VAT Act 1994 was Lm164,615,488 compared to Lm147,552,611 in the previous year. Refund of excess credit paid out of revenue amounted to Lm22,894,799, resulting in a net revenue of Lm141,720,689 compared to Lm123,909,645 in the previous year. The relevant information is shown in the following table:

	VAT Act 1998 (Lm)	CET Act 1997 (Lm)	VAT Act 1994 (Lm)	Total (Lm)
Total Gross	163,843,220	221,573	550,695	164,615,488
Less Refunds	22,487,645	144,651	262,503	22,894,799
<b>Total Net</b>	<b>141,355,575</b>	<b>76,922</b>	<b>288,192</b>	<b>141,720,689</b>

## Refund of Input Tax on Stocks 1997

The Refund to Government of Input Tax on Stocks 1997 Scheme was phased out almost completely. In all, 16,775 returns had been submitted on which a refund on stock was due. The total amount collected up to end 2004 was Lm1,855,651. A balance of Lm315,638, including interest, was still due to be collected. 163 accounts, each having a debit balance of over Lm500 were still open. The sum of Lm61,111 was written off during the year.

## Refund to Taxpayers of CET on Stocks 1998

Under this Scheme, the Department received applications for the refund to taxpayers of CET on Stocks 1998, totalling Lm22,005,513. An amount of Lm19,784,383 was referred for payment, of which Lm17,441,085 were actually paid, after deducting Lm237,358 interest and Lm1,366,973 (VAT 95), Lm412,062 (Stock 97), Lm707,492 (CET) and Lm258,525 (VAT 99) in setoffs against outstanding debts.

## Outstanding Credits and Debits

As at end 2004, the Department had a net debit balance, after deducting outstanding taxpayers' credit, of Lm146,682,721. The amount of Lm138,706,570 was in the form of estimated assessments and interests which would automatically be cancelled once the relative missing returns are submitted. Hence the realistic net balance was Lm7,976,151 in the form of taxpayers' credit, as shown below:

	VAT Act 1998 (Lm)	CET Act 1997 (Lm)	VAT Act 1994 (Lm)	Total (Lm)
Net Debit Balance	146,306,945	4,029,069	11,370,924	161,706,938
Outstanding credits	14,462,077	273,161	288,979	15,024,217
Net Balance	131,844,868	3,755,908	11,081,945	146,682,721
Less Estimated Assessments	110,986,456	750,626	1,638,485	113,375,567
Less Interests	14,450,228	2,376,315	8,504,460	25,331,003
Realistic Net Balance	6,408,184	628,967	939,000	7,976,151
Accounts with a balance as at 31.12.04	16,939	4,020	5,844	26,803
Accounts with a balance as at 31.12.03	16,341	4,586	6,334	27,261

## Cost-Effectiveness

Total expenditure during 2004, excluding the contribution to the Tax Compliance Unit and the expenditure in respect of the NPAA but including the lottery prizes and the lease of property amounted to Lm2,500,552. Net revenue from VAT 1994, CET 1997 and VAT 1998 amounted to Lm141,720,689. The cost effectiveness rate for 2004 was therefore 1c8 per Lm1 of revenue compared to 1c7 in the previous year.

## ENFORCEMENT

### Inspections

During the year, 15,014 field inspections were carried out, consisting of 14,940 spot-check inspections and 74 surveillance visits. As a result, 760 cases were referred for Court action (vide table below):

Number of Inspections					
	Spot-Checks	Surveillance Visits	Total	Court Action	Hit-Rate
<b>Total</b>	<b>14,940</b>	<b>74</b>	<b>15,014</b>	<b>760</b>	<b>5.06 %</b>

Throughout the same year, the majority of Inspectors were assigned work connected with administrative tax enforcement and review of tax assessments. 11 inspectors were regularly assigned duties to carry out inspection visits, supported by 8 Revenue Security Corps members carrying out limited inspection duties.

### Court Action

Legal action was taken against taxpayers wherever it resulted that the VAT and CET legislation was being abused. As a result, 384 cases involving failure to issue fiscal receipts were brought before the Court, of which 307 were decided. Of these, 246 cases were together fined a total of Lm36,975, whilst 61 cases were acquitted.

The Compromise Fine System was started in July 1999. Taxpayers have the option to pay a reduced penalty for failing to issue a fiscal receipt, instead of appearing before the Court. During 2004, 464 taxpayers availed themselves of this option, paying a total of Lm29,100 in fines.

Another 1,894 appointed cases involved failure to submit tax returns. As a result, 180 cases were together fined Lm256,391 whilst 1,280 cases were withdrawn once the returns were duly submitted prior to the Court's hearing. The relevant information is shown below:

	Involving Fiscal Receipts				Involving Tax Returns			
	Appointed	Fined		Acquitted	Appointed	Fined		Withdrawn
		No	Lm			No	Lm	
<b>Total</b>	<b>384</b>	<b>246</b>	<b>36,975</b>	<b>61</b>	<b>1,894</b>	<b>180</b>	<b>256,391</b>	<b>1,280</b>

### Manual Fiscal Receipt Booklets

The number of fiscal receipt booklets distributed during 2004 was 79,344, an increase of 4.3% over 2003:

Printed Booklets	80,980
Distributed Booklets	79,344
Returned Booklets	64,426

### Fiscal Receipts Lottery

The Fiscal Receipts Lottery continued to be run by the Public Lotteries Department. During 2004 an amount of Lm315,707 was paid as prize money.

## INVESTIGATION AND REVIEW

### Audit Investigations

The number of VAT cases assigned for investigation by professional auditors and the Tax Compliance Unit was 70. A total of 40 cases were concluded, resulting in Lm633,130 of under-declared tax. The number of cases pending investigation as at the end of 2004 was 119.

## Validation of VAT Returns/Review of VAT Refund claims

VAT returns are regularly validated for erroneous tax declarations. During 2004, 289 cases were verified resulting in 93 final assessments amounting to Lm27,937. VAT credit claims are also regularly monitored. The number of claims reviewed during 2004 was 719, of which 374 claims were deduced, amounting to Lm1,354,834.

Type	Cases Assigned	Cases Concluded	Final Assessments	
			No	Lm
Validation	208	289	93	27,937
Correction	489	441	261	- 196,773
Credit Control	633	719	374	1,354,834
Investigations	304	245	144	1,184,774
<b>Total</b>	<b>1,634</b>	<b>1,694</b>	<b>872</b>	<b>2,370,772</b>

## Objections

During 2004, a total of 1,172 objection letters were dealt with completely. The number of objection letters received by the Department during the same year was 1,491. As a result, the number of outstanding objections as at the end of the year was 1,848.

## Appeals Boards

During 2004 the number of new appeals lodged with the VAT and CET Appeals Boards was 106. The Boards decided a total of 420 cases compared to 531 in the previous year.

## COLLECTION OF TAX ARREARS

### Civil Procedures

A total of 287 cases were settled through Civil Court action, resulting in the collection of Lm2,564,923 of tax in arrears, as shown below:

	Demand Notices	Judicial Letters	Garnishee Orders/ Warrants of Seizure	Civil Cases Settled	Tax Collected
<b>Total</b>	<b>1,043</b>	<b>191</b>	<b>209</b>	<b>287</b>	<b>Lm 2,564,923</b>

## TAXPAYERS' REGISTRY

### Registration and De-registration

During the year, 4,394 taxpayers were registered with the Department, bringing the total number of registered persons to 73,351. The number of outstanding applications as at the end of the year was nil. During the same year, 3,287 new applications were received for de-registration. A total of 2,372 applications were processed completely.

### Maintenance of Taxpayers' Details

During the same year, a total of 2,999 interventions were made with a view to maintaining taxpayers' details. Special attention continued to be given to undelivered mail which was received back by the Department. Such mail was either redirected to the address obtained from the Common Data Base system or else referred for on-the-spot inspection.

## GENERAL

### Customer Service

Further training courses were organised for the Department's Customer Care personnel in order to upgrade their capacity to deal with taxpayers in a friendly manner and to promote consistency, quality and uniformity of treatment within their function.

### e-Government

The Departmental website provides general information about the VAT Department and the VAT law as well as online facilities for VAT registrations and ordering of fiscal receipt books without the need for taxpayers to call personally at Head Office to make such requests.

### IT Applications

The Department's IT applications continued to be enhanced in order to be capable of dealing with the new requirements following implementation of the EU *acquis communautaire*. Training on the operation of these applications was also provided to the Department's personnel.

### Reform and Modernisation Programme

The implementation of the activities envisaged in the Business Change Management Plan under the EU Reform and Modernisation Programme for Tax Administration proceeded normally in 2004 within the time frames set out in the Plan.

The Business Change Management Plan (BCMP) identifies training as a major element contributing to the upgrading of the operational capacity of the Department to the benefit of both taxpayer and the Department's employees. To achieve the objective of having professionally trained personnel, a series of training sessions in VAT procedures carried out both by local and foreign experts were held in 2004. These were specifically designed to improve methodologies of controls and investigations performed by VAT Inspectors as well as to ensure as far as possible consistency and uniformity of treatment of taxpayers.

Training courses on the EU transitional VAT regime for intra-Community transactions and other significant changes to the VAT Act were also organised for the Department's senior management and for VAT inspectors. Preparations were also made for the setting up of an E-Audit Unit in line with other EU Member States.

The Department finalised the implementation of the VAT Information Exchange System (VIES), a system which provides for the exchange of information concerning VAT transactions between Member States of the European Union. VIES went live days before the day of EU accession on the 1<sup>st</sup> May.

The Central Liaison Office (CLO), which is the administrative set up for the exchange of information and mutual assistance regarding VAT operations collected on the VIES system, was fully operational from the same day in accordance with the relative EU Directives.

### Public Campaign

In the months preceding Malta's accession to the EU, the Department launched a publicity campaign to inform the business community of new legislations to the VAT legislation. This campaign was launched in March by a press conference. This was followed by a number of seminars and talks addressed to business operators. Furthermore, the Department published thirteen informative booklets dealing with the new procedures as a result of Malta joining the EU on 1 May 2004. A list of the booklets is listed hereunder:



- Exporters and Persons making Intra-Community supplies
- Importers and Persons making Intra-Community Acquisitions
- Retailers
- Suppliers of Services
- Intra-Community Acquisitions by “Exempt” Taxable Persons and Non-Taxable Legal Persons
- Small Undertakings Registered as Exempt Persons
- Records and Documents to be kept by a Business Concern
- Distance Sales Providers
- New Means of Transport and Excise Goods
- Electronic Services Providers
- Triangulation
- Special Refund Scheme
- List of Goods that are Exempt or have a Reduced Rate

### **Alignment of the VAT legislation with the EU Directives**

The amendments to the existing VAT law, incorporating the changes required to be made to bring the VAT legislation in line with the EU Sixth VAT Directive taking into account the outcome of the negotiations concluded by the Government with the EU Commission in December 2003, was enacted by Parliament in October 2003. It became operative from 1 May 2004.

### **Participation in EU programmes**

As National Fiscalis Representative and Co-ordinator, the Department co-ordinated 18 seminars under the Fiscalis Programme 2003-2007. Of these seminars, three were on Excise and one was on Direct Taxation. The VAT Department participated in 14 seminars under this programme including 3 training seminars for the new acceding member states. The topics discussed during the VAT seminars were of direct relevance for the Department and included E-Auditing, SME compliance, Carousel Fraud, mutual assistance, multilateral controls, e-services, warehousing, Central Liaison Office, recovery of taxes, financial services and the management of the Fiscalis programme.

The national Fiscalis Representative and Co-ordinator participated in the Fiscalis Committee meeting, a workshop on the application of the Fiscalis Financial guide and other meetings.

The Department also participated in meetings of the Fiscalis Training Co-ordination Group and also the Project Group on Fiscalis Blueprints. Malta was chosen by the EU Commission to form part of these two groups together with some other Member States.

The first participation and organisation of Fiscalis exchanges took place during 2004. Eight Maltese officials took part in two separate exchanges to the UK and Belgium on the topics of e-Commerce and the CLO. On the other hand, 12 officials from the tax administrations of the UK, Holland, Sweden, Finland, Ireland, the Czech Republic, Austria and Poland, visited the VAT, Customs and Inland Revenue Departments in Malta on VAT, Excise and Direct Taxation matters. From these exchange visits, eight were organised at the VAT Department.

During 2004, Malta received €108,985 from the EU Commission to finance its participation in the Fiscalis Programme.

### **Organisation of Fiscalis Seminar**

Between 8 and 11 June the VAT Department organised the first ever Malta Fiscalis Seminar. Malta was the first from the new acceding Member Countries to host a Fiscalis Seminar. The topic of the seminar was “The Challenge of VAT Fraud (Carousel and Refund Fraud) in an enlarged Europe” and was aimed at high ranking officials and directors responsible for policy making in this area. The European Commission, the

25 Member States and two Candidates Countries participated in the seminar with around 80 participants. Furthermore, the Department gave an opportunity to its staff especially VAT inspectors, and also officials from other departments to get further exposure in international fora at this level, by participating as observers. The seminar was commended by the European Commission and all the participating countries.

### **VAT Own Resources**

In March a control mission from DG Budget of the European Commission visited Malta to hold talks with the official responsible for VAT Own Resources at the VAT Department and also with officials from the Ministry of Finance and National Statistics Office.

The systems for calculating Malta's harmonised VAT Base, which would eventually determine Malta's contribution to the EU Budget, were discussed and analysed.

Following a control report issued by the Commission on the Maltese system, the VAT Department replied to these comments, and furthermore in March and September, submitted two simulation VAT Summary Statements for the years 2001 and 2003 respectively, to determine Malta's VAT Base in line with EU standards. The EU Commission's reactions to these statements were positive.

During the year the VAT Department was in close liaison with DG Budget of the EU Commission to keep abreast with the latest developments in the field of VAT Own Resources.

Moreover, the Department participated in various meetings of the Special Unit on Own Resources at the Ministry of Finance.

### **ECO Contribution**

During the year the VAT Department was appointed as the 'Competent Authority' to administer the ECO Contribution system. The ECO Contribution was enacted by Act XII of 2004 and the ECO Contribution Regulations 2004 Act published on 13 August 2004 and 30 August 2004 respectively in the Government Gazette. These regulations came into force on 1 September 2004.

As per Legal Notice 533/2004 which was published on 31 December 2004, new items became subject to ECO Contribution with effect from 30 December 2004 and this Legal Notice also covered amendments to Legal Notice 393/2004.

OLIVER VASSALLO  
*Director General VAT*

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# Tax Compliance Unit

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## GENERAL

During the year under review, the Tax Compliance Unit continued to consolidate its core competencies of:

- expanding its Data Warehouse to include new sources of information;
- increasing its efforts in combating tax evasion and avoidance through better and more cost effective tax audits;
- continuing with the implementation of the Advance Tax Agreements Scheme;
- improving the expertise and technical knowledge of the TCU professional staff through continuous education programmes.

The general policy adopted by the TCU is laid down by a Policy & Strategy Management Board chaired by the Permanent Secretary Ministry of Finance with the Heads of the TCU, Inland Revenue, VAT, Customs and Social Security as members. This Committee normally discusses policy matters and issues dealing mainly with procedures effecting inter-departmental communications and exchange of information between the TCU and the other revenue departments, procedures regulating the carrying out of tax audits requested by the other revenue departments, and the procedures and departmental processes necessary to implement initiatives devolving on the TCU such as the Advance Tax Agreement Scheme.

## ADMINISTRATION

### Finance & Budgetary Control

During 2004 expenditure was kept within the Unit's pre-established budgetary limits and incurred in accordance with the Financial Regulations and Audit Act. Total TCU Budget allocation for 2004 was Lm450,000. At the end of 2004, total expenditure under the appropriate subheads were Personal Emoluments Lm351,916; Operational & Maintenance Expenses Lm96,836; and Special Expenditure Lm1,066. All purchases and dues for 2004 were settled within the financial year in accordance with standing regulations.

## HUMAN RESOURCES DEVELOPMENT

### Recruitment

During 2004 three Accountants were engaged following a call issued in 2003. Two clerical staff transferred from the Unit in 2003 were replaced early in 2004 and allocated to the posts of Human Resource Officer and Secretary to the Director General. Following a call for applications, the previous Office Manager was also successfully replaced late in 2004.

### Staff Development

Throughout 2004, TCU staff attended the following seminars and courses:

- a seven-day course on EU Intra-community Acquisitions attended by all TCU professional operational staff;

- an intensive four-day course on Intra-community Trade attended by six professional officers;
- a brief course on team-building organised by the Staff Development Organisation and attended by the TCU's Senior Tax Accountants;
- other courses attended by some of the TCU officials include a CISA course, a Microsoft Excel course, Quantitative Methods organised by the National Statistics Office, and a course in Health & Safety organised by the Occupational Health and Safety Authority attended by one of the administration staff.

TCU professional staff also participated in a number of seminars held after office hours as part of their Continuous Professional Education programme required by the Malta Institute of Accountants:

- Taxpayers & the CIR/Amendments to the VAT Act (Malta Institute of Taxation);
- New VAT Deductions Rules (Malta Institute of Accountants);
- Euro-tax Seminar (Malta Institute of Taxation).

## **IT SYSTEMS & DATA WAREHOUSE**

### **Integration of data sources**

#### *MEPA*

Some progress has been registered with MEPA on TCU's request for access to its databank. Despite requests for discussions with MEPA officials throughout 2004 regarding enhancements to the data being captured by the Authority and the periodical up-loads of selected data to TCU, it was only towards the end of 2004 that the TCU was given access to the Authority's paper files, and discussions resumed on the electronic exchange of selected information.

#### *Law Courts*

Meetings were held early in 2004 with the Administration of the Law Courts with a view to agreeing on periodical up-loads into the TCU warehouse of information extracted from the Courts' computer system. The aim behind this TCU request is to have access to the frequency of attendance of lawyers before the Courts and the amount of official Court fees established in each case by the Courts, as well as the remuneration paid to Court Experts, which in many cases runs into thousands of liri yearly. Such fees are normally paid to self-employed experts but are not captured by that module of the Government DAS system that can be accessed by the Inland Revenue Department. An agreement for access by the TCU to the Courts' systems had not been reached by end year.

#### *VAT/CES/INTRASTAT*

- *New VAT and VIES systems:* Another important development during 2004 was the enhancement to the TCU data warehouse to bring the information integrated in the Data bank in line with the developments in the Customs and VAT departments as a result of Malta's accession to the EU. Changes in the data being collected were necessary to cater for the new structure of the VAT Return, VAT registration details and the introduction of the VIES module within the VAT system and changes to Customs import/export procedures. The VIES requirements are mandatory in view of the exchange of VAT information on taxpayers between Malta and the other countries of the EU.
- *New Customs and Intrastat systems:* Developments in Customs procedures as a result of EU accession had also to be taken in consideration due to the dismantling of borders between Malta and the rest of the EU. The old Customs Asycuda system has been replaced by the CES module for extra-community trade, whilst all intra-community trade with Malta will no longer be captured by the Customs Department but will be recorded in the European Intrastat system. This latter data source is of vital importance to maintain the same level of information as prior to EU membership.

By the end of 2004 the above alterations/enhancements to the TCU data system had been largely carried out to bring the TCU in line with developments resulting from Malta's accession to the EU.

### Business Objects Query Tool Software

Further enhancements to the Data analysis software (Business Objects programme) were developed to generate additional analytical reports from the Data Warehouse with regard to:

- An integrated taxpayer profile summary incorporating a taxpayer's involvements/ownership across all data sources;
- Shareholders' involvement across all registered companies;
- Total value of cars in each household;
- Specific tax avoidance Schemes.

### Use of TCU Information by Other Departments

Throughout 2004 a total of 2,441 reports were generated for other government departments requesting data on specific taxpayers from the TCU Data bank. A total of 1,353 intelligence reports were generated for the VAT Department whilst 593 and 495 reports were furnished to the Inland Revenue Department and the ETC respectively.

IRD		VAT		ETC	Total
<i>Taxpayers' Profiles</i>	<i>Vehicle Analysis</i>	<i>Taxpayers' Profiles</i>	<i>VRN Enquiries</i>	<i>Taxpayers' Profiles</i>	
323	270	30	495	1,323	2,441

## OPERATIONS

### Tax Investigations

During 2004, a total of 45 tax investigation cases were concluded, resulting in Lm1,216,297 Assessed Income Tax; Lm326,084 Assessed VAT; and Lm1,542,381 Total Assessed Tax. The above amounts do not include interest, fines and/or penalties due for under-declaration and late payment.

### Advance Tax Agreements Scheme

The Unit continued with the implementation of the Advance Tax Agreement Scheme announced in the Budget speech for 2002. During 2004, the following tax agreements were concluded:

Agreements reached under VAT Act		Agreements reached under Income Tax Act	
Agreements concluded	1	Agreements concluded	47
Annualised VAT liability agreed	Lm2,889	Annualised Income Tax liability agreed	Lm304,843
3-year VAT liability agreed	Lm8,667	3-year Income Tax liability agreed	Lm914,530

Total annualised tax liability agreed to: Lm 307,732

Total tax liability over 3 years agreed to: Lm 923,197

*\*Note: the above 48 tax agreement cases concluded all involved medical consultants except for one case early in 2004 of an auto-repairer which is listed under the VAT sector. Medical practitioners are outside the scope of VAT, hence the reason for just one VAT agreement during 2004.*

### Tax Assessments Cost

The total cost per Lm1 of assessed tax during 2004 works out as follows:

TCU personal emoluments cost 2004:	Lm	351,916
TCU Operations & Maintenance cost 2004:	Lm	96,836
<b>Total operational cost:</b>	<b>Lm</b>	<b>448,752</b>

Tax assessed resulting from 2004 tax audits:

VAT assessed:	Lm	326,084
Income Tax assessed:	Lm	1,216,297
3-year tax agreements (tax for 3 years):	Lm	923,197
<b>Total tax audits &amp; tax agreements:</b>	<b>Lm</b>	<b>2,465,578</b>

Total cost of assessed/agreed tax liability: Lm0.182 per Lm1 of assessed/agreed tax.

PAUL J BARBARA

*Director General (Tax Compliance Unit)*

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# Department of Public Lotto

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## INTRODUCTION

The year 2004 marked the end of a process which had been going on for the last three years when a due diligence report on the Department started to be compiled with a view of privatising the operations of public lotteries. In fact, on 16 February 2004, Maltco Lotteries Ltd was granted a seven year licence to operate lottery games including those previously organised by the Public Lotto Department. During the months that followed up to 5 July 2004, the Department worked hand in hand with the new operators to ensure a smooth handover and a trouble free transition from the Department's off-line system to a more sophisticated online system. The Department organised its final Super Five draw on 7 July 2004 while the Lotto and Tiritombla games were last drawn live on behalf of this Department on Saturday 3 July 2004. Scratch lottery tickets were on sale from the Department up to the end of June 2004.

## PERFORMANCE

During its six months of operation the Department succeeded in keeping up the good work attained during the previous years.

### Lotto

Lotto sales reached Lm5.9 million for the 27 weeks of operation viz; an annual average of Lm11.36 million, approximately the same amount derived during the previous year. Profits for the same period reached Lm1.66 million which would have reached an estimated figure of Lm3.2 million for a whole year, if the same average sales were to be applied for the remaining weeks of the year. This would have meant an increase in profits of Lm300,000 over 2003.

### Super Five

Sales turnover from this game for the first 27 weeks of 2004 reached Lm5.45 million, worked out to an annual average of Lm10.5 million, an estimated increase of Lm500,000 over 2003. Profits from this service amounted to Lm1.69 million.

### Tiritombla

This game continued to lose its popularity and recorded again decreases in both sales and profits. Sales during the period of operation reached Lm162,525 while profits amounted to Lm18,607. These amounts indicate that during a whole year of operation, this game would have registered an estimated decrease in sales and profits of Lm44,000 and Lm27,000 respectively.

### Presto Instant Lottery

Sales from this game reached Lm150,386 up to end of June 2003 indicating an estimated percentage decrease of approximately 41% over the first six months of 2003.

## CONTRACTS

The Department continued to make use of the existing contractors up to the last day of operation. These contracts included printing of Instant Lottery tickets by Honsel GPS of Germany; provision of advertising services through MPS Ltd; printing of Lotto and Super Five tickets by Zamco Ltd; and the Management and Maintenance agreement of the computerised system with Megabyte Ltd.

## DONATIONS

During 2004, the Department distributed the amount of Lm159,838 among 13 constituted bodies from the Super Five and Presto Instant Lottery funds. An amount of Lm40,000 was forwarded to the Eden Foundation, while the Malta Olympic Committee were handed the sum of Lm20,000. The amount of Lm80,000 was transferred to the Ministry responsible for Sports to continue with its programme for the improvement of sports facilities.

## COMMISSIONS

Total commissions paid by the Department for the selling of its lottery products amounted to Lm1,065,277. Commissions received by Lotto Receivers on Lotto sales totalled Lm608,880 and the amount of Lm328,0990 was paid out as commission on Super Five Sales. Commissions paid to band clubs, philanthropic organisations and other associations amounted to Lm90,476 and those paid to Lotto Receivers on sales of Presto Instant Lottery and Tiritombla and other agents amounted to Lm20,679 and Lm16,252 respectively.

## RECAPITULATION PER GAME

Game	Sales Lm	Prizes Paid Lm	Adm. Expenses Lm	Profits Lm
Saturday Lotto	5,900,169	3,329,976	909,798	1,660,395
Super 5	5,454,076	2,995,928	767,337	1,690,811
Tiritombla	162,525	87,115	56,803	18,607
Presto Instant Lottery	206,793	144,987	41,806	20,000 (passed to Sports Projects)

CARMELO SCICLUNA  
*Acting Director (Lotteries)*