

Ministry of Finance

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## Special Projects Division

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### BACKGROUND

The Special Projects Office has the function to undertake and implement a wide variety of initiatives some of which are of a corporate nature and others involving specific Ministry of Finance departments. The major corporate projects undertaken in the year under review were related to overseeing the development of: (a) Accrual Accounting; (b) eProcurement; and (c) eArchiving. Other assignments undertaken during the period under review range from the organisational reform of the revenue earning departments within the Ministry of Finance to the activities of the Co-ordinating Task Force for Own Resources.

### ACCRUAL ACCOUNTING

Work is continuing on the introduction of accrual accounting at all ministries and their respective government departments. Accrual accounting will have a major impact on the way the internal financial business of Government will be conducted, particularly in areas of asset management and the management of debtors and creditors. This financial reform process will cross ministerial and departmental organisational boundaries and have a major influence on the departmental processes related to their day-to-day financial administration. Accrual accounting will provide more meaningful financial information that will enhance the quality of the Government's financial decision-making process. It will provide an in-depth understanding of the overall financial position of the Government, providing a sound basis for long term financial planning, in such areas as asset replacement planning, management of debtors and creditors and cash flow predictions.

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

- commencement of an extensive accrual accounting training course in conjunction with SDO and Treasury Department, leading to the "A" level Matsec accounting examination for employees who are willing to continue their studies in the accounting field. At the commencement phase, the course had 150 participants, 16 of which have expressed interest to sit for the "O" Level examination in 2007;
- continuation of the process to increase the quality and timeliness of accruals information collected from all government departments through regular information monitoring by the Accounting Methodology and Compliance Unit within the Treasury Department;
- compilation of financial statements under partial accrual accounting rules for all ministries and their respective departments for period ending 31 December 2004 in conjunction with the Treasury Department and MITTS. These financial statements are prepared for internal evaluation and consumption. Furthermore, these financial statements have the objective of increasing the information quality level of the accounting database in preparation for the full implementation of accrual accounting in Government;
- reviewing where appropriate technical guidelines regarding: decentralisation of the budget process; inter-departmental transfers; depreciation of fixed tangible assets; valuation of fixed tangible assets;
- reviewing of the Malta Government Accounting Standards (MGAS) to ensure that they are in conformity with the International Public Sector Accounting Standards (IPSAS);
- continued support to departments for the compilation of financial statements under (partial) accrual accounting rules for year ending 31 December 2005, in conjunction with the Treasury Department and MITTS;

- continuation in conjunction with MITTS of the IT systems reviews of all government financial systems. These IT systems reviews have the objective of providing the basis for interfacing all Government's financial systems with the accounting package that will eventually replace DAS.

The next phase of the accrual accounting implementation process is dependent on the replacement of the current DAS. The business and technical requirements specifications for the replacement system have been documented and are currently under review.

## ePROCUREMENT

The eProcurement project is relatively new with the project champion being the Department of Contracts. The Ministry of Finance had initially established a working group to examine the eProcurement system at the Scottish Executive resulting in a preliminary eProcurement report which contained a number of recommendations. Furthermore, in April 2006 the EU Commission issued a document entitled *i2010 eGovernment Action Plan: Accelerating eGovernment in Europe for the Benefit of All*. This document outlines a number of specific goals towards implementing eProcurement throughout all the Member States.

These developments have prompted the Ministry of Finance to establish a Task Force to drive the project to completion. This Task Force consists of the Ministry of Finance, Contracts Department, Budget Operations, Information Management Officer, PPP Unit, Internal Audit and Investigation Directorate, MITTS, and NAO (observer status). This Task Force currently has the following terms of reference:

- review the status of the eProcurement process in the light of the EU Commission eProcurement initiatives and the preliminary report prepared by the working group;
- prepare a strategic business case, including a benefits realisation plan that shows the indicative costs and benefits;
- prepare an eProcurement implementation project plan;
- oversee the implementation of the approved project plan.

The eProcurement project has important and long-term implications on the service-wide procurement process. Furthermore, the eProcurement Task Force has prepared an action plan that will be reviewed in the coming weeks to ascertain the resources that are required for its implementation.

## eARCHIVING

The eArchiving project is also relatively new with the project champion being the EU Affairs Directorate within the Ministry of Finance. The spread of electronic systems in government has highlighted a need for improved record keeping practices. The adoption of word processing, email and multi-media applications has led to a situation whereby the essential evidence of government decisions and transactions is very often collected on the storage device of the computer utilised by individual public servants, and in e-mail inboxes and shared folders of individual public servants or work groups.

This form of record-keeping needs to be improved with the aim of ensuring that the government filing procedures meet the requirements for full, accurate, reliable, accessible and durable evidence of government activity. Furthermore, the revision and improvement of the record keeping process will mitigate the risks to the capture and management of essential information. It is envisaged that the eArchiving project has important and long-term implications on the service-wide filing process.

The Ministry of Finance has initiated a process to study the possibility of introducing an electronic records management system that will complement the existing manual registry filing process. It is envisaged that this system will eventually enable all the business systems that the Ministry relies upon to be capable of creating full and accurate records, and routinely performing these fundamental record-keeping processes on a continuous basis, either individually or through linked operations, thus ensuring the full range of the organisation's business activities to be properly documented.

To this end, the Ministry of Finance has established a project team to oversee this initiative in conjunction with MITTS and MEU with the aim of defining a common requirement that may also serve as a pilot which can in the future be rolled out across government. The following initial phases have been identified to enable this project to be successfully executed:

- preliminary investigation;
- analysis of business activity;
- identification of record-keeping requirements;
- assessment of existing systems;
- identification of strategies for record-keeping;
- design of a record-keeping system;
- implementation of a record-keeping system;
- post implementation review.

A detailed project plan will be defined once the common eArchiving requirements have been identified and documented.

### **OTHER ASSIGNMENTS**

Other assignments that have been undertaken by the Special Projects Office include:

- Active participation in the organisational restructuring of the revenue-earning departments within the Ministry of Finance. This initiative has the objective of integrating the operations of the Inland Revenue, VAT, and Customs Departments and the Tax Compliance Unit.
- Initiation of a preliminary study and conceptual model regarding the cost management structure of the Treasury Department as a basis for the possible implementation of activity based accounting.
- Preparation and delivery of technical papers for the European Group of Public Administration and the First European Summit on Modernising Government, held at Bocconi University, Milan and Speyer University, Germany, respectively.
- Co-ordination of the Customs and VAT Departments, NSO, Economic Planning Division, Treasury and Budget Office regarding the work conducted in relation to the EU Advisory Committee on Own Resources.
- Co-ordination in monitoring the implementation of the data protection requirements within the Ministry of Finance and its respective departments.
- Participation in the Euro Changeover IT Taskforce related to ensuring that all government computer systems are euro compliant in time for the January 2008 changeover.
- Co-ordination of activities in relation to international institutions, such as, UNCTAD, IMF, World Bank, Council of Europe Development Bank, Multilateral Investment Guarantee Agency, International Bank for Reconstruction and Development, International Finance Corporation, and European Bank for Reconstruction and Development.

### **CONCLUSION**

The Special Projects Office will continually and proactively seek participation in projects that are aligned with the strategic directions of the Government in general and the Ministry of Finance in particular. The Special Projects Office is committed to utilising as much as possible the internal resources of Government, such as, MITTS, MEU, SDO, Treasury Department and other relevant departments to minimise the implementation expenditure of the various initiatives undertaken. Furthermore, the level of project participation will be commensurate with the available resources and the priorities established by the Ministry of Finance.

EMANUEL CAMILLERI  
*Director General (Special Projects)*

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## Financial Policy and Management Directorate

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### MAIN FUNCTIONS

In the course of the year under review, the Directorate focused primarily on:

- the appraisal of the financial implications of new conditions of employment in the Public Service and on ensuring that existing conditions of service were being implemented in line with approved parameters;
- the review, on an ongoing basis, of existing financial management policies and procedures having service-wide applicability;
- the promotion and consolidation of the Public Private Partnerships Programme as a means whereby public services are delivered more efficiently and effectively and in a manner that secures added value for money;
- a number of ministry-specific initiatives, including several which had service-wide impact.

### ASSIGNMENTS UNDERTAKEN

Throughout 2006, the Directorate was heavily involved in the following areas of activity:

- representing the Ministry of Finance in all negotiations of a sectoral nature held by the respective ministries with union representatives of specific classes of public service employees;
- evaluating the extent to which allowances/benefits awarded in terms of Sectoral Agreements were being paid in line with approved parameters;
- monitoring honoraria and/or remuneration levels currently enjoyed by, or proposed for award to, public officers and other appointees to government boards and commissions;
- updating policies and procedures, monitoring implementation and recommending corrective action where necessary in relation to expenditure-generating activities of a corporate nature such as travel on official business, transport, hospitality and utilities;
- contributing to the introduction of accrual accounting across the Public Service through active participation in the Accrual Accounting Task Force;
- leading the Public Private Partnerships Unit established in mid-2005, undertaking the first pilot project – a Home for the Elderly in Mellieħa – and seeking to identify a pipeline of prospective projects that lend themselves readily to the PPP model of procurement;
- co-ordinating the euro changeover process within the relative departments/entities falling under the Ministry of Finance, through the Director's chairing of the Public Finances Sectoral Committee and his participation as member of the National Euro Changeover Committee;
- driving the initiative to identify and simplify burdensome regulations, administrative procedures and fees within the departments/entities falling under the Ministry of Finance, as part of the overall programme of Better Regulation being spearheaded by the Office of the Prime Minister through the Management Efficiency Unit;
- overseeing the implementation of budgetary measures relative to the award of grants on expenses involved in the purchase/installation of solar energy heaters, photovoltaic systems, electric-powered vehicles, lifts for small and medium-sized enterprises and non-governmental organisations, roof insulation, musical instruments;

- implementing the amendments to the Pensions Ordinance that provide for special arrangements applicable to former public officers who were detailed or took up permanent appointment with public entities and taking action to secure the contribution due to Government from such entities in respect of their share of pension payable to officers serving thereat;
- evaluating and addressing sundry claims for compensation raised by third parties against Government in relation to damages allegedly sustained in the course of some government activity.

MARIO DEBATTISTA

*Director General (Financial Policy & Management)*

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## Treasury Division

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### GENERAL

On 1 November 2006, the Treasury Department which formed part of the Financial Administration Division within the Ministry of Finance was given the status of Directorate General following a restructuring plan that was drawn up earlier during the year. The restructuring of the department, which is still underway, aims at streamlining operations whilst building the necessary capacity and expertise that will enable the Division to perform its core Treasury functions as effectively and efficiently as possible. While supporting the administrative capacity of the Treasury to fulfil its legal obligations, this restructuring exercise also takes into account new functions that the Treasury will have to undertake in line with current policies.

For this purpose, in December 2006 two Directorates namely Government Accounts and Debt Management were established.

### GOVERNMENT ACCOUNTS DIRECTORATE

#### Accounting Methodology and Compliance Unit

The Unit continued with its primary role of collecting accrual accounting returns on a quarterly basis and increased its efforts to improve the quality of data submitted by departments. The ultimate goal is that of improving the level of accrual-based data.

In this regard the officers deployed within this Unit have, through the guidance provided by MITTS, participated in data compilation exercises aimed at deriving accrual-based Financial Statements on three reporting levels: Department, Ministerial and Consolidated.

An enhanced version of the Stock Control Software developed by MITTS was implemented in various departments throughout the past year. The Unit provided assistance with the installation and also with the use of the software.

#### Other Initiatives

The Unit, as Treasury's representative, was involved in the process for the provision of an accounting training programme for public officers, with the Ministry of Finance and the Staff Development Organisation. The training programme runs over an 18-month period and consists of two modules. Module one which deals with Financial Management Accounting commenced in November 2006 and is scheduled to be finalised by June 2007. During this phase a number of participants opted to sit for the May 2007 session of the 'O' Level Matsec Accounting examination. Module two focuses on Cost and Management Accounting and is scheduled to start in September this year, to be finalised in 2008. The total number of participants amounts to 112 (99 Malta and 13 Gozo).

This training programme is meant to increase the level of competency in the accounting area in time for the full implementation of accrual accounting.

## Cash Office

### Cash Flow Projections

Departments have maintained their constant contribution in submitting Cash Flow Projections as per Treasury Circular 9/2005 and various other circulars. As has been pointed out in previous reports, Cash Flow Projections are a management tool to secure the maximum benefit of judicious cash management.

### Bank Reconciliation Exercise

As from January 2002 electronic bank reconciliation was taken in hand. 75% of non cheque/cheque transactions are normally reconciled during the “first cut” reconciliation process. Automatic reconciliation has been up to date since February 2005 and is carried out every month following the Departmental Accounting System (DAS) month-end routine.

The manual reconciliation for outstanding transactions for 2002, 2003 and 2004 are 90% complete. At present manual reconciliation for these years is being carried out on unreconciled deposits for Malta and Gozo. Manual reconciliation of outstanding transactions for 2005 and 2006 (up to September 2006) are 95% complete.

The decision taken by Treasury in January 2005 to carry out manual reconciliation of outstanding transactions for each month following electronic reconciliation has ensured that liaison between BRS staff and government departments/ministries was better maintained. This has resulted in the timely detection/correction of errors and avoidance of same. Real time monitoring of government transactions is now possible and back logs are being avoided.

On a monthly basic, Treasury submits to NAO copies of the bank reconciliation statements. These statements reflect, apart from other information, decreasing amounts for unreconciled items in all areas.

Over the last year Treasury also adopted a more monitoring focused approach to ensure that departments observed the stipulated guidelines in respect of procedures for deposits at the Central Bank.

### Bank Transactions Unit

The Bank Transactions Unit is responsible for effecting overseas and local payments. The following table illustrates the number of transactions by category that was effected by the Unit:

Transaction Type	Number	Value (Lm)
Debit Advice (Local) *	2,495	500,715,350.71
Telegraphic Transfers	1,618	31,683,784.97
Draft	1,078	1,207,622.71
Letter of Credit	9	1,262,009.38
Travel	3,618	2,757,564.50

\* Debit advices issued by salaries and public debt are not included

### Travel

As from 2005, the Unit took over all post-travel verifications as per Treasury Circular 6/2005. The task was formerly carried out by the National Audit Office.

During the year Treasury continued with the maintenance of the 2005/2006 travel databases and the verification of documents following overseas travel effected in 2006. Provisional figures show that over 3,600 visits abroad have been recorded for 2006. The following is the situation to date, with regard to investigated records:



	2005	2006
Total visits recorded	3,262	3,666
Still under investigation	28	16

### Accounts Section

The Consolidated Accounts Section of the Treasury is considered to be the executive arm of the Accountant General. The main functions of this Section are to ensure that ministries and departments adopt and maintain uniformity in the accounting system. The Section is guided in this exercise by the Financial Regulations 1966 and the Financial Administration and Audit Act 1962 as well as by circulars issued from time to time to help in the interpretation of financial policy and legislation.

The vetting and processing of, and accounting for, all transactions effected by ministries and departments continued to be the main routine functions of the Section.

During the period under review, the Accounts Section processed local payments which were made up as follows:

Batches	11,080
Cheques	135,064
Value	Lm115,557,222

### Reports

Apart from its day-to-day business, the Section also carried out additional assignments during the year including the issue of ad hoc reports requested by the Ministry of Finance, the National Statistics Office and the Central Bank of Malta. Other reporting as required by legislation is also carried out by this Section within the established time-frames. Amongst these reports, of particular relevance are the Section 65 Statements, the Annual Financial Report, the monthly Comparative Return of Expenditure and Revenue, and the publication on a quarterly basis of the Consolidated Fund Account.

The Section also carried out other duties relating to the Public Credit, Government Loans and Investments, Investments through MGI, Trust Funds and their related Investments, Warrants and Advances, compilation and collection of Arrears of Revenue, Write Off exercises and the monitoring of Other Deposit Accounts.

### Euro Changeover Preparatory Work

In preparation for the Euro Changeover, the Treasury issued TR Circular 6/2006 dated 15 December 2006. This circular informed Departments, especially DAS users, about enhancements that were effected in the DAS application to ensure familiarisation with the dual display of monetary amounts during 2007. These enhancements included the dual display in the following documents: Local Purchase Order; Letter of Acceptance; Telegraphic Transfer; Payment Vouchers (Vendor, Multi Payment and Petty Cash); Receipts (Cash/Cheque and Direct Credit); Cheque - Remittance Advice.

This ensured the familiarisation with the new currency and would also lead the way towards the mandatory period of dual display of monetary amounts later on during 2007.

### EU Funds Management Unit

The EU Funds Management Unit, formerly known as the EU Financing Unit has strengthened its human resources capacity in preparation of Structural Funds 2007-2013 period.

Throughout the year the Unit continued to process payments in respect of Transition Facility, Structural, Equal and Cohesion Funding. Apart from the preparation of necessary documentation for processing of

payments, attention was focused on providing stakeholders with reports that facilitated forecasts and control of project expenditure.

While securing control and compliance with the EU regulatory requirements, this Unit, with the assistance of the VAT Division, has ensured an adept treatment of VAT issues. The unit continuously liaised with the Managing Authority, the Paying Authority and other stakeholders in order to ensure prevention and detection of any possible irregularities.

Earlier during the year the Unit also organised an information session in preparation for the June 2006 Statement of Expenditure for Structural and Cohesion Funds and Equal Community Initiative. The main reasons for this session were to ensure the efficient management of Structural Funds and clarify other issues such as the treatment of VAT. Speakers included officers from Treasury, the Planning and Priorities Co-ordination Division and the VAT Department.

## DEBT MANAGEMENT DIRECTORATE

The main functions of this Section 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.

### Treasury Bills

Treasury Bills, which are offered by public auction on a weekly basis, have a dual role: primarily, to cover the temporary Cash liquidity of Government and secondarily, to maintain the Bill market. Treasury Bills are issued in denominations of Lm1,000.

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 2006 was Lm160,472,000.

Interest rates ranged between a low of 3.1678% for 3 month Bills (20 January 2006) and a high of 4.1966% for 1 year Bills (15 December 2006).

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

Tenor	Applications	Amount (Lm)
28 days	3	31,000,000
91 days	360	270,227,000
182 days	49	47,890,000
273 days	39	26,309,000
364 days	45	48,585,000

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

### Government Bonds

The Directorate is responsible for the issue of Malta Government Stocks in accordance with the Government programme. Stocks are normally issued to partly finance a budgetary deficit and partly to finance capital expenditure programme. Apart from new issues, existing issues may also be converted into new tranches as the case may be.

The Directorate has to service the half-yearly issue of Dividend warrants to existing stockholders.

During 2006 there was a redemption of Lm19.25m matured stocks and issue of new stocks amounting to Lm19.25 on which a net profit of Lm2.17m was made due to auction bids.

### Foreign Loans

These loans are specifically issued to finance capital projects. A total of Lm10.39m was repaid according to the Re-Payment Schedule resulting in an end-of-year balance of Lm54.8m.

### Salaries and Pensions Section

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

#### Salaries Section

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.

- *Four-weekly salary payments system:* During the year under review the Salaries Unit continued with the operation of its four-weekly salary payments system which was introduced in 2004. Concurrent with that, it had also introduced the direct credit system, whereby all beneficiaries receive their salary payments electronically in the personal bank account of their choice.
- *Support Services:* As a result of the new provisions in the Collective Agreement for employees in the Public Service covering the period 2005 to 2010, Treasury in consultation with the MPO would ensure that the agreed provisions and measures affecting salaries are implemented in a timely manner.

Following approval by OPM for the introduction of the Donation Scheme to Charitable Institutions, during January 2006 Treasury finalised the necessary software enhancements to the current Treasury four-weekly Payroll Reporting System and by March 2006 the first Donation Scheme became operational in terms of the agreed parameters outlined in OPM Circular No 6/2006 dated 6 February 2006.

- *Public Service Reform:* The Unit 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.
- *Euro Migration Process:* In relation to the Euro Migration process, the Treasury, as one of the critical departments, is represented on the Public Finance Sectoral Committee (PFSC) to assist in identifying areas of concern requiring policy direction. In turn, officials from the Salaries Section hold continual meetings with MITTS Ltd to ensure that the surrounding preparations for the euro changeover are in compliance with the directives issued from time to time by the National Euro Changeover Committee (NECC). In this regard, the implementation of the dual-display of the Government Payroll and the Treasury Pensions shall be carried out as set out in the Roll-out Plan, that is, between 19 and 28 February 2007.

### Treasury Pensions

#### General Data

By the end of 2006 the Pension Payroll stood at 14,147, being a net increase of 178 pensioners over 2005. The new pensioners for the year under review approved by the President reached 645 comprising the

following: Civil Servants - 465; Police Officers - 30; AFM Personnel - 48; Widows & Orphans - 96; Members of Parliament - 6.

Pensioners who passed away and ceased to be on the payroll during 2006 reached 467. The total payouts in pensions during 2006 rose to Lm24,790,096 representing an increase of 6.76% over the previous year.

By end of December 2006 the amount paid as Gratuities was Lm7,255,231 being a decrease of Lm900,517 compared to the previous year. Out of the total pensions paid to beneficiaries during the year, 68% 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.

NOEL CAMILLERI

*Director General (Treasury)*

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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. Within this context, a sustainable public finance situation is necessary to ensure a stable macroeconomic framework. Furthermore, efforts are being taken to improve the incentive to work and to continue to attract foreign direct investment, to develop the tourism industry, to improve the competitiveness of the domestic economy, to support small and medium sized enterprises, to reduce excess bureaucracy and to support creativity and innovation. 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. As in previous years, the Division provided information on the domestic and international economic situation as well as on the macroeconomic outlook. This information is important in order to ensure that the appropriate economic policy measures are formulated. The Division also provided an important input in the analysis of the fiscal situation and projections within the context of Malta's excessive deficit situation as well as the obligations of the Stability and Growth Pact. In addition, the Division was also engaged in the process of the proposal of budgetary measures and their respective economic impact.

Furthermore, during 2006, the Division provided input for the macroeconomic section of the 2007 Pre-Budget Document (Securing our Future).

The Division is represented in the Government Finance Committee and participates actively in the discussions. This Committee is responsible for the compilation of the Notification of Debt and Deficit Levels of General Government.

#### EU ECONOMIC POLICY CO-ORDINATION

The Division continued to participate actively in the EU economic policy co-ordination processes. In particular, the Economic Policy Division participates in the Economic and Financial Committee (alternates) and the Economic Policy Committee. The Division also participates in a number of working groups attached to the EPC. The Division is actively involved in the Working Group on Ageing Populations (AWG) which examines the economic and budgetary consequences of ageing. Moreover, the Division is also involved in other working groups of the EPC namely Output Gaps Working Group, Labour Market Working Group and Quality of Public Finances Working Group.

The Division is also engaged in the preparation of briefings for the ECOFIN meetings as well as for European Council meetings.

During 2006, the Division provided direct input in the preparation of the *Update of Convergence Programme 2006-2009*. The Convergence Programme 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.

This document follows the submission of Malta's first Convergence Programme in May 2004, the first Update in December 2004 and the second Update in December 2005. The Update of Convergence Programme 2006-2009 includes macroeconomic forecasts, budgetary projections and an in-depth analysis of the fiscal situation and Government's fiscal policy, sensitivity analysis as well as an overview of the long-term fiscal sustainability. The analysis is conducted within the framework of the requirements set out by the Stability and Growth Pact as well as the Council Recommendation to abrogate Malta's excessive deficit procedure. The document was compiled in collaboration with the Budget Office as well as the Treasury, and with important inputs being received from various ministries and entities, including the Central Bank of Malta and the National Statistics Office.

Following the enactment of Act No XIX of 2006 entitled the Social Security (Amendment) (No 2) Act, 2006 in December 2006, the Division also prepared an *Addendum to the Update of Convergence Programme 2006-2009 (The Impact of the Pension Reform on Long-Term Pension Projections)*. This document provides a review of the salient elements of the pension reform and a preliminary analysis of the long-term budgetary impact of this reform.

The Economic Policy Division participated in the assessment of Malta's Update of Convergence Programme 2005-2008. In particular, the Division presented Malta's position in the Economic and Financial Committee (alternates) and contributed towards the preparation for the relevant Ecofin meeting.

In February 2006, the Division participated in the country examinations meeting held by the EPC on the National Reform Programmes submitted by Member States in 2005. During 2006, the Directorate provided input in the drafting of the Progress Report of the National Reform Programme 2005-2008 (NRP) which was submitted to the European Commission in October 2006. The Directorate participated in the Cabinet Committee on Competitiveness which is responsible to monitor the progress registered within the NRP and to ensure that the NRP is implemented in a timely manner. In November 2006, the Directorate participated in the country examinations meeting held by the EPC, which reviewed the Progress Reports on the NRPs of the Member States.

During 2006, 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. In particular, the Division continued to co-ordinate closely with Malta's desk officer in DG Ecfm. Bilateral meetings were held both in Malta as well as in Brussels with Commission officials from DG Ecfm.

## **EURO ADOPTION**

The Division participated in the Euro Strategy Monitoring Group, which analyses the methodology used to calculate the relevant convergence criteria, monitors and forecasts developments in the nominal convergence criteria as well as developments in the real convergence criteria and reviews the situation vis-à-vis other conditions for euro adoption, namely enactment of legislative measures and statistical standards. The Division collaborated closely with the Central Bank as regards the price stability convergence criterion.

The Division is also represented in sub-committees of the National Euro Changeover Committee (NECC).

Furthermore, officers from the Division are assisting the NECC on the study of the potential inflationary impact of rounding and smoothing of specific products and services as a result of the euro changeover.

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

The Division is represented in the Malta Council for Economic and Social Development and during 2006 it continued to participate actively in its proceedings. Furthermore, as in previous years, the Division computed and presented the relevant cost-of-living adjustment for 2007 as stipulated in the Incomes Policy Agreement of 1990.

### **NATIONAL ECONOMETRIC MODELLING**

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. During 2006, the Division pursued work related to strengthening its econometric modelling capability. Work on the construction and maintenance of these models is undertaken in conjunction with foreign experts.

The short-term model was used to produce economic forecasts in spring and autumn, which were presented during the Economic Forecasts Meetings held between the Commission and the EU Member States. Discussions on these forecasts were held with Malta's desk officer in DG Ecfm. Furthermore, forecasts were also prepared in the light of preparations for the Budget and the Update of the Convergence Programme 2006-2009.

The second disaggregated model was used on a number of occasions for the preparation of scenario analysis, including sensitivity analysis assignments as well as policy simulation exercises. This model is being further fine-tuned in order to reflect better the realities of the Maltese economy and to modify the way in which a number of important relationships within the model are calibrated.

### **NATIONAL STRATEGIC REFERENCE FRAMEWORK (NSRF)**

The Directorate provided direct input in the preparation of the National Strategic Reference Framework (NSRF) in relation to the programming of structural funds for the period 2007-2013. The Directorate also participates in a Steering Committee chaired by the Parliamentary Secretary within the Ministry of Finance, which serves as a platform of co-ordination among the key players in the programming of structural funds.

### **PENSIONS REFORM**

During 2006, the Division provided support in the preparation of a number of scenarios/simulations in the context of the preparations for the pension reform. These simulations were carried out using the World Bank's PROST (Pensions Reform Simulation Toolkit) model. A series of changes to the pension system were enacted by Parliament in December 2006.

### **FINANCIAL PERSPECTIVES 2007-2013**

During 2006, the Division continued to provide support and input for the monitoring of developments as well as for the formulation of Malta's position during the negotiations on the Financial Perspectives 2007-2013.

## **INTERNATIONAL ECONOMIC RELATIONS DIRECTORATE**

The International Economic Relations Directorate provides technical advice and assistance to Government on the economic/financial impact of international trade issues. Through its participation in the Commission Working Parties and Article 133 formations, the Directorate monitors and advises on the economic impact of issues and strategies concerning the EU's common commercial policy. Furthermore, the Directorate

provides an economic analysis and appraisal of Malta's international, regional, bilateral and multilateral obligations. This analysis is used in the determination of the most appropriate position for Malta.

During 2006, the Directorate enhanced its consultative role to ministries/organisations, in particular the Ministry of Foreign Affairs, on issues involving international economic and trade relations.

### THE COMMON COMMERCIAL POLICY - ARTICLE 133 COMMITTEE

The Article 133 Committee is a trade co-ordination and advisory committee to the European Union covering all aspects of trade policy. The Division, in liaison with the Ministry of Foreign Affairs, is constantly monitoring and analysing developments that take place during the Article 133 Committees 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.

- *Article 133 Titulaire* : During 2006, the Article 133 (*Titulaire*) Committee was consulted on a number of trade policy areas, including developments in the WTO Doha Development Agenda, bilateral trade relations, the Communication on Global Europe, WTO accessions and WTO dispute settlement matters. Other thematic issues included the minimum platform for investment for EU free trade agreements and aluminium tariffs.
- *Article 133 Deputies*: The Article 133 (Deputies) Committee discussed issues relating to the WTO Doha Development Agenda, various issues relating to bilateral/regional relations with third countries, WTO accessions, and horizontal issues, such as the minimum platform for investment for EU free trade areas, the Communication on Global Europe and subsequent Council Conclusions, and trade related development issues.
- *Article 133 Services*: The Article 133 (Services) Committee focused on the EC's services offer for the DDA, as well as the GATS Article XXI compensation in view of the EC-25 consolidated services offer. Following the suspension of the Doha Round, the focus shifted on the bilateral level and the services elements in the current and planned EU free trade areas.
- *Article 133 Textiles*: The Textiles Committee continued to follow the China quota utilisation of textiles and clothing imports. The Commission extended the existing bilateral textiles agreement with Ukraine and amended the Partnership and Co-operation Agreement with Kazakhstan and Azerbaijan to ensure that the principles which apply to trade in other goods are also extended formally to trade in textile products.
- *Article 133 Steel*: Discussions during this Committee included the negotiation of a number of steel agreements, most notably the agreements on quantities of imports of certain steel products from Kazakhstan, Ukraine and the Russian Federation.
- *Working Party on Trade Questions*: The main focus of discussions was the Proposal for origin labelling of certain products imported from third countries, the *Reflection Process* on trade defence instruments and briefings on developments in the field of Anti-dumping and Anti-Subsidies.
- *General System of Preferences*: This Committee discussed in particular the Commission's Proposal to temporarily withdraw access to the Generalised Tariff Preferences from the Republic of Belarus, the grant of a special incentive arrangement for sustainable development and good governance to the Republic of El Salvador and the Regulation laying down rules for the opening and administration of tariff quotas for raw cane sugar for refining originating in least developed countries.

### MULTILATERAL TRADE: THE WTO DOHA DEVELOPMENT AGENDA NEGOTIATIONS

The Division, in co-ordination with the Ministry of Foreign Affairs, the Permanent Representations in Brussels and Geneva and other pertinent authorities, monitored developments and provided feedback on Malta's position with respect to various issues under the WTO Doha Development Agenda (DDA) negotiations. The main issues included agriculture, services, non-agricultural market access, trade facilitation and trade rules. However, during the course of 2006, negotiations on the DDA collapsed and



were temporarily suspended. Efforts are being undertaken to re-start the negotiations. The Division is monitoring the progress made in this respect.

## BILATERAL AND REGIONAL TRADE RELATIONS

The Division consulted and co-ordinated with the competent authorities across Government in order to provide assistance to the Ministry of Foreign Affairs in its policy formulation *vis-à-vis* a number of trade agreements with third countries that are currently under negotiation:

- *EU-China Closer Partnership, Closer Responsibilities:* The Division formulated its views, in co-ordination with the Ministry of Foreign Affairs, with respect to the proposed strategy for trade and investment with emphasis on a competition and partnership framework with China. Similarly, the Division monitored the documentation regarding the Market Economy Status of China for the EU-China Summit in Helsinki in September 2006.
- *EU-US Partnership:* The EU pursued further negotiations for a stronger EU-US partnership with a closer integration of the economies within a globalised scenario. With respect to the draft work programme of the EU-US Economic Integration and Growth Initiative, good progress has been achieved in many challenging areas. The Division monitored these ongoing developments and submitted views with respect to the Vienna Summit Declaration in June 2006.
- *EU-Canada Trade and Investment Enhancement Agreement:* The Division co-ordinated the views of various government entities, in liaison with the Ministry of Foreign Affairs, with respect to the economic aspect of the negotiations.
- *EU-Japan regulatory reform:* The Division monitored further developments arising from the ongoing dialogue with respect to the EU-Japan Regulatory reform proposals, in co-ordination with the Ministry of Foreign Affairs and other pertinent authorities.
- *EU-GCC Free Trade Area:* During 2006, the Commission focused discussions on the pending issues in the draft free trade area. These included services, investment and public procurement. The Division monitored these developments, including discussions on possible flexibilities to GCC countries.
- *EU-Mexico Free Trade Area:* The Division monitored further developments in the discussions on minor revisions, especially in the area of financial services.
- *EU-Mercosur Free Trade Area:* Negotiations will continue during 2007. The Division has monitored developments on this issue.
- *Economic Partnership Agreements:* The EU is pursuing a number of Economic Partnership Agreements with developing regions which need to be concluded by the end of 2007. The Division has liaised with the Ministry of Foreign Affairs with respect to Malta's position *vis-à-vis* these Economic Partnership Agreements.
- *EU-Euromed Free Trade Area:* Negotiations with Euromed partners have continued in order to establish a dispute settlement system. Within the 133 Committee, discussions were held on the establishment of a protocol for liberalisation of trade in services, establishment and e-commerce within the Euromed area.
- *Negotiating mandates with Andean Communities, ASEAN countries, Central America, India and South Korea:* At the end of 2006, the Commission initiated consultations with respect to the issue of a mandate from the Council to open negotiations with these countries/regions in an effort to negotiate a new generation of WTO compatible free trade areas with ASEAN, India and South Korea and comprehensive Association Agreements with Latin America countries. These negotiations will be a key component of the EU's bilateral/regional relations in the coming years. The Division, in liaison with the Ministry of Foreign Affairs, had submitted feedback on the negotiating mandates.

## **TRADE DEFENCE INSTRUMENTS AND GREEN PAPER ON EUROPE'S TRADE DEFENCE INSTRUMENTS IN A GLOBAL ECONOMY**

The Division monitored and analysed the ongoing developments on Anti-Dumping, Anti-Subsidy and Safeguard mechanisms. The Division provided advice to the Ministry of Foreign Affairs in the formulation of Malta's economic positions, bearing in mind the objectives, interests and priorities of the various stakeholders. The necessary consultations with local and Community stakeholders have been maintained.

On 6 December, the Commission initiated a Reflection Process on Trade Defence Instruments. Several experts were invited by the European Commission to comment on the possible reform of the Trade Defence Instruments. Subsequently a Green Paper for public consultation was launched in December. This process will continue in 2007.

### **THEMATIC ISSUES**

#### ***Minimum Platform on Investment***

The Commission launched discussions within the Article 133 Committee and provided a template on a minimum platform for investment for EU Free Trade Areas. The aim of this minimum platform is to provide a basic level of investment opportunities for EU and third countries when Free Trade Agreements are negotiated with third countries. In collaboration with the Ministry of Foreign Affairs, the Division held consultations on this minimum platform and provided feedback to the Commission on Malta's position with respect to this issue.

#### ***Global Europe***

The Commission issued a Communication on the External Aspects of Competitiveness (later known as Global Europe Communication) with the aim to review the contribution of trade policy to growth and jobs in Europe and to propose a set of concrete policy initiatives to strengthen this contribution. This Division, in collaboration with the Ministry of Foreign Affairs, undertook the necessary consultations with the pertinent stakeholders and provided feedback to the Commission on Malta's views with respect to this Communication. Following this Communication, a series of draft Conclusions were issued on Global Europe. These were discussed in the Article 133 Committee where Malta's views on the Conclusions were forwarded.

#### ***Aid for Trade***

The Division has co-ordinated with the Development Directorate within the Ministry of Foreign Affairs to formulate a Malta position on Aid for Trade. Council Conclusions were agreed upon and issued on 16 October 2006. This initiative is aimed at increasing the trade capacities of least-developed and developing countries with the end objective of improving the economic and social conditions of their citizens.

#### ***Market Access Initiative***

The European Commission launched a public consultation on a renewed market access strategy, in order to enhance the focus on effective market access for EU exporters in third countries, hence addressing obstacles to trade which either impede market access or make it harder, more expensive or more cumbersome. The Division liaised with the Ministry of Foreign Affairs in order to provide the Commission with appropriate suggestions to deliver a comprehensive package to improve market access conditions for European companies. The Division participated in an information seminar organised by the *Forum Malta fl-Ewropa* regarding this initiative.

### **Investment Guarantee Agreements**

The Division, in consultation and co-ordination with the Ministry of Foreign Affairs and other pertinent authorities, has continued negotiations on a number of bilateral Investment and Promotion Agreements, in particular with Vietnam, Ecuador, Ukraine, and Uzbekistan.

### **OECD Membership**

The Division submitted technical data on the Maltese economy in response to a Commission's request for information in the light of Malta's OECD candidature. Preliminary views and assessment on Malta's candidature are also underway.

### **Commonwealth Finance Ministers Meeting in Singapore**

The Division participated in the Commonwealth Finance Ministers meeting which was convened in Sri Lanka between 12 and 14 September 2006. Ministers participating in the meeting supported Malta's proposal to host a *Small States Network for Economic Development (SSNED)*.

### **Visit by Hon. Mauro Agostini**

Hon Mauro Agostini, Italian Undersecretary of State for International Trade, visited Malta on 19-20 December 2006 for discussions on trade related issues with the Hon Minister of Foreign Affairs. The Division prepared the necessary briefings and was present for the meeting.

### **Advisory Support Services and Participation in Seminars**

The Division extended its advisory services to various government entities, mainly through the compilation of briefings, the drafting of instruction notes, technical advice, research and economic analysis on specific requests.

Officers from the Division delivered presentations in a seminar on civil society in the recently acceded Member States, organised by DG Trade in Malta between 18 and 19 May 2006. The Division's officers also participated in various local and international conferences/seminars in the field of trade/economic relations.

## **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 contributed in meetings with representatives from credit rating agencies such as Standard and Poor's, Moody's and Fitch. 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. During these meetings, the performance of the domestic economy and the policies and measures pursued by Government to address the economic challenges faced by the Maltese economy were discussed.

The Division submitted Malta's position with respect to various issues in connection with the European Investment Bank and FEMIP. Positions included the EIB's external lending mandate and the EU's Guarantee Fund.

## RESEARCH AND PUBLICATIONS

The professional staff at the Division carries out research work on various issues. During the year, the Division chaired a technical working group which prepared a report on competitiveness indicators for Malta. The Division also collaborated with the VAT Department on a specific assignment.

The Division also provided input for the formulation of Malta's National Action Plan for the Community emissions trading scheme.

In addition, research was undertaken by the Division's professional staff on various economic, fiscal and financial topics.

The Division published the *Economic Bulletin September 2006*. This document primarily analyses Malta's economic developments over the 2001-2005 period, with particular reference to 2005, whilst also providing a review of economic developments during 2006.

Moreover, the Division published the *Economic Survey October 2006*. 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 recent economic performance and emerging economic trends, as well as an overview of international economic developments.

During 2006, the Economic Policy Division continued to hold active discussions with the Central Bank of Malta on the co-ordination of economic policies with a view to ascertain an optimal macro environment for further economic growth. It regularly collaborates 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.

## HUMAN RESOURCE DEVELOPMENT

The Division attaches importance to the enhancement of its human resource potential.

In order to meet its expanding demands, during 2006, the complement of Economics Officers in the Division was increased. In addition, the senior professional complement of the Division was strengthened by means of recruitment of Senior Economists and Economic Analysts.

Training of professional staff is also pursued. Staff members participate 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. Furthermore, one officer started a course leading to a post-graduate degree in Economics in a UK university.

## 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 Economic Policy Division also continued to maintain its extensive information base on international economic affairs, in particular relating to the EU and the WTO.

JOSEPH RAPA  
*Director General (Economic Policy)*

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## Contracts Division

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### RESTRUCTURING

The Department continued to strengthen its organisational structure by means of filling the vacancy of the post of Assistant Director (Pre-Contracts). Staff previously in separate units was amalgamated to form a coherent 'Letters of Acceptance and Contract Unit'.

The EU Unit was strengthened by the appointment of a number of Procurement Managers who will cater for the remaining Transition Facility Programmes and the new allocated EU budget obtained by Malta under the Structural Funds 2007-2013. It is also planned to seek approval for the engagement of a number of Procurement Managers to focus on new initiatives including e-procurement and Green procurement.

### PUBLIC CONTRACTS REGULATIONS

Training on local legislation Legal Notices 177 and 178 of 2005 relating to Public Contracts Regulations, and Public Procurement of Entities operating in the Water, Energy, Transport and Postal Services Sectors Regulations, respectively, which transposed the two new Directives namely 2004/18/EC and 2004/17/EC of the European Parliament and Council was sustained throughout 2006.

In order to cope with the implementation of the new procurement practices being introduced, the Department successfully carried out a training programme, in collaboration with SIGMA/OECD on behalf of the European Union, with the aim of obtaining further expert training on the new procurement procedures stipulated under the new Directives. The two-day programme entitled The New Procurement Procedures and Instruments focused on the adoption of new procurement procedures, such as the Competitive Dialogue, Framework Agreements and e-Procurement, offering procurement officers from ministries and relative departments directly involved in the field of Public Procurement an overview of the implications of these new Directives.

The Department seeks ways to streamline its operations and direct best practices for the gradual adoption of these new procedures whilst converging the two elements of local and EU procurement.

Since local and EU funded projects had separate sets of administrative procedures and as a first measure to harmonise all tender procedures, not only within the Department of Contracts but also at ministries and public entities, the Department initiated an 'in-house' exercise to create a holistic approach and standardise all tendering procedures by means of creating new tender document templates. These are now available to ministries, departments and public entities through the Public Service Intranet. An intensive in-house training programme for around 300 government employees on the use of these templates was successfully carried out during the first quarter of 2006.

The Department was heavily involved in the new procurement procedure relating to the Competitive Dialogue. This innovative type of procedure is being utilised in the Private Public Partnership to be established for the Mellieha Residential Care Facility which has reached the Preferred Bidder Stage as well as that for the provision of Catering Services at the new Mater Dei Hospital which has been awarded. The procedure is also being utilised in another large project for the Malta Tourism Authority which has reached the competitive dialogue stage.

## EUROPEAN UNION MATTERS

The EU Unit is responsible for the administration of all tenders which are fully or partially funded through EU funds. These operations, which include vetting of tender documentation and publication thereof, are related to the procurement of Supplies, Services or Works. Such tenders owe their origin to the Financing Memoranda signed for 2003, from the Financing Memorandum signed for the Transition Facility for 2004 and also from the Single Programming Document for the years 2004-2006.

A call for applications for the engagement of a number of Procurement Managers was successfully completed during 2006. Most of the successful candidates were recruited from within the Department proving that the training ideology adopted by senior management was thriving. Two other officers, one having a legal background, were also engaged on a contract basis, further bolstering the technical capabilities of the Department. It is expected that the recruitment process will be sustained so that the Department would be capable of coping with the expected influx of EU related tenders in consequence of Malta's new allocation of funds from the 2007-2013 EU budget.

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 Transition Programme 2004 for Malta was concluded on 15 December 2006. Both the Transition Facility Programme 2005 and the Structural Funds Programmes for Malta of 2004-2006 are at an advanced stage of 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 organised by the Commission of the Advisory Committee on Public Contracts, the Working Group on e-Procurement, the Working Group on Public Procurement Statistics and informal meetings for new Member States. The Department of Contracts also took part in meetings organised by the EU Public Procurement Learning Laboratory and the EU Public Procurement Network.

The Department, with the assistance of the Planning and Priorities Co-ordination Division, delivered a presentation to the DG Enlargement on Tendering - Case Studies from Malta on the experience gained in administering tenders in respect of the European Social Fund.

Reports on Appeal Procedures and the Public Procurement System of Malta were drawn up for the EU institution SIGMA (Support for Improvement in Governance and Management).

## EXTENDED DECENTRALISED IMPLEMENTATION SYSTEM

Following the granting by the EU Commission, in 2004, of the Extended De-Centralised Implementation System (EDIS) to Malta, the Department took on board several minor recommendations by the EU Auditors in order to enhance the monitoring, contracting and control systems in place. A revision of the Manual of Procedures, introduction of check-lists and other tools was recommended and effectively carried out while training to Senior Programming Officers and project leaders on the new amendments was carried out in January and September 2006.

An EU audit carried out by the Commission in 2005 had recommended that measures were to be taken to address weaknesses by the Directorate (Compliance) to effectively and efficiently carry out supervision of the SPO system as defined in the Manual of Procedures for Pre-Accession and Transition Facility Funding under EDIS. A private firm was contracted to carry out an Interim Evaluation Service for an Independent View to the Monitoring and Implementation Management of the Pre-Accession support to Malta and which had widespread exposure to the operations of the SPO system. The resulting report mapped out the SPO

system and the role of the Implementing Authorities, identified the inherent and control risks of the mapped out system, identified the system controls in place to mitigate the risks identified, drafted a check-list of the controls identified to be used during on-the-spot visits and formulated a sampling technique in order to perform the controls testing.

### **AUDIT VISITS**

Five audit visits were effected on the EU Unit together with the horizontal stakeholders on Pre-Accession and Transition Facility Programmes. These visits were aimed at having a closer look at the systems in place, with a view to ensuring the sound management of EU funds.

### **TRAINING**

A number of officials were afforded the opportunity of training abroad in public procurement. Five officers were sponsored to attend an Introductory and Practitioners Seminar on Public Procurement organised by the European Institute of Public Administration (EIPA), while two officials attended another EIPA organised International Seminar on e-procurement. A senior manager attended an International Seminar on Public Procurement as an Economic and Social Policy Tool as well as a policy seminar on Public-Private Partnerships. The Department also participated in the Second International Conference on Public Procurement Practices in Italy. Training abroad was also organised on Tender Evaluation, Contract Drafting and Contract Monitoring.

Training on IT modules was constant throughout the Department while other specific training modules for Middle Managers were also encouraged and participation sustained. An intensive training course on accrual accounting was initiated whilst training on customer care was also provided. Training on social issues such as gender show the wide range of training made available to all employees.

### **GENERAL CONTRACTS COMMITTEE**

The General Contracts Committee held 102 sittings during which 1085 cases were considered. The Committee evaluated reports and recommendations submitted by Contracting Authorities resulting in the issue of 331 Letters of Acceptance by the Department. The Committee deliberated on nine objections emanating from appeals lodged against recommendations of award of contracts pertaining to departmental tenders.

### **PUBLIC CONTRACTS APPEALS BOARD**

The Public Contracts Appeals Board is appointed by the Prime Minister to decide on objections lodged against the recommendations of the General Contracts Committee on the award of public contracts.

During 2006, the Public Contracts Appeals Board held various sittings that dealt with 34 objection cases, seven of which were upheld.

### **WEBSITE**

The Department's 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 on published tenders, General Contracts Committee recommendations and contracts awarded. A link is also available to the EU procurement SIMAP website. It is anticipated that the site will be upgraded to include enhanced functionalities once the proposed Procurement Management System is operational. The latter will be programmed to be user friendly with an efficient and effective platform for bidders that minimises the need to seek information elsewhere and for the procurers by providing a mechanism for dealing with the interaction with these same bidders. The system will also provide services to bidders in Malta and

abroad to stay informed about procurement requirements for items that are of interest to the particular bidder without the overwhelming volume of information relating to other items that are not of interest.

## **E-PROCUREMENT**

The aim of introducing e-procurement across Government is that each and every economic operator across the European Union should be able to participate with simple and commonly used equipment and basic technical know-how in public procurement processes.

An e-Procurement Working Group was set up by the Director General (Contracts) in March 2005. The Group was entrusted with the drafting of a national plan entitled Action Plan 2006-2009 Implementation of e-Procurement across Government, setting the roadmap that leads to the introduction of electronic public procurement in Malta.

Following the presentation of the Action Plan to the Permanent Secretary MFIN, the latter formed an e-procurement Implementation Task Force under the chairmanship of the Director General Special Projects, MFIN whose brief is to review the status of the e-procurement project and prepare a strategic business case, including a benefits realisation plan that shows the indicative costs and benefits of the proposed system. Based on these findings, the Task Force is to prepare the appropriate implementation project plan for approval and to eventually oversee the implementation of the approved project plan.

In the meantime the Department is managing the adoption of a new IT System for Tenders and Contracts (STACS). Approval has been obtained from the EU for the relative funding of this project. A service agreement with MITTS Ltd has been signed and the relative tender is to be issued in the first quarter of 2007. The new Procurement Management System (PMS) for the Department will include a new user-friendly web portal offering clients the ability to view, download and effect payment for tender documents. The new system will enhance the existing web portal by having search engine capabilities for prospective suppliers who will be able to view information on tender publications, the phases of adjudication, recommendation for awards, appeal procedures and other tender processes on a 24x7 basis. The system will also have a management system capable of report generating facilities enabling the Department to fully adapt to EU statistical requirements. Another added benefit will be the direct link with the EU publications SIMAP office.

## **GREEN PROCUREMENT**

The EU Directorate General for the Environment, having adopted the strategy to oversee the introduction of National Action Plans in each Member State by the end of year 2006, invited representatives from all Member States to a de-briefing seminar in April. At this seminar the Consortium engaged to report on best practices, the state of play and to provide recommendations on Green Procurement, presented its findings. The Draft Action Plan for Malta was the focus of attention of a working group in which the Department and MEPA played leading roles. Following the engagement of an expert under the EU technical assistance programme (TAIEX) to assist in drawing up the initial draft, the text was further enhanced with the use of environmental criteria obtained by MEPA through the city of Kolding, Denmark.

The Department increased this output through the findings of an International Seminar on Public Procurement at the Torgata University in Rome and another training seminar on Contract Monitoring attended in Brussels. In October, a seminar held for the purpose of introducing the Plan invited public comment and by the end of the year a final draft was prepared for launch. Pending the inclusion of the most recently available statistical data on procurement, the Plan is to be published in early 2007.



## RESEARCH AND INNOVATION IN PUBLIC PROCUREMENT

A senior manager of the Department was appointed member of the Task Force to introduce transparent mechanisms to reward research and innovation through public procurement as part of the National Strategy for Research and Innovation 2007-2010.

## BETTER REGULATION

The Department proposed and initiated three projects focusing on the harmonisation of tender documentation, bid bonds and facilitating the payment of fees, aimed at reducing burdens on the private sector.

## STATISTICS

### Projects Fully or Partially Funded through European Union Funds

The following is a list of the contracting activity carried out in relation to projects fully or partially funded through EU funds. These were related to the procurement of Supplies, Services and/or Works.

<b>Contracts Awarded</b>				
<i>Transition Facility Programme 2004 for Malta</i>				
	<b>Published</b>	<b>Estimated Cost</b>	<b>Contracts Signed</b>	<b>Value of Contracts Signed</b>
Commercial Tenders (Supplies, Services and Works) in Euros	10	2,782,887	11 <sup>1</sup>	2,585,125
Twinning Contracts in Euros	Nil	Nil	3 <sup>2</sup>	1,802,000
Twinning Light Contracts in Euros	10	1,572,350	9	1,405,649
<i>Transition Facility Programme 2005 for Malta</i>				
	<b>Published</b>	<b>Estimated Cost</b>	<b>Contracts Signed</b>	<b>Value of Contracts Signed</b>
Commercial Tenders (Supplies, Services and Works) in Euros	1	98,500	Nil	Nil
Twinning Contracts in Euros	Nil	Nil	1 <sup>3</sup>	675,000
Twinning Light Contracts in Euros	2	74,000	2 <sup>4</sup>	209,924
<i>Structural and Cohesion Funds 2004-2006 for Malta</i>				
	<b>Published</b>	<b>Estimated Cost</b>	<b>Contracts Signed</b>	<b>Value of Contracts Signed</b>
Commercial Tenders (Supplies, Services and Works) in Malta Liri	29	4,685,524	40 <sup>5</sup>	24,280,431

<sup>1</sup> Including 4 tenders published in 2005

<sup>2</sup> Comprising 2 tenders published in 2004 and 1 published in 2005

<sup>3</sup> Published in 2005

<sup>4</sup> Including 1 published in 2005

<sup>5</sup> Including 23 published in 2005

### Locally Funded Projects

The following is a list of the contracting activity carried out in relation to projects funded locally. These were related to the procurement of Supplies, Services and Works.

#### *Commercial Tenders (Supplies, Services and Works) in Malta Liri*

The Department published 460 calls for tenders, resulting in over 1,800 offers being submitted. The total value of contracts awarded by the Department in 2006 reached Lm24,653,800. The following is a breakdown of the contracts awarded:

<i>Categories</i>	<i>No. of Contracts Awarded</i>	<i>Totals (Lm)</i>
Supplies	232	12,169,500
Works	66	6,397,400
Services	31	2,516,900
<b>Total</b>	<b>329</b>	<b>21,083,800</b>

<b>Item of expenditure</b>	<b>Total (Lm)</b>
Purchase of Pharmaceuticals	8,346,300
Maintenance on Schools	2,210,500
Supply of Miscellaneous Items	1,581,700
Housing construction	1,462,900
Various services	1,452,000
Various works	1,115,400
Purchase of foodstuffs	937,400
Construction of roads	868,800
Various construction works	739,800
Period contracts	629,900
Hire of Vehicles	584,500
Cleaning services	370,300
Various school supplies	347,400
IT equipment and software	212,800
Purchase of various equipment	114,000
Consulting services	110,100
<b>Total</b>	<b>Lm 21,083,800</b>

In order to satisfy the Department's obligations in submitting the annual statistical report to the European Union, the Compliance Directorate enhanced the user-friendly template that was distributed electronically to all departments. A very realistic compilation of information was incorporated into a report submitted to the Commission by the October deadline.

FRANCIS ATTARD  
*Director General (Contracts)*

## Inland Revenue Division

### Mission Statement

*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.*

### GENERAL

In 2006, the Inland Revenue Department achieved the revenue targets as set in the Financial Estimates. Enforcement on the collection of tax arrears and social security contributions for Class I and Class II achieved the desired results.

A major addition to legislation was Section 5A. This, together with other amendments, introduced the new regime of taxation on property transfers.

The Better Regulation initiatives were based on the enhancement of a wider spectrum of online services, which included the framework of online submission of documents and payments by notaries in respect of property transfers.

Simulation exercises were also carried out on tax balances with the scope of measuring the impact on the book balance with the euro adoption.

The Inland Revenue Department has also contributed to more green initiatives by laying the groundwork for the introduction of waste-separation throughout all sections including the Capital Transfer Duty Division and the Gozo Branch.

Security was also prioritised with an investment in CCTV equipment for the whole Department, special attention being given to sensitive areas.

### INCOME TAX

#### Legislation

The Income Tax Act and the Income Tax Management Act were amended by the Budget Measures Implementation Act (Act II of 2006). The main but very considerable change concerned the new regime of taxation of property at the 12% rate on the consideration, as well as various conditions attached thereto and opt-outs from the new regime to the capital gains system.

A number of legal notices were also issued as listed hereunder:

LN 2/2006	Trusts (Income Tax) Regulations <i>prescribes all the forms pursuant to the taxation of trusts</i>
LN 3/2006	Part-Time Work (Amendment) Rules <i>prescribes a form for individuals to pay any shortfall of the tax</i>
LN 4/2006	Tax Credit (Women Returning to Employment) (Amendment) Rules <i>minor amendment to specify the extent of the deduction</i>
LN 50/2006	Venture Capital Fund (Tax Credit) Regs <i>provides tax credits for investment in venture capital</i>

LN 51/2006	Capital Gains (Amendment) Rules <i>deals with share transfers and prescribes the forms to be filled</i>
LN 52/2006	Agricultural Subsidies (Income Tax Exemption) Rules <i>specifies the subsidies that are exempt from tax</i>
LN 59/2006	Mergers, Divisions, Transfers of Assets and Exchange of Shares (Amendment) Regs. <i>amendment consequential to an amendment in the EU directive</i>
LN 76/2006	Fringe Benefits (Amendment) Rules <i>established a new benchmark for FBT on loans to bank employees</i>
LN 102/2006	Fringe Benefit (Amendment) (No. 2) Rules <i>lowers the new benchmark for FBT on loans to bank employees</i>
LN 112/2006	Tax on Property Transfers Rules <i>clarifications re the new tax on property</i>
LN 114/2006	Residents Scheme (Amendments) Regulations <i>provides for the procedures to be adopted in applying under the Scheme</i>
LN 139/2006	Deduction and Tax Credits (Gen. & Specific Qualifications) (Amendment) Rules <i>minor amendment to the definitions regarding qualifications</i>
LN 142/2006	Hosting of Students (Income Tax) Rules <i>establishes the manner of computing income for host families</i>
LN 159/2006	Deductions & Tax Credits (R&D) (Amendment) Rules <i>to allow large companies also to benefit from the R&amp;D incentives</i>
LN 160/2006	Reduction of Additional Tax (Omissions) (Amendment) Rules <i>provides for CIR discretion to waive add. tax for omissions from Y/A99 onwards</i>
LN 234/2006	Double Tax Relief (Taxes on Income) (Spain) Order <i>double tax treaty with Spain</i>
LN 235/2006	Income Tax Exemption (Philanthropic Work) Notice <i>exempts Dar Mehba Bik and Fed. Ghawdxija persuni b'dizabilita`</i>
LN 261/2006	Double Tax Relief (Taxes on Income) (Iceland) Order <i>double tax treaty with Iceland</i>
LN 266/2006	Donations (National Heritage) Rules <i>provides for deduction re donation by companies to specified heritage organisations</i>
LN 270/2006	Double Tax Relief (Taxes on Income) (San Marino) Order <i>double tax treaty with San Marino</i>
LN 313/2006	Collective Investment Schemes (Investment Income) (Amendment) Regs <i>amendment re switches</i>

The more noteworthy concerned:

- regulations to further clarify the mechanics of the tax on property transfers;
- new regulations to regulate the taxation of student host families;
- double tax relief treaties with Spain, Iceland and San Marino;
- rules to provide for exemption where donations are made for the National Heritage;
- schedules to be filed when a share transfer takes place;
- regulations regarding Venture capital;
- exemption of specified agricultural subsidies.

## FSS Tax

During 2006 employers submitted the following FSS annual reconciliation documents for:

2006:	22	Employees:	114
2005:	8,907	Employees:	205,549
2004:	122	Employees:	737
2003:	45	Employees:	417
2202:	38	Employees:	395
2001:	14	Employees:	57

The FSS section captured and reconciled data. Total documents processed were 9,126 FS7s and 207,155 FS3s. 8,193 Adjustment forms were processed during 2006. The section also issued 7,817 notices for collection of outstanding tax and social security contributions due by employers.

FSS enforcement efforts resulted in Lm1,370,981 in FSS tax and Lm2,105,044 in SSC as well as Lm8,953.62 in additional taxes being collected over and above the normal monthly tax revenue through employers' payroll.

## Ledgers Section

The section issued 2,036 clearances to the Expatriate Department for the renewal of work permits.

Receipt Adjustments:	3,331
Journal Adjustments:	144
TX 44 (PAYE Adjustments):	868

## 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 46,326 assessments for past years prior to year of assessment 1999 were served on taxpayers.

### Self-assessment Returns for Y/A 2006

A total of 81,130 self-assessment returns for year of assessment 2006 were processed up to 31 December 2006 apart from 140,733 tax declarations. These resulted in 222,063 statements for the year being issued to taxpayers up to the end of December 2006.

### Outstanding Book Balance

The outstanding book balance is a fluctuating figure that 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 years of assessment 1999 to 2007.

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

The Debit balance up to year of assessment 1998 as on 31 December 2006 was Lm118,041,553. 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 Lm118.04 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 judgement" assessments following settlement of objections.

### Book balance for Years of Assessment 1999 to 2007

On 31 December 2006 the book balance Y/A 1999 to 2007 stood as shown in the following table:

Y/A	Book Balance Y/A 1999 to Y/A 2007		Estimated Tax Y/A 1999 to Y/A 2006		Tax in Dispute Y/A 1999 to Y/A 2005	
	Taxpayers	Amount Due (Lm)	Taxpayers	Estimated Tax (Lm)	Taxpayers	Amount in Dispute (Lm)
1999	15,904	29,657,076	10,544	27,373,431	54	382,078
2000	14,980	9,728,496	10,465	7,335,123	63	833,526
2001	17,622	12,417,267	11,606	8,932,273	84	837,434
2002	19,889	13,190,672	12,922	10,443,367	77	753,566
2003	20,936	14,467,992	13,985	11,800,474	50	693,827
2004	23,392	16,318,094	16,210	13,985,870	33	271,251
2005	25,690	21,699,138	17,662	19,034,079	11	49,177
2006	35,609	34,193,181	25,345	30,592,794	0	0
2007	1	287	0	0	0	0

Included in the above table 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 2006 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 2006 as on end 2006 stood at Lm16,855,534, of which Lm311,514 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 - 606 new cases were opened while 756 cases were concluded, resulting in an increase in income brought to charge of Lm27,815,178. Cases in hand at the beginning of 2006 were 433, while at the end of the year the cases in hand were 283.

During the year a total of 246 new objections were received by the Department against assessments raised under the self-assessment system. A total of 140 objections were concluded, resulting in an increase in income brought to charge of Lm2,472,688. At the beginning of the year the objections in hand were 254, while at the end of the year the objections in hand were 360.

### Computerisation

The Information Systems deliverables that were implemented during 2006 were:

- Euro Dual Display on most Inland Revenue and Capital Transfer Duty System.
- Budget 2006 and other Initiatives on the Self Assessment for Corporate and Individual Taxpayers for Year of Assessment 2006 for both back-office and online systems.
- On-Line Registration of Trusts.
- Supported the MFSA in their implementation of their online systems by providing a web service for the use of the Inland Revenue's Digital Certificates.
- Development of a Spreadsheet for the Calculation of Capital Gains Tax and Duty on Documents.
- EU Savings Directive: The processing of files received from the local payors and the exchange of information with the other Member States and participating countries.
- Payment of Final Settlement System FS5 On-Line using both e-PG and Internet Banking.
- Technical Upgrades of the Inland Revenue Website.

### Take Up Statistics

#### *Corporate Tax Return Filing:*

Returns filed electronically	12,075
% of total return filed electronically	83.0

<i>PT Reduction Forms (Companies)</i>	443
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#### *FSS Services for Employers 2005 (received in 2006):*

Employers filing electronically	1,702
Employers filing through the internet	1,056
% Employers using internet	62.1
No. of FS3s received through the internet	69,401
No. of FS3s received on magnetic media	49,185

#### *Payments:*

e-PG Payment (Credit & Debit Cards)	3,764 (Lm723,450)
Internet banking	7,300 (Lm14,264,669)

<i>Personal Income Tax Returns Y/A 2006</i>	230
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### 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 2006, 74,106 work items were received and forwarded for processing, while 71,445 cases have been closed.

## Objections

### Individuals

The number of pending objections of individual taxpayers against one or more assessments on 1 January 2006 stood at 14,845. There were 2,036 new objections registered during the year whilst objections settled by the Department for the year were 8,104, leaving 8,777 objections outstanding as on 31 December 2006.

### Companies

At the start of 2006, there was an outstanding balance of 4,868 years of assessment under objection.

During the year, new objections were filed against 107 years of assessment. 933 years were cleared, leaving a balance of 4,042 years of assessment under objection, as at 31 December 2006.

### 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 appeal should be filed within 30 days from the service of a Notice of Refusal by the Commissioner of Inland Revenue to an objection made by a taxpayer.

The number of cases concluded during 2006 was 50, still the highest in any year since 2000, with the number of still unconcluded cases at year end 2006 being 93.

### Cases before the Court of Appeal

The number of cases involving the Court of Appeal during 2006 was as follows:

<i>Cases before the Court of Appeal</i>	
Cases pending as on 01.01.06	7
New cases	14
Concluded cases	9 *
Deserted cases	1
Total cases pending 31.12.06	11

<i>Cases before the Constitutional Court</i>	
Cases pending as on 01.01.06	2
New cases	0
Concluded cases	1
Total cases pending 31.12.06	1

\* Included 2 retrials and 1 preliminary decision

<i>Cases before Civil Court</i>	
Cases pending as on 01.01.06	1
Concluded cases	0
Total cases pending 31.12.06	1

<i>Law Court Sittings</i>	
Court of Appeal	45
Constitutional Court	5
Total cases pending 31.12.06	11

## Revenue

Revenue from Income Tax collected during Financial Year 2006 totalled Lm256.55 million. Furthermore the Department also collected Lm202.38 million in Social Security Contributions. As from January 2006, by Act III, which amended the Social Security Act, the Inland Revenue Department was handed the responsibility for the enforcement and collection of Social Security contributions for years also prior to 1998. The following table shows the revenue from Social Security Contributions:

Class I	120,419,819
Class II	13,625,701
Further Contribution	123,886
State Contribution	67,022,760
<b>Total</b>	<b>201,192,166</b>

The following table shows the revenue from Income Tax collected over the past seven years and the percentage variance from the previous year:

Year	Revenue	Variance from previous year	
	Lm million	Lm million	%
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
2005	221.8	10.6	+ 5.0
2006	256.5	34.7	+13.5

The table below gives a breakdown of the revenue collected in 2006:

<b>I INCOME TAX</b>					
	Settlement Tax Lm	PAYE/FSS Lm	Provisional Tax Lm	Self-Assessment Lm	Total Lm
Government/Parastatal Employees	1,021,129	21,255,878	1,625,817	1,829,978	<b>25,732,802</b>
Dockyard Employees	58,111	572,639	63,590	121,347	<b>815,687</b>
Private Employees	1,260,262	64,712,462	2,353,906	2,893,014	<b>71,219,644</b>
Shareholders	44,700	0	97,418	165,212	<b>307,330</b>
Expatriates	134,610	0	1,862,884	1,167,188	<b>3,164,682</b>
Business, Trade, Profession & Ecclesiastic Entities, Clubs	1,384,149	0	6,245,822	4,635,779	<b>12,265,750</b>
Rentiers	390,260	0	772,767	1,326,867	<b>2,489,894</b>
Companies (local)	1,817,670	0	71,145,405	18,771,710	<b>91,734,785</b>
Companies (foreign)	34,310	0	720,674	369,460	<b>1,124,444</b>
Other Categories	43,807	0	85,945	189,712	<b>319,464</b>
Capital Gains	0	0	30,097,755	0	<b>30,097,755</b>
Tax at Source	0	0	973,149	0	<b>973,149</b>
15% Withholding Tax	0	0	15,065,674	0	<b>15,065,674</b>
Others	1,234,535	0	923	47	<b>1,235,505</b>
<b>Total</b>	<b>7,423,543</b>	<b>86,540,979</b>	<b>131,111,729</b>	<b>31,470,314</b>	<b>256,546,565</b>
<b>II SOCIAL SECURITY CONTRIBUTIONS</b>					
Class I					121,209,903
Class II					13,625,399
Further Contribution					123,887
State Contribution					67,417,650
<b>Total</b>					<b>202,376,839</b>

### Cash Office Receipts

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

Revenue	Receipts	Value
Income Tax	277,824	Lm 214,928,014.87
Social Security Contributions	154,582	Lm 98,263,742.29



## 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.

Pre Y/A 1999 - Individuals		
Type of Enforcement	No	Value (Lm)
Demand Notices issued	3,423	4,165,595
Judicial letters created	2,420	3,763,901
Agreements	1,763	1,087,799

Pre Y/A 1999 - Companies		
Type of Enforcement	No	Value (Lm)
Demand Notices issued	479	2,503,122
Judicial Letters created	268	1,442,314
Agreements	29	232,351

PAYE/FSS 2005	
Type of Enforcement	No
Default Notices issued	13,555

PAYE/FSS Pre-2005		
Type of Enforcement	No	Value (Lm)
Demand Notices issued	1,282	23,646,747
Judicial Letters created	513	13,926,317
Agreements	121	6,049,554

Year by Year - Individuals	
Type of Enforcement	No
Default Notices issued	4,017

Year by Year - Companies	
Type of Enforcement	No
Default Notices issued	177

During 2006 the Section had 68 Court Cases and attended to 236 court sittings. Out of these 68 cases, 17 have been concluded and 10 new cases commenced during 2006. There were also five cases of *subbasta*.

## Outdoor Inspections

The services of the Revenue Security Corps 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 2006 were:

Cash Escorts	554
Collection purposes	691
Investigation	87
Capital Transfer Duty Branch	743
PAYE	132
General enquiries	38

## Taxpayer Service

The Department operates a one-stop-shop taxpayer service to address the needs of taxpayers, especially pensioners and individuals.

During 2006 the Department's Taxpayer Service Office (Help Desk):

- dealt with 30,087 personal encounters;
- registered 1,679 new taxpayers;
- reached 680 direct agreements for programmed tax payments by individuals;
- reached 474 agreements with employers on behalf of taxpayers for programmed payments of tax;
- amended 2,230 addresses
- issued 7,870 Income Tax Returns

## Expenditure

The total recurrent expenditure, inclusive of all personal emoluments and other operating expenses, to administer income tax and the enforcement for the collection of social security contributions was Lm2.20 million. This figure does not include the amount of Lm2.78 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 2006 works out at 9 mils. 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 9,450 refunds of overpaid tax amounting to Lm1,764,463 was issued for years of assessment prior to 1999.

Up to 31 December 2006, the total of refunds issued for year of assessment 2006, which also in some cases included year of assessment 2005 and year of assessment 2004, was 45,401, amounting to Lm24,374,364.

## Social Security Contributions

During 2006 the Social Security Division continued with the verification and enforcement of social security contributions. Class II payers continued to be informed of their Social Security Payment through the issue of the form PT1 every four months.

The major tasks carried out during 2006 were the following:

- 4,537 personal encounters;
- 301 determination of class one contributions for persons working abroad;
- 1,148 adjustments of receipts;
- 114 refunds issued, amounting to Lm68,183;
- 760 pensions scheme applications.

## INTERNATIONAL TAX UNIT

### Double Taxation Agreements

- The double taxation agreements with Iceland, San Marino and Spain entered into force and the related Legal Notices have been published.
- The double taxation agreement with Greece has been signed.
- The double taxation agreement with Switzerland was initialled.
- Negotiations were held with France wherein a protocol amending the existing double taxation agreement was initialled.
- Negotiations at the technical level were held with Ireland and Turkey but have not been concluded.
- Exploratory talks were conducted with the USA on the possibility of opening negotiations on a double taxation agreement.

### Work Processed

During 2006 the International Tax Unit processed:

- 1,327 requests for certification of exemption from duty under the provisions of the Duty on Documents and Transfers Act;
- 566 claims for refunds;

- 530 applications for new Advance Revenue Rulings;
- 25 applications for renewals of Advance Revenue Rulings;
- 15 exchanges of information with foreign tax authorities.

## Revenue

During the year, Lm10,400,000 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 23 meetings in connection with EU/OECD related matters abroad.

## Tax Law Amendments

Staff of the International Tax Unit took part in:

- discussions and drafting sessions relating to legislation concerning the agreement reached with the EU Commission and within the Code of Conduct (Business Taxation) Group in order to replace the ITC regime; and
- discussions relating to the fiscal regime concerning securitisation.

## CAPITAL TRANSFER DUTY

### Duty on Documents

During 2006 the Department examined 14,662 notarial deeds, out of which 6,067 cases were inspected by the Department's engineers. As a result, 5,120 original assessments were raised. During the same period 1,317 objections were filed, 600 revised claims were issued and 1,209 objections were settled.

During this period 120 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 Lm38,960,533 (Duty on Documents) whilst outstanding balance of assessed duty, including disputed duty up to and including 31 December 2006 amounted to Lm12,029,634. 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 Lm140,000 through intensified action of collection and conclusion of objections.

Since its inception, late in 1992, the *Causa Mortis* Section received 29,672 declarations of *causa mortis* transfers, mainly consisting of multiple transferees or beneficiaries in respect of Malta and Gozo.

During the year, 3,248 *causa mortis* returns were processed and 218 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 period, 2,366 claims were issued and 133 revised assessments were raised.

During the same period 40 objections were filed by transferees against the said *causa mortis* claims, while 95 objections have been concluded; appeals to eventual refusals will have to be finally considered by the above-mentioned Board.

The Department offers an efficient public relations service and maintains full liaison with notaries and the public in general.

### Death and Donation Duty

The number of returns of chargeable transmissions filed during the period was 144 - all were processed and no outstanding returns remained unassessed.

Duty claimed was Lm16,883. Revenue collected, including prepayments on account and from arrears, totalled Lm41,285. Outstanding balances of assessed duty, including disputed duty up to 31 December 2006, amounted to Lm2,360,283.

### Acquisition of Immovable Property by Non-Residents

In line with the agreement reached with the EU in pre-accession negotiations, 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 European Union as regards Chapter 4.

- 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.
- 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.
- 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.
- 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.
- 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	41,285
Duty on Documents and Transfers	38,960,533
Fines and Late Fees	6,235
Fees on AIP Permits	49,262
<b>Total</b>	<b>39,057,315</b>

### Refurbishment of Offices

The extensive refurbishment of the offices housed at the Monte di Pieta' Buildings was continued and a satisfactory progress of work was maintained.

### Computerisation

In collaboration with MITTS Ltd the implementation of the computerisation programme of all sections within the Department was further accelerated and almost all sections, except the Monte Office and the Consul's Office, were automated.

### 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 2006, the Department registered a total of 10,457 Promise of Sale Agreements, of which 978 were registered in Gozo.

### Il-Monti

*Il-Monti* advances money on pledges of precious metal. Below is a record of its activities during 2006:

Pledges accepted	3,100
Pledges redeemed	3,501
Money loaned	Lm142,085
Money received back	Lm158,574
Interest received	Lm13,139

The number of pledges remaining on hand at end 2006 was 8,563 against which Lm367,815 had been advanced. Besides advancing money on pledges, *Il-Monti* also holds regular Court deposits lodged for safe keeping. At end 2006 a total of 694 deposits were still held.

Expenditure in running *Il-Monti* during the period was Lm200, excluding Lm16,767 for Wages and Bonus. Moreover, a sum of Lm50,036 was spent for Contractual Services in connection with watch duties of the *Monti* and Consul's Offices.

Steps taken to improve the cost effectiveness of the Monte di Pieta' Institution have led to fruition with reduced capital outlay and undiminished service.

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

This Office regulates the marketing and distribution of precious metal articles and conducts also direct market surveillance via shop inspections.

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 implementation of the new Act was carried out smoothly in 2006 in spite of the radical changes involved, thus demonstrating the viability of the new legislation in both the local and single market environments.

The price of gold and silver, on which valuations made by this Office are based, was determined daily on the values quoted by the Central Bank of Malta.

The number of articles assayed, weighed and valued as well as the number of inspections during the period is shown below.

	<b>Gold</b>	<b>Silver</b>	<b>Total</b>
Articles received	1,733	25,878	<b>27,611</b>
Assays	384	360	<b>744</b>
Articles weighed and valued	291	0	<b>291</b>
Articles broken up on being found to be made of an inferior standard	0	59	<b>59</b>
Articles marked at a lower standard than the declared standard	0	0	<b>0</b>
<b>No of Inspections</b>			
		<b>33</b>	

Revenue from fees on assays, hallmarking, valuing and manufacturers/sponsors registrations was Lm5,564. Expenditure incurred in running the Consul's Office was Lm65,858 including salaries, overtime and bonuses and expenses.

**ADRIAN CHETCUTI**  
*Director General (Inland Revenue)*

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## Customs Division

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### MANAGEMENT

During 2006, the Maltese Customs Administration had to operate mainly within the parameters of the following instruments:

- The WCO SAFE/Framework of Standards to Secure and Facilitate Global Trade as adopted by the WCO Council in June 2005;
- Council Regulation (EEC) No 2913/92 of 12 October 1992 establishing the Community Customs Code, as amended;
- Commission Regulation (EEC) No 2454/93 of 2 July 1993 laying down provisions for the implementation of Council Regulation (EEC) No 2913/92 establishing the Community Customs Code, as amended;
- Excise Duty Act (CAP 382);
- The Import Duties Act (CAP 337);
- The Customs Ordinance (CAP 37);
- Intellectual Property Rights (Cross Border Measures) (CAP 414);
- International Conventions.

Economic interdependence and globalisation of trade are continuously growing together with the value and volume of trade, as well as the number of international consignments. At the same time the Department had to face new threats on the security and safety of the supply chain which are changing the traditional role of the customs administrations and are increasing its tasks and responsibilities.

The fight against organised cross border crime has become more important as criminal activities, including customs fraud, will continue to grow and will be increasingly organised on an international basis. On the other hand, international competition increasingly continued to be based on logistical efficiency. Predictability and sureness of delivery, both Just-In-Time and Just-In-Case, have increased in their importance in this highly demanding situation.

The need to maintain a balance between trade facilitation on the one hand and control and security on the other has required and will require customs to constantly develop state-of-the-art solutions and to rely on international standards. Computerisation of customs procedures, including transit, and the use of internationally compatible information and communication technology systems are critical factors for international trade facilitation.

Maltese Customs during 2006 continued to operate on EU customs legislation, procedures and documentation that required further customs reforms within our Administration in order to facilitate trade through the implementation of risk management systems, simplified procedures as well as the development of mechanisms for advance electronic transmission of customs data. Further developments in the near future will include the concept of Authorised Economic Operators (AEO). This concept will be instrumental in meeting this demanding challenge.

Mutual administrative assistance between the countries of the Mediterranean region and the other Member States has been a very effective tool during 2006 in the area of compliance and in the fight against fraud. The Department has worked hard to eliminate any obstacles in this area. Moreover, the Customs

Department has taken every opportunity to enhance co-operation amongst the different government departments/agencies, especially in controls on the border and inland.

IT and training strategies have continued to be developed in order for customs to enhance their effectiveness, *inter alia*, by using the most modern technologies whilst administrative capacity was further strengthened on the basis of the WCO standards.

All these challenges require important reforms relating both to legislation, procedures, administrative capacity, equipment and infrastructure. Maltese Customs, with the assistance of the EU Commission, is undergoing a continuous reform process in the management of effective compliance and in the fight against fraud. This allows the Department to continue (i) to simplify and reduce the contacts with compliant traders and (ii) to focus our risk-driven interventions against non-compliant traders. Maltese Customs has played and will continue to play an active part in this role as a member of the worldwide network of customs and excise administrations.

## COMPLIANCE

During the year under review the Department continued to implement trade facilitation policy, reviewing its procedures so as to reduce administrative burdens on compliant traders without compromising the overall supply chain security. In line with this policy and in collaboration with the Consul of Gold and Silver and the Association of Used Vehicle Importers, the releasing processes of precious articles and used vehicles were reviewed. Procedures in various sections were revisited in the light of the experience gained during the initial period following accession into the EU.

Consultation meetings to discuss topical issues and procedures continued on a regular basis with economic operators, namely ship agents, *burdnara* and importers. Information on EU legislation and requirements was given to various operators who wanted to diversify and align their operations with the new EU trading environment.

Moreover, in view of the strategic position and experience that customs has at the border, various meetings were held with other government departments, authorities and agencies to share information and co-ordinate action on issues of mutual interest.

An extensive exercise was undertaken to clear goods which had been abandoned in Newport Bonded Stores for several years. These goods were either destroyed under customs supervision or sold by tender to the highest bidders. Also, in collaboration with MMA and VGT (the new Valletta Harbour operators), action has been initiated to remove several containers and goods which have been abandoned on quays.

## EU PROGRAMMES

The EU Programmes Unit was set up at the beginning of this year. Its main function incorporates the co-ordination of all the activities abroad financed under the Customs 2007 Programme, including the travel and accommodation. This Unit manages the funds allotted by ensuring the participation of the competent customs officials in the various activities. A total of Lm57,000 funded by the Commission was spent on participation by 143 officials in an effort to enhance the expertise of these officials in their respective area so that they may keep abreast of the constant and rapid changes taking place in the Customs environment. The 2004/2005 budget allocation was favourably audited by the EU Commission in June 2006.

The Department's in-house trainer delivered the first e-learning car search module following the participation of customs officials in its final testing phase abroad. This was greatly appreciated by the Commission since the module was adapted to our national needs.



As a measure to enhance expertise and co-operation with customs administrations in other MS, nine customs officials participated in exchange visits to other EU customs administrations, one of which also sent an official to Malta.

### **PROCESSING SERVICES**

The year under review consolidated the procedures which were brought in line on EU accession. On evaluating the results obtained through the new processes and responsibilities, it was possible to fine-tune for better compliance with EU and National legislation and facilitation of trade. The Common Agricultural Policy Unit was amalgamated with the Tariff Quota Section. It was considered that these two sections had overlapping and complementary duties of monitoring tariff quota authorisations and Agrim licences. Six Binding Tariff Information were issued by the Unit which bears the same name while a substantial level of Customs Laboratory analysis were related to drawback of customs duty on goods exported to third countries.

The Binding Origin Unit and the Verification Unit produced very positive results. The BOI Unit succeeded, through verification requests, to identify false and irregular preference documents and collect the related endangered taxes. The Verification Unit enhanced its co-operation with the Post Clearance Unit, thus producing much better results in the process. Better profiling of traders through the Risk Analysis module made it possible to focus on particular traders and specific goods, making better use of available human resources and extending higher facilitation to compliant traders.

### **EU CUSTOMS PROCEDURES UNIT**

The Unit submits applications on behalf of traders for quota applications and forwards Surveillance information to the European Union's Central Services. The Unit processes warehouse applications and provides first line helpdesk services to users of the Manifest, Import and Warehousing systems.

The Unit was responsible for the control of the Inward Processing authorisation for sugar granted to a local company. The Unit also monitored the intra-community purchases of sugar on behalf of the Department of Commerce. The Unit also approved the importation of consignments under an agricultural quota system or AGRIM licence. The importation of goods moving under transit procedure (T5) was also controlled by this unit. The Unit conducted two half-day briefing sessions on CAP Procedures to a number of customs officers.

Every effort is being made so that members of the staff are trained in all the different aspects of the work involved and responsibilities entailed in the EU Custom Procedures Section.

### **CUSTOMS VALUATION OFFICE**

During 2006, this Section has experienced growth in its performance and knowledge expertise owing to its participation at European level in the Customs Code Committee on Valuation matters. The principal aim is to promote the accuracy of the declared value which can be attained by different measures amongst which one can mention mutual confidence, communication and the exchange of information between Trade and Customs.

To this effect, the Valuation Section has worked throughout the year by giving advice to Management, Heads of Section in other customs areas, members of the business community and to private individuals. Also, a number of document/physical valuation checks have been performed.

### **BINDING TARIFF INFORMATION UNIT**

The principal activity of the Binding Tariff Information Unit is the classification of goods. Decisions on various products decided in the Customs Code Committee in Brussels were circulated to all the staff. From

time to time BTIU receives documents from the European Commission concerning verification of their linguistic versions. This year the Unit was asked by the Commission to check and amend where necessary the Maltese version of the CN 2007 as regards the changes proposed. The Unit also received the EBTI-3 Thesaurus keyword data in English and this was referred for translation into the Maltese language.

### Customs Analyst

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

Locally produced fruit juices & nectars for drawback	130
Alcohol for determination of denaturant	10
Kerosene, aviation turbine fuels for flash point and/or specific gravity determination	53
Diesel & other mineral oils for the determination of the fiscal marker	173

A total of 80 requests involving 150 samples were referred to the Laboratory by the Binding Tariff Classification Unit for the determination of the correct HS Code Number. The Compliance Verification Unit referred to the Laboratory a total of 430 documents relating to goods imported from non-EU countries for the checking of the correct Customs Classification and of other technical details. The Laboratory continued to assist the Common Agricultural Policy Unit in technical matters.

### CUSTOMS ECONOMIC PROCEDURES UNIT

During the year, 19,834 documents were processed at the CEPU and 4,878 exports were carried out. CEPU is also responsible for issuing *burdnara* licences and *burdnara* ID cards. The number of authorisations for Procedures with Economic Impact amounted to 43. During the same time, several audit exercises were carried out in conjunction with the Post Clearance Audit. All claims for drawbacks, received during the period under review, were settled.

### BINDING ORIGIN INFORMATION UNIT

Seventy-nine verification requests in respect of origin certificate were submitted. Forty-four replies confirmed correctness and authenticity of preference certificates. Eight replies confirmed that certificates, submitted for verification were declared to be either invalid or forged. In 2006 the Unit received two requests for verification of preference certificates issued in Malta.

### DOCUMENT VERIFICATION UNIT

The Risk Analysis System selects particular consignments either for a Documentary Check, Physical Examination or VACIS Scan. These controls are based on specific risk profiles. Declarations earmarked without examination (Green) are checked within 15 days of acceptance in the Customs Electronic System. About 48,040 import declarations were approved in the system. The number of fiscal post entries issued tallied to 242 and the revenue collected was Lm107,129.

Verification of Intra Community documentation for shipments dispatched from the Free Port prior to the issue of the electronic gate pass is carried out. About 13,931 documents were submitted for verification focusing mainly on the Electronic Manifests, T2L certificates, Invoices and transportation documents.

### CUSTOMER SERVICES

This office is responsible for processing of import documents in respect of personal effects and motor vehicles, transhipments and shipping bills, EU Taric Database queries, refunds and correspondence in connection with Preference Certificates.

The section entered import and excise duty declarations into the Customs Electronic System. This service is limited to traders who do not have online access to the CES. This section is also responsible to input statistical data of intra community trade as per the *intrastat* forms presented by traders, post clearance input of export declarations for statistical purposes, registration of new importers and administering user accounts of the CES.

### ADMINISTRATIVE SUPPORT SERVICES

The Section followed up cases of incorrect declarations while applications for misplaced Customs certificates were processed and approved. The status of pleasure sea crafts was monitored. The Section also dealt with 11 cases of Onward Supply Relief of luxury yachts. 144 Garnishee Orders were referred to Stations concerned with the resulting feedback referred to Civil Courts. Cases of outstanding revenue were also monitored in liaison with Legal Unit and Attorney General.

### LANDING AND RELEASING

The branch comprises the following outstations: Deep Water Quay, Exam Shed, Courier Office, Airfreight Section, Malta Freeport, Hal Far Complex, Laboratory Wharf, Parcel Post Office, Malta Shipyards and Weighers Office.

#### Deep Water Quay

During 2006 a total of 242 vessels discharged and/or loaded the under-mentioned cargo at the Deep Water Quay:

<i>Discharged</i>	<i>Loaded</i>
6,059 full load containers/trailers	48 full containers/trailers
93,266 metric tons of conventional cargo	665.5 metric tons of conventional cargo
4,662 cars	80 cars

In July 2006 VGT (Valletta Gateway Terminal Co. Ltd.) took over the operations of the previous contractor, Cargo Handling Co Ltd. Much of the activity that used to take place at DWQ was shifted to Laboratory Wharf and this explains the sharp drop of about 60% in landings at this station. However, towards the end of the year there was an increase of other business mainly the unstuffing of containers containing second-hand vehicles. Talks are in an advanced stage to use one of the sheds for the storage and transhipment of ship's spares by a local company.

#### Freeport

During 2006 the following activities were performed at the Freeport.

- 1,772 *pratiques* were carried out, of which 1,093 were for vessels coming from non-EU countries and 679 from EU countries. 252 vessels were not boarded.
- 30,659 containers were discharged for local consumption, of which 5,554 were despatched under Customs seals. 16,606 seals were used and revenue amounted to Lm3,042.

This year, at the Freeport there was an increase of 6.4% in the number of containers destined for local consumption or to be put in free circulation. Despatches of containers from this Section to other Customs Stations are controlled by means of a Transit manifest. The officer in charge liaises with other Stations to ensure that all containers despatched have reached their destination.

## Malta Shipyards

Revenue generated from this Section amounted to Lm5,220 duty, Lm8,907 VAT and Lm23,332 deposits raised on T1 docs.

## Luqa Airfreight

During 2006, a total of 7,101 aircraft manifests were handled by this section. There were 19,770 declarations, of which 7,833 were selected for control. Revenue collected amounted to Lm3,003,892 of which Lm411,944 collected as duty and Lm14,131 as Excise duty. The amount of Lm34,762 were collected as additional revenue on 376 incorrect declarations.

This Section is considered as a one-stop shop mini Customs. Compared to last year there was an increase in duty collected. The efficiency of the staff at this section can be measured by the amount of additional revenue raised. Special attention has been given to Intellectual Property Rights infringements and IPR officers were called an average of twice a week. Goods in transit were thoroughly monitored together with Fraud Section officers and also Non-Proliferation officers were present when the need arose.

Globe Air Services is now in its second year of operation. This Company has its own freight shed within the airport precincts and so far most of the cargo handled was of Community status. A limited number of industrial concerns continued to benefit from a simplified procedure which facilitated the release of urgent cargo. Although Air Malta was given full responsibility to run the cargo shed, the Company is still obliged to keep Customs informed of all movements and refer to Customs personnel whenever 'T1' cargo was going to be released. Notwithstanding this, the Customs Department held its prerogative to carry out inspections/investigations as and when it deemed fit.

## General Examination Shed

In all, this year 3,768 units were selected for control of which 1,185 units were examined at the Examination Shed, 1,559 units at importer's premises and 1,024 units containing second-hand vehicles at Laboratory Wharf.

- 102 discrepancies were detected of which 28 constituted incorrect declarations;
- Lm47,207 were collected as Post Entries involving Duty and VAT;
- Lm8,109 were collected as additional amount pending possible fines.

The amount of containers selected for control has been reduced by about 31% this year but still, officers in this Section managed to raise approximately the same amount of revenue in post-entries. This is mainly contributed to good targeting and effective risk management. Besides, two cases of fraud (double invoicing) were detected. Goods were withheld and advice has been sought on whether to start criminal proceedings.

The release of 23 consignments was withheld and goods were placed in safe custody pending clearance from other departments mainly; Department of Trade, Consumer and Competition and Port Health. Personnel from the Customs Anti Drugs Squad inspected two containers using the mobile X-ray Unit whilst 453 containers were scanned. Enforcement and IPR officers were present during the release of 29 containers.

## Hal Far Groupage Complex

A total of 5,584 units entered the complex of which 1,536 were non-EU. Tallying was carried out on 934 non-EU units and 117 EU. There were also 1,591 spot checks carried out by SIAT at the gate. Additional revenue generated by this section on incorrect declarations amounted to Lm22,932 and Lm4,898 were

raised as fines. Lm8,660 was collected as rent charges (amount only covers rent paid at the Complex cash office).

The number of units which entered the Complex was similar to that registered last year with a slight increase.

### Laboratory Wharf

There were 448 vessels which landed goods at this station and the following operations were recorded:

<i>Discharges</i>	<i>Loading</i>
9,354 units of which 726 non-EU; 4,875 new vehicles of which 2,231 non-EU; 189 live animals; 349,519 mt. tons bulk cargo cement, etc; 187,158 mt. tons wheat, barley, etc.	1,605 units of which 258 exports to non-EU; 11,847 mt. tons scrap material; 1,101 second-hand vehicles; 71 new vehicles.

1,015 containers containing 3,398 second-hand vehicles were transferred from Freeport and released by officers from Exam Shed.

This section experienced an increase of 22% in the amount of vessels discharging and loading cargo. This was mainly due to the decision taken by VGT to transfer some of its operations from DWQ to this Section. The number of Japanese second-hand vehicles imported remained approximately the same. Officers at this station monitor ships' manifests with regard to status and non-EU containers are sealed upon landing.

### Parcel Post Office

The downward trend which was experienced last year in this Section has been reversed and there are indications that the postal service is again on the rise. In fact there was an overall increase of 12% in revenue. This is mainly attributed to an increase in buying over the Internet. The use of the Express Courier Service provided by Maltapost is becoming very popular. Random scanning of parcels for illicit and/or illegal goods continued to take place. This section generated the following activities during 2006:

- Lm 144,966 VAT and Lm25,485 duty were collected from PPO and Gozo branches.
- 15,144 parcels were presented to Customs, of which 1,676 were declared in CES, 3,962 as simplified SADs and 9,506 released free against PP notice.

### Courier Office

During 2006 this section handled over 53,456 bags and 25,781 cartons, of which 14,678 bags and 2,139 cartons were non-EU. There is no doubt that the widespread use of e-commerce is reflected in this section as the volume of packages handled continues to grow at a fast pace. An increase of 38% was recorded in non-EU cartons. This increase is also reflected in the amount of revenue collected. Regular X-ray scanning is carried. A total of 9,769 cartons and 7,151 bags were scanned.

Revenue generated from this section amounted to Lm1,003,036, of which Lm84,386 was collected as duty. Additional revenue raised due to incorrect declarations amounted to Lm7,266.

## EXCISE AND SYSTEM CONTROL

### Customs Warehousing Unit

The section monitors both private and public customs warehouses operating under the open-bond system. Warehousing of new motor vehicles is normally the unit's major activity (3,078 vehicles in 2006); however the number of containers processed peaked at 52 in June. Other warehouses operating through this section

are those relating to the warehousing of lubricating oils, motor-cycles, marine outboard engines, generators, cosmetics and perfumery, canned foods, medicinals, packaging material, advertising material, clothing, electric cables, flight catering and frozen foods. Warehouse stocks are physically inspected at least twice a year and warehouse keeper must submit monthly stock and movement reports.

During the year the section collected a total of Lm1,294,811 Import Duty and Lm1,486,701 in import VAT

### **Newport Bonded Stores**

A large proportion of the goods held at NBS cannot be disposed of until court cases are over. During 2006 the section collected Lm1,069 in rent, Lm1,502 in Import Duty, Lm8,168 in VAT and Lm1,931 in anti-dumping duties. Two auctions were held, generating a total income of Lm23,742.

### **Excise Section (Local Producers and Excise Registered Traders)**

During 2006 this Section registered a further 50 Excise Traders, who now total 220. It administers excise goods varying from locally-produced alcoholic beverages and tobacco products to ethanol used in medicinals to controlling amounts of alcoholic drink brought in by travellers for private functions.

The largest cigarette manufacturer (Central Cigarettes Ltd) has ceased production in Malta and will henceforth import from Eastern Europe.

The section distributes cigarette excise stamps to warehouse keepers/producers and ensures that relative duties are paid; it is also responsible for the distribution of all alcohol stamps and was the section charged with ensuring that alcoholic beverages already released from warehouse and therefore already at wholesalers or retail outlets also carried the necessary stamp.

The section collected Lm24,136,637 in Excise Duty, Lm23,397 in Import Duty and Lm1,180,112 in VAT during the course of the year.

### **The Tax Warehousing Unit (Alcohol/Tobacco)**

The unit supervises 18 Traders who are situated at Barriera Tax Warehouse (BTW) and 26 Traders who have a private Tax warehouse. During 2006, three new warehouse keepers started operations while another two moved out of BTW to new premises. Towards the end of the year one warehouse keeper who was repeatedly non-compliant had his authorisation suspended.

The primary purpose of the unit is to monitor that all merchandise warehoused in the trader's premises is duly recorded in trader's record books and that all releases from warehouses are paid for. Full documentary checks are made at the warehousing stage and warehouse keepers must submit stock reports on a monthly basis; a proportion of goods are physically checked, either at the warehousing stage or during stock control exercises.

In January 2006 Excise tax stamps were introduced to safeguard government revenue and to protect the interests of those traders who import merchandise legally. Tax stamps are now fixed on all alcoholic beverages above 25° alcohol and from 50cl upwards. As from October 2006 traders were required to formally warehouse all Excise goods imported under duty suspension even if arriving from the EU in order for customs to have a full standard electronic record of all transactions and stock.

The section recorded the importation of no less than 700 container loads of alcohol and tobacco products while 42 container loads were exported, this was apart from goods imported as groupage cargo.

### **Tax Warehousing Unit (Fuel)**

The main objective of the Fuel Section is primarily to monitor and keep records of all fuel movements that are under duty suspension, and to ensure the full and proper collection of duties and taxes. Full stock and movement control is achieved through both physical and documentary checks. The section also collects fuel bunker charges and processes all claims for refunds of excise duty paid on fuel used in commercial navigation or during outward bound voyages by private craft.

Monthly data on importation, warehousing and exportation is submitted to the Malta Resources Authority as well as of all the internal transfers carried out between tax warehouses, which include bunkering tankers of which there are presently fifteen operating. Stock reports are submitted on monthly basis by all operators and these are backed up by physical end of month controls of all storage installations. During 2006 the section collected Lm28,383,250 in Excise Duty and Lm24,772 in Import Duty.

### **Computer Section**

The section is responsible to plan for, and oversee, the introduction of all new EU related IT systems. Staff members work very closely with MITTS personnel. Staff regularly attends EU meetings to be fully conversant with the legal and business requirements and to ensure these systems will carry out the correct functions. The section also provides information material and training to staff and traders for every new development that takes place.

Another important matter that the section administers is the TARIC database and module. This is crucial to ensure EU compliance, and section expertise extends from the purely technical issues to the full business layer.

During 2006 new systems such as eDoCS, ICIS, Transit, MEX (the export module), have been introduced; others have been upgraded such as the Import System, TQS, MITTS User Administration module and SEED Spec 14 while others such as the Bonded Warehouse were implemented in production. Work on other systems, such as the ECS, OMER, and the Surveillance II is ongoing.

From July onwards continuous testing on the export system led to the launch of phase I on 6 November. The system is now in full production although the full business procedures have still to be introduced.

The section was, and still is, fully involved in analysing the needs and the preparations for the euro changeover and the dual display issues.

### **IT Centre**

The section is responsible to install and administer all hardware and office type software in the Department, to troubleshoot all problems that arise and to liaise with MITTS and other suppliers. The old coax LAN infrastructure at the Customs Stores was replaced with new UTP cables; all network terminations and patching was carried out by the section's staff.

During the course of the year the Malta Customs website [www.maltacustoms.gov.mt](http://www.maltacustoms.gov.mt) was kept updated. The IT Centre continued to assume responsibility for the upkeep and updating of the computer hardware inventory for the Department.

### **Transit/Freezones Section**

Throughout 2006 the Transit/Free Zones Section followed up its dual role of overseeing the application of the Community/Common Transit procedure as well as monitoring the operation of Free Zones and Free Warehouses established in line with the Community Customs Code. The business statistics for transit operations undertaken during 2006 are as follows:

<i>Transit Movements</i>	<i>Opened</i>	<i>Closed</i>	
Country of departure - Malta	80	81	
Country of destination - Malta	1,706	1,987	
<i>Enquiry Procedure</i>	<i>Electronic</i>	<i>Manual</i>	<i>Concluded</i>
Started (Country of departure)	57	20	32
Received (Country of destination)	613	148	344

The Transit Section participated regularly in meetings of the Electronic Customs Group (ECG) held in Brussels. Other participation included meetings of Transit Co-ordinators and the Transit Contact Group.

During February two colleagues from Irish Customs visited the transit section on a Eurocustoms mission to review transit procedures in Malta. The Transit Section was represented in an Evaluation Seminar of NCTS organised by the European Commission in Lithuania and an NCTS/TIR Workshop held in Poland. A staff member attended for hands-on training on MCC Client in Athens. This training was eventually given to Customs staff serving in stations where MCC (Minimal Common Core) is used for the electronic processing of incoming and outgoing transit procedure.

The Section processed various requests for simplified procedures in the fields of regular shipping services and airfreight. A new operator was issued with an authorisation for a free warehouse at the Malta Freeport.

## **ADMINISTRATION**

### **Finance**

During the year under review, a major project undertaken was to house the offices of members of management into the top floor of the main Customs building.

General maintenance of various offices as well as ad hoc maintenance of certain security facilities as the Hal Far gate was also effected. Another major project worth mentioning was the procurement of the new motor launch to be used in enforcement operations.

### **Accounts Section**

During the year 2006, the Accounts Section, in its endeavours to clear debts accruing to Customs, recovered a substantial amount of monies in arrears for services rendered by Customs officials.

The Accounts Section was also actively involved in discussions with MFIN and testing of a computerised system intended to monitor the issue of fuel to the Customs fleet of vehicles.

### **Customs Debt Unit**

The total sum of import duties (TOR) for the period December 2005 to November 2006 was Lm6,413,318.00. Three-quarters of this sum, that is Lm4,809,985 was transferred to the EU. The remaining one quarter (Lm1,603,333) was retained by the Maltese Authority as administration fee.

The CDU continued to fulfil its important function in chasing outstanding dues to Customs established by the CES and to effect refunds. Two major functions carried out was the granting of deferred payment facility to certain importing companies and the management of bank guarantees.

### **Human Resources**

The Human Resources Section provided support to the Senior Management, Section Heads and the employees in general. A Memorandum of Understanding and Agreement between the Government and the



Union Haddiema Maghqudin, covering staff of the Customs Class, was signed. The main objectives were efficiency, the better utilisation and allocation of resources and openings for career progress.

### **Training Unit**

#### ***In-house training courses organised by the Training Unit during 2006***

During 2006, a total number of 50 courses equivalent to 447 hours of in-house training (43 courses to Customs staff and 7 courses to the private sector) were delivered. This unit was in constant liaison and co-operation with seven external training entities and benefited from 14 tailor-made programmes, specifically designed and developed to the Department's needs.

Apart from the entire in-house training programme, another four courses held in other locations were organised by other training organisations in collaboration with the Training Unit. These were attended by 33 members of staff and a further 516 man-hours were measured on these external courses.

### **Health and Safety Unit**

During 2006, the Health and Safety Unit continued with the projects launched during the previous year; the continuation of various risk assessments of the Customs Department work places and work practices, assistance to the Procurement Section in order to procure the Personal Health and Safety Equipment, meetings regarding the Pandemic Influenza and risk assessments at head office, participated in the Training Contact Persons meetings in collaboration with the Officer in charge Training Unit.

This unit has also assisted the Non-Proliferation Unit in the finalisation of the Vehicle and Container Inspection System (VACIS) evaluation report, carried out radiation test at the new warehouse location for VACIS at the Freeport and assisted the Non-Proliferation Unit in the radiological questionnaire on detection technologies.

During the year under review, this unit participated also in the Avian Conference in Brussels and carried out a risk assessment at the Ministry of Finance in Valletta.

## **ENFORCEMENT**

The duties of the Directorate include: the clearance inwards and outwards of ships, yachts, aircrafts 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; release of accompanied commercial goods; controls for illicit movement of narcotics, excise goods, cash and counterfeits; examination of containers in transit; carry out checks on merchandise which had been previously released from Customs without examination; collect and disseminate information and intelligence and the preparation of all documents in connection with criminal and civil proceedings in court.

### **Grand Harbour**

During the year, 4,704 vessels, of which 2,379 were from non-EU countries, arrived in Malta while 4,705 were cleared outwards. These figures include arrivals/departures at Marsamxetto, Marsaxlokk and Mġarr harbours. Rummages on arriving vessels amounted to 23. Passenger arrivals totalled 100,216. Departing passengers amounted to 101,871 while 396,119 were transit passengers. A total of 7,409 accompanied vehicles arrived in Malta while 7,130 departed. This section processed 3,261 duty free deliveries and 3,790 fuel stores authorisations. The sums of Lm1,206 VAT, Lm37 Import Duty, Lm1,939 Excise and Lm199 as Fines were collected .

## Airport

A total of 2,409 aircraft from non-EU countries landed in Malta. Import Duty, Excise Duty and VAT amounted to Lm14,254, Lm632 and Lm45,217 respectively. The sum of Lm676 was collected as fines on dutiable goods undeclared by passengers passing through the Green Channel. Freight landed amounted to 6,485,417 kilos whilst 5,748,708 kilos were exported. Arrivals from non-EU countries amounted to 160,019 passengers, 149,704 departed and 3,535 were in transit.

## Yacht Marina

A total of 2,595 yachts, 210 of which from non-EU countries, arrived at the Msida and Gozo Marinas and Grand Harbour with departures amounting to 2,115. 57 rummages were carried out, of which 41 were on incoming yachts.

## Prohibitions and Restrictions

Total duty collected amounted to Lm16,908 whilst VAT amounted to Lm91,966. A total of 75,812 DVDs were submitted for censorship, 1,389 of which were viewed. 90 were withheld, 56 of which were appealed and 15 were released by the Printed Matter Appeals Board.

## Non-Proliferation Unit

The Non-Proliferation Unit carried out 67 documentary checks on containers in transhipment. Five shipments amounting to a total of 23 containers were withheld as the items within were found to be controlled. 35 documentary checks were carried out on air freighted cargo. One shipment was withheld due to incorrect declaration of contents. One documentary check was carried out on courier cargo while another physical inspection was carried out at Hal Far Groupage Complex. Twelve documentary checks were effected on local export, two of which were referred to the Trade Services for necessary licences. One export was inspected and denied export. This led to a subsequent investigation on previous exports by the same company.

## Enforcement Unit

The Unit was very active in enforcing legislation connected with the introduction of affixing Excise stamps on alcohol bottles. 365 searches/inspections were carried out in commercial outlets for excise goods. 860 similar searches were carried out on vehicles/containers. Surveillance at open markets was also regularly carried out. Apart from seizing/withdrawing quantities of alcohol and cigarettes, about 4,000 pieces carbonated drinks in cans or plastic bottles were also withdrawn on behalf of MEPA.

The illegal importation of drugs is a priority on the Unit's agenda. Interceptions were effected at the Airport, Airfreight, Couriers and Seaport. A first for this year and which augurs well for the future was the carrying out of 2 (unrelated) controlled deliveries in collaboration with the Police.

Other detentions included undeclared monies withheld from departing passengers, over 12,000 steroids not covered by an import licence and various CITES items. Enforcement officers recouped over Lm21,000 due to the Department.

6,472 items (caps, lighters, wristwatches, VCRs etc.) meant for the domestic market were detained in terms of Intellectual Property Rights (IPR) regulations. These were detained at the Airport, Airfreight, Groupage bonds and Post office. Similarly detained were twenty 40-foot and thirteen 20-foot containers in transit at the Freeport. The 43.8 million pieces detained varied and included talcum powder, cigarettes, outerwear, footballs and toothpaste.

### **Container Monitoring Unit**

This Unit was again most active where seizure of goods (in containers) including counterfeit is concerned. Their interpretation of the scan image is habitually sought prior to taking any further action. During this year 3,891 containers for the domestic market and 5,031 containers in transit were scanned by the VACIS.

### **Legal Office**

The number of Letters to Prosecute and Seizure Notes compiled and endorsed by the Comptroller amounted to 106. 42 Letters were sent to the Commissioner of Police for further action while 64 Notes were served to the offenders. Representations in Court totalled to 804 (310 Civil cases and 494 Criminal). 60 Criminal and four Civil cases were decided with the fines inflicted amounting to Lm46,383. 49 cases were settled administratively in virtue of the Customs Ordinance. Fines collected, including civil debt, amounted to Lm27,265 (VAT/ETI included)

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

This Unit, based at Hal Far Groupage Complex, tallied the contents of 117 containers discharging there. Of the 69,991 passes issued, 63,867 concerned 'C' status goods. A total of 1,591 searches were carried out on outbound vehicles. Some positive results were obtained and several consignments were returned to bond for various reasons. These included lack of CE markings, IPR infringements, Excise goods as well as incorrect description of cargo.

### **Post Clearance Audit (PCA) and Economic Procedures Enforcement Unit (EPEU)**

In their course of work, PCA/EPEU Unit officers carried out 573 site visits. Revenue collected by PCA officers included Lm1,578 duty, Lm6,905 VAT, Lm26,710 additional duty and Lm5,513 in fines. EPEU officers collected Lm1,070 duty, Lm243 VAT, Lm627 additional duty and Lm70 in fines.

### **Customs Intelligence Services (CIS)**

CIS has the task of vetting domestic cargo and passenger manifests against set risk profiles. 3,923 containers were selected for scanning while 360 Cargo and Passenger alerts were issued and submitted to the Enforcement Unit and to the concerned entry/exit office. 28 positive results were obtained. 310 Risk Information sheets (RIFs) were received and disseminated to the relevant office/staff, while CIS created and transmitted to their counterparts in other EU Member States. 34 RIFs, 69 General alerts and 89 Intelligence alerts dealing with trends, infringements and modus operandi were also issued. Again this year CIS was involved in two Joint Customs Operations and served as the base from where information could be exchanged with the other participating countries.

### **INTERNATIONAL AFFAIRS**

Customs EU Specialist fulfilled three major functions during the year under review: liaison between EU Directorate MFIN and the competent officials within the Department, co-ordination (in conjunction with the EU Programmes Office) of all foreign travel by members of the Department on official business, and the provision of support to members of senior management regarding EU-related issues.

During 2006 Customs EU Specialist also served as Data Protection Officer and represented the Customs Department on the Sanctions Monitoring Board.

**JOHN MIFSUD**

*Director General (Customs)*

## Value Added Tax Division

### 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 Government's policy of ensuring sound public finance and with the minimum cost and burden to registered persons.

### VAT LEGISLATION

During 2006, the following legal notices were published under the VAT Act 1998:

171 of 2006 – amendment to Items 6 and 7 of the Twelfth Schedule – Government Gazette 17953 of 11 August 2006  
 181 of 2006 – regulations on Judicial Actions – terminology of Art. 65 (2)  
 186 of 2006 – correction to LN 181 of 2006 – Government Gazette 17964 of 1 September 2006  
 334 of 2006 – amendment to Item 3 (6) of Part 2 of the fifth schedule – Government Gazette 18014 of 29 December 2006.

### REVENUE AND EXPENDITURE

#### Compliance Rate

VAT returns continued to be issued regularly each month. The following table shows the returns issued and received during 2006. The overall compliance rate as on due date, expressed as the percentage of returns received over the number of returns issued, was 80.81%, increasing to 87.99% by end year.

	Returns Issued	Returns Received as on Due Date	Compliance Rate as on Due Date	Returns Received up to End of Year	Compliance Rate as at End of Year
<b>Total</b>	<b>108,111</b>	<b>87,361</b>	<b>80.81 %</b>	<b>95,123</b>	<b>87.99 %</b>

#### Revenue

During 2006, gross revenue collected under the VAT Act 1998, the CET Act 1997 and the VAT Act 1994 was Lm205,109,571 compared to Lm197,473,507 in the previous year. Refund of excess credit paid out of revenue amounted to Lm30,526,657 resulting in a net revenue of Lm1,745,829,914 compared to Lm168,195,933 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	204,699,855	142,695	267,021	<b>205,109,571</b>
Less Refunds	30,129,951	102,528	294,178	30,526,657
<b>Total Net</b>	<b>174,569,904</b>	<b>40,167</b>	<b>(27,157)</b>	<b>174,582,914</b>

#### Outstanding Credits and Debits

As at end 2006, the Department had a net debit balance, after deducting outstanding taxpayers' credit, of Lm99,760,195. The amount of Lm93,950,392 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 Lm5,809,803 in the form of taxpayers' credit, as shown below:

	VAT (1998) Lm	CET (1997) Lm	VAT (1994) Lm	Total Lm
Net Debit Balance	124,510,725	3,032,725	8,454,961	135,998,411
Outstanding credits	36,042,778	48,126	147,312	36,238,216
Net Balance	88,467,947	2,984,599	8,307,649	99,760,195
Less Estimated Assessments	60,752,579	379,001	1,272,044	62,403,624
Less Interests	21,013,703	2,292,678	8,240,387	31,546,768
Realistic Net Balance	6,701,665	312,920	-1,204,782	5,809,803
Accounts with a balance as at 31.12.06	17,237	2,897	3,680	23,814
Accounts with a balance as at 31.12.05	17,617	3,447	5,387	26,451

### Cost-Effectiveness

Total recurrent expenditure during 2006, 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 Lm2,573,059. Net revenue from VAT 1994, CET 1997 and VAT 1998 amounted to Lm174,582,914. The cost effectiveness rate for 2006 was therefore 1c5 per Lm1 of revenue compared to 1c5 in 2005.

### ENFORCEMENT

#### Inspections

During the year, 19,624 field inspections were carried out, consisting of 19,563 spot-check inspections and 61 surveillance visits. As a result, 667 cases were referred for Court action (vide table below):

Number of Inspections					
	Spot-Checks	Surveillance Visits	Total	Court Action	Hit-Rate
<b>Total</b>	19,563	61	19,624	667	3.41 %

Throughout the same year, the majority of Inspectors were assigned work connected with administrative tax enforcement and review of tax assessments. Ten inspectors were regularly assigned duties to carry out inspection visits, supported by seven 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, 297 cases involving failure to issue fiscal receipts were brought before the Court, of which 117 were decided. Of these, 90 cases were together fined a total of Lm18,800, whilst 27 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 2006, 401 taxpayers availed themselves of this option, paying a total of Lm47,850 in fines.

Another 2,163 appointed cases involved failure to submit tax returns. As a result, 100 cases were together fined Lm119,571 whilst 841 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>	297	90	18,800	27	2,163	100	119,571	841

## Manual Fiscal Receipt Booklets

The number of fiscal receipt booklets distributed during 2006 was 78,678, an increase of 1.34% over 2005:

Printed Booklets	79,280
Distributed Booklets	78,678
Returned Booklets	54,657

## Fiscal Receipts Lottery

The Fiscal Receipts Lottery continued to be run by the Public Lotteries Department. During 2006 an amount of Lm317,775 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 10. A total of 54 cases were concluded, resulting in Lm611,012 of under-declared tax. The number of cases pending investigation as at the end of 2006 was 85.

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

The VAT returns are regularly validated for erroneous tax declarations. VAT credit claims are also regularly monitored. The number of claims reviewed during 2006 was 900, of which 298 claims were deduced, amounting to Lm1,449,614.

Type	Cases Assigned	Cases Concluded	Final Assessments	
			No	Lm
Validation	0	0	8	2,708
Correction	597	725	143	180,249
Credit Control	903	900	298	1,449,694
Investigations	142	196	149	1,410,244
<b>Total</b>	<b>1,642</b>	<b>1,821</b>	<b>598</b>	<b>3,042,895</b>

### Objections

During 2006, a total of 1,090 objection letters were dealt with completely. The number of objection letters received by the Department during the same year was 1,670. As a result, the number of outstanding objections as at the end of the year was 262.

### Appeals Boards

During 2006 the number of new appeals lodged with the VAT and CET Appeals Boards was 98. The Boards decided a total of 264 cases compared to 330 in the previous year.

## COLLECTION OF TAX ARREARS

### Civil Procedures

A total of 162 cases were settled through Civil Court action, resulting in the collection of Lm2,437,845 of tax in arrears, as shown in the following table:

	Demand Notices	Judicial Letters	Garnishee Orders/ Warrants of Seizure	Civil Cases Settled	Tax Collected
<b>Total</b>	9,780	280	170	162	Lm 2,437,845

## **TAXPAYERS' REGISTRY**

### **Registration and De-registration**

During the year, 4,200 taxpayers were registered with the Department, bringing the total number of registered persons to 81,988. The number of outstanding applications as at the end of the year was nil.

During the same year, 3,599 new applications were received for de-registration. A total of 2,638 applications were processed completely.

### **Maintenance of Taxpayers' Details**

During the same year, a total of 24,378 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 Database system or else referred for on-the-spot inspection.

## **GENERAL**

### **Customer Service**

Customer Service was also improved. The Department is also analysing comments made by customers in order to improve the service.

### **e-Government**

In September 2006 the VAT Department adopted the electronic identification system for online services as part of e-Government project.

### **Updating of Internet Website**

Throughout 2006, the VAT Department has continually updated the Department's website at [www.vat.gov.mt](http://www.vat.gov.mt). The website provides useful information on VAT for the general public, for traders and for tax professionals as well as online application for VAT registration and submission of VAT returns for Register B taxpayers. The Intranet site was also updated for the benefit of the VAT Department officials.

The VAT Department has also started to publish on its website, guidelines regarding the interpretation of issues relating to VAT. These guidelines would assist traders and tax practitioners in areas which require clarification in interpretation. The guidelines published so far relate to Trusts, Onward Supply Relief and Leasing of Pleasure Crafts.

### **Legal Committee**

The Legal Committee set up during 2005 continued to discuss the various changes proposed by the European Commission and the EU Council to the VAT 6<sup>th</sup> Directive and which should be included in the Maltese VAT legislation. The committee also makes recommendations to the Inter-Ministerial Committee regarding these changes and also deals with certain cases of VAT interpretation. The legal committee is presided by the Commissioner of VAT.

### **Participation in EU Commission and Council Working Party Meetings**

The VAT Department also participated actively in meetings held in Brussels of the Working Party No 1, VAT Committee, SCAC Committee, and the Recovery Committee.

The Commissioner of VAT also participated in the Council Working Party on Tax Questions which finalises draft VAT Directives for approval by COREPER and ECOFIN.

### **ECO Contribution**

The VAT Department is the competent authority for the administration and collection of ECO Contribution. During 2006 the amount collected from this contribution was Lm5,094,969.

During the year various meetings were also held with businesses, in conjunction with the Office of the Parliamentary Secretary for the Small Businesses and Self-employed. During these meetings, VAT Department officials explained the application of ECO Contribution and replied to questions made by traders.

### **Meeting re Market Surveillance**

During 2006, the VAT Department continued to participate in meetings held by the Office of the Parliamentary Secretary for Small Business and the Self Employed regarding Market Surveillance. The aim of such meetings was to increase the co-operation between different enforcement departments in the fight against unfair trading.

### **UK-Malta Twinning Project**

This 15-month project which is now drawing to a close provided assistance by the UK Revenue and Customs to the Maltese VAT administration and the Tax Compliance Unit. The main aim is to strengthen the overall capacity of the VAT Department and TCU to adequately implement and control the European VAT system and to combat international evasion and fraud in the field of VAT. Besides training being given to all inspectors in recognising and detecting VAT fraud, experts from the UK's HM Revenue and Customs have offered assistance in the EU legal process, risk analysis, methods of detecting companies involved in carousel fraud, exchange of information with other EU Member States and computer audit techniques.

This project, which costs around €400,000, is financed through the EU Transition Facility Programme.

JOSEPH SAMMUT  
*Director General (VAT)*



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# Tax Compliance Unit

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## GENERAL

During the year the Tax Compliance Unit (TCU) 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;
- implementing the Advance Tax Agreements Scheme;
- improving the expertise and technical knowledge of the TCU professional staff through continuous education programmes.

## ADMINISTRATION

The total TCU budget allocation for 2006 was Lm500,000 under the item *Contributions to Government Entities* as part of the VAT vote. This was revised upwards by Lm8,000 by means of additional funds from the VAT department.

## HUMAN RESOURCES DEVELOPMENT

In 2006, the TCU maintained the same staff complement as at end 2005.

During the year, TCU professional staff attended the following training and development courses and seminars:

- an intensive three-day course for all operational staff on the use of advanced and specialised functions of Microsoft Excel, organised in conjunction with the Staff Development Organisation;
- a comprehensive five-day course on Information Security Management Principles organised by MITTS Ltd and QinetiQ;
- a two-week training programme, under the UK Twinning Agreement, delivered by UK trainers on information systems audit;
- familiarisation visits to the Large Business Service within HMRC in the UK with a follow-up of another two-week training session.

General Service support staff attended the following SDO courses:

- Communication Skills training;
- Secretarial Skills training;
- DAS related training;
- Occupational Health and Safety Training.

## IT SYSTEMS & DATA WAREHOUSE

### Data Warehouse

2006 was characterised by the migration to the latest version of Business Objects (BO). Subsequently all pending data was uploaded by MITTS. This migration entailed extensive report testing during which a number of data mismatches were identified.

### Use of TCU information by other departments

Throughout 2006, a total of 524 reports were generated from the TCU data bank for other government departments, mainly the VAT, Inland Revenue and Social Services Departments as well as the ETC.

The table below lists the reports furnished by the TCU to the mentioned entities:

<i>TCU Reports for other Government Departments/Entities</i>					
	<b>IRD</b>	<b>VAT</b>	<b>DSS</b>	<b>ETC</b>	<b>Total</b>
January	25	4	0	1	30
February	20	4	11	84	119
March	28	0	4	1	33
April	19	1	0	0	20
May	22	2	7	66	97
June	40	0	7	0	47
July	11	1	3	33	48
August	14	0	5	11	30
September	13	1	2	0	16
October	14	8	4	0	26
November	13	13	4	1	31
December	0	5	3	19	27
<b>Total</b>	<b>219</b>	<b>39</b>	<b>50</b>	<b>216</b>	<b>524</b>

The above intelligence reports from the TCU Data bank relate to information on high risk companies and individuals involved in tax fraud/evasion and benefit fraud. The decrease in the number of reports, when compared to 2005, results from the fact that two separate exercises initiated in 2004 by VAT and ETC were concluded in 2005.

## COMPLIANCE TESTING TEAM

The Compliance Team, set up in 2005, continued to compile tax compliance reports by sector and category on taxpayers based on information available within the data warehouse, other governmental entities and third parties. The objective of this initiative is to promote tax compliance by increasing public perception that data about economic activities is being collated. Such reports will be referred to the Inland Revenue and VAT Departments for action as necessary after a Data Protection Policy for the TCU is formulated.

## OPERATIONS

### Tax Investigations

During 2006, a total of 66 tax investigation cases were concluded – an increase of 8% over 2005. These audit cases resulted in:

Additional assessed income tax:	Lm 1,180,335
Additional assessed VAT:	Lm 902,528
Total additional assessed Tax:	Lm 2,082,863

The above amounts do not include interest, fines and/or penalties due for under-declaration and late filing or late payment.

### Advance Tax Agreements Scheme

The Unit continued with the implementation of the Advance Tax Agreements Scheme announced in the Budget speech for 2002. During 2006, the following tax agreements were concluded:

Agreements reached under VAT Act		Agreements reached under Income Tax Act	
No. of agreements concluded	98	No. of agreements concluded	100
3-year VAT liability agreed	Lm722,083	3-year Income Tax liability agreed	Lm422,665
		3-year Social Security Contributions	Lm296,586

Total number of Agreements: 198  
 Total tax liability and SSC over 3 years agreed to: Lm1,441,334

### Tax Assessments Cost

The total cost per Lm1 of assessed tax during 2006 works out as follows:

Personal emoluments cost 2006:	Lm	408,933
Operations & Maintenance cost 2006:	Lm	96,886
<b>Total cost:</b>	<b>Lm</b>	<b>507,819</b>

Tax assessed resulting from 2006 tax audits:

VAT assessed:	Lm	902,528
Income Tax assessed:	Lm	1,180,335
3-year tax agreements (tax for 3 years):	Lm	1,441,334
<b>Total tax :</b>	<b>Lm</b>	<b>3,524,197</b>

Total cost of assessed/agreed tax liability: Lm0.14c4 per Lm1 of assessed/agreed tax.

CARMEL CONTI  
 Director General (Tax Compliance Unit)

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## EU Paying Authority Directorate

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### Mission Statement

*To perform duties and responsibilities relating to the financial management of EU-funded projects and EU Own Resources with the aim of maximising the benefits to Malta within the obligations and parameters as set out in National and EC Legislation.*

### MAIN AREAS OF RESPONSIBILITY

- To act as National Authorising Officer (NAO) in charge of the National Fund which has been set up as a Unit for the management of EU Pre-Accession and Transition Facility Funds.
- To be a permanent member of the Joint Monitoring Committee (JMC) which monitors EU Pre-Accession Programmes and Transition Facility.
- To act as the EU Paying Authority with regard to Structural and Cohesion Funds regarding the certification of expenditure and subsequent drawdown of funds from the EU Commission.
- To open and manage accounts in connection with receipts and payments of EU-related funds.
- To disburse funds relating to Own Resources as part of Malta's contribution to the EU Budget.

### Core Functions

- to manage in an efficient manner the Paying Authority for Structural and Cohesion Funds;
- to perform the duties of the National Authorising Officer for Malta and be responsible for the management of the National Fund;
- to monitor progress of the projects which are being financed through foreign funds emanating from the EU and the European Economic Area, and draw budgets and forecasts for the said funds;
- to control and report on a regular basis the financial position of the funds and relative disbursements;
- to liaise with the DG Budget on the payment and financial management of EU Own Resources;
- to compile and maintain proper records of ex-ante, interim and ex-post inspections by third parties;
- to perform on-the-spot checks on the stakeholders involved in the implementation of EU-funded projects;
- to monitor the work of the Treasury and Contracts Department, which together are equivalent to the Central Financing and Contracting Unit (CFCU);
- to maintain an ongoing liaison with government institutions on EU-related matters in order to ensure that all commitments emanating from the various funding operations are being met;
- to manage the EU Travel Envelope regarding Malta's participation in EU Council and Commission meetings.

### Work Report for 2006

#### *Pre-Accession and Transition Facility Funding*

The Director EU Paying Authority is also vested with the responsibility of National Authorising Officer (NAO) which is a function directly delegated to him by the Minister of Finance, currently also the Prime Minister. As stated in the Memorandum of Understanding (MOU), the Financing Memoranda (FM) and EC Financing Decisions for the four Pre-Accession and the three Transition Facility Programmes, the National Authorising Officer is recognised as the top leader in the implementation process. These Programmes are regulated by EC Regulation 555/2000.

During 2006, the NAO ensured the continued adoption of the Extended Decentralised Implementation System (EDIS) in the management of EU Pre-Accession funds, including the Transition Facility. Further action was taken on the EDIS Audit Follow-up Report issued by the EU Commission following the Audit held in Malta in April 2005 and the NAO submitted to the DG ELARG the final formal replies to the EDIS findings and the Commission recommendations together with related documents of action taken. All replies were accepted by the Commission and the issue has now been closed provided that EDIS requirements follow-up is maintained as an ongoing exercise by the National Authorities.

To ensure sound financial management, proper accountability and transparency in the Pre-accession and Transition Facility funding, the Directorate, together with the cooperation of the horizontal, as well as vertical stakeholders involved in the project implementation process, updated the detailed Manual of Procedures and checklists. Account was taken of recommendations made by DG-Enlargement. The Manual provided the necessary tool to guide all users to the best practice possible across all government entities dealing with project implementation. Two seminars were organised by the NAO during the year to provide training to all vertical stakeholders involved in the project implementation.

The NAO was also involved in the following:

- chaired regular coordination meetings with the participation of all the Horizontal stakeholders, including the National Aid Coordinator (PPCD), the Contracts and the Treasury Departments in order to monitor the progress of all projects under the Pre-accession and Transition Facility Programmes and also to resolve any pending issues;
- participated in the biannually scheduled Sectoral Monitoring Sub Committees together with the National Aid Coordinator (NAC), Senior Programming Officers and the Project Leaders of projects under the Pre-accession and Transition Facility Programmes from various Ministries, Departments and other entities;
- participated as a permanent member, in the two Joint Monitoring Committee meetings held between the EU Commission and the Maltese Authorities, including the NAC, with regard to the monitoring of EU Pre-Accession Programmes and Transition Facility;
- participated in Steering Committees of Twinning Projects of various Departments and Ministries;
- issued various circulars related to the implementation of projects under the Pre-accession and Transition Facility Programmes. These circulars included early advice to stakeholders regarding contracting and disbursement deadlines of Programmes, another on Budget Estimates for each Project, and another on the End of the disbursement period for NP 2003;
- monitored the carrying out of a number of on-the-spot checks on Projects under the Pre-accession and Transition Facility Programmes at various Implementing Authorities and also the iPerseus System for the updating of financial data on the same Projects;
- communicated its position on various issues including Early Warning System in respect of contracts funded by EU Fund and an Evaluation report by independent evaluators on the implementation of Projects under the Pre-accession and Transition Facility Programmes.

The total amount of funds received from the Commission during 2006 to finance projects of the Programmes still open amounted to Lm4,496,154.26. Following authorisation of payments according to expenditure effected at project level, Lm1,613,997.30 were actually transferred to Government Revenue. Detailed information is included in the following table:

<b>Pre-Accession and Transition Facility Funds 2006</b>	
<i>Programme</i>	<i>Funds transferred to Government Revenue Lm</i>
NP 2003	1,005,536.61
TF 2004	478,759.78
TF 2005	129,700.91

### Structural and Cohesion Funds

The Directorate also had the role of Paying Authority (PA) for Structural and Cohesion Funds and during 2006 honoured Malta's commitments and obligations and fulfilled its functions and tasks emanating from EC Regulations 1260/1999 and 438/2001.

During 2006, the Directorate experienced a heavy load of work since it had to cope with all the obligations and responsibilities emanating from the Structural and Cohesion Funds system whilst retaining all the responsibilities pertaining to Pre-Accession and Transition Facility Programmes. The Directorate performed four certifications of expenditure to the Commission during the year and was directly responsible for overseeing the whole certification process, and drawing up the necessary financial reports and disbursement claims. Two such certifications were held in June and October. Amounts certified were reimbursed in full by the Commission.

The EU Paying Authority continued to establish and maintain established efficient communications and contacts with the Financial Services at the EU Commission in Brussels and with the different Funds to ensure a smooth and reliable process and also strengthened the good working relationship and co-operation with the Managing Authority at the Office of the Prime Minister.

During the year the EU Paying Authority ensured that the funds concerning projects under the Structural and Cohesion Funds were provided and committed in the National Budget and the relative accounts opened. Furthermore, sound communication links with the Central Bank of Malta (CBM) were maintained at all times and instructions to the CBM were issued to provide statements of account of all transactions including interest earned on balances and other certifications requested by the EU Commission. Details about the relative accounts, including conditionalities, were communicated to the pertinent services in Brussels.

Throughout the year the Directorate communicated its position on various issues including comments on the Evaluation of the implementation of Projects under the Structural and Cohesion Funds for the period 2004 to 2006, comments on the new provisions for Structural and Cohesion Funds for the period 2007 to 2013, the treatment of advance payments under the various funds, VAT issues concerning EU funding and other issues.

During 2006, the Directorate carried out various Article 9 checks including on-the-spot checks.

The table below indicates the aggregated amounts of Structural and Cohesion Funds per fund received from the Commission together with the Certifications of Expenditure effected by the Directorate, amounts reimbursed by the Commission following certifications and the equivalent amount in Malta Liri transferred to Government Revenue. The total amount of certified funds received throughout the year – Lm6,113,218.21 - was transferred to Government Revenue.

<b>Structural and Cohesion Funds during 2006</b>			
<i>Fund</i>	<i>Funds Received from EU Commission during 2006<sup>(1)</sup></i>	<i>Expenditure Certified by the Directorate</i>	<i>Transferred to Govt. Revenue</i>
	€	€	Lm
ERDF	13,073,948.81	13,135,788.72	3,828,461.77
ESF	2,981,147.65	2,981,147.36	1,278,912.21
EAGGF	1,195,093.00	1,058,420.30	370,400.09
FIFG	708,559.62	708,559.62	303,964.41
Equal	124,788.99	323,616.29	Nil <sup>(2)</sup>
Interreg	330,290.07	40,368.67	28,169.43
Cohesion	4,936,287.02	4,936,287.02	303,310.30

<sup>(1)</sup> Includes funds pertaining to certifications for 2006 and received in January 2007

<sup>(2)</sup> Transfer to revenue to be effected in 2007

### Lump-sum Budgetary Compensation

The EU Paying Authority Directorate was also responsible for managing the Lump-Sum compensation which the EU pays to Malta as a means of balancing the National Budget from the negative impact emanating from the financial obligations borne out of becoming an EU Member State.

The table below relates to the amounts received during 2006 with regard to this financial item:

<b>Lump-sum Compensation during 2006</b>		
	<i>Lump Sum</i>	<i>Transferred to Government Revenue</i>
	€	Lm
January	8,576,307	3,684,381.49
February	8,576,307	3,679,235.70
March	8,576,307	3,679,235.70
April	8,576,307	3,679,235.70
May	8,576,307	3,679,235.70
June	8,576,307	3,679,235.70
July	8,576,307	3,679,235.70
August	8,576,307	3,679,235.70
September	8,576,307	3,679,235.70
October	8,576,307	3,679,235.70
November	8,576,307	3,679,235.70
December	8,576,307	3,679,235.70
<b>Total 2006</b>	<b>102,915,684</b>	<b>44,155,974.19</b>

### Own Resources

The EU Paying Authority Directorate also managed the Bank Account relating to EU Own Resources. During 2006, close relations were maintained with the relevant services in DG Budget of the EU Commission on the payment and financial management of Own Resources, reporting requirements, and the transactions to be made in the accounts and the exchange rate criteria. As a consequence, continuous contact, as an ongoing exercise, was maintained with the Customs Department regarding Traditional Own Resources (TOR), the VAT Department for the VAT-Based Own Resources calculation and the National Statistics Office (NSO) for the GNI-based workings. The Directorate ensured that payments to the EU Commission were effected on a regular basis and in the appropriate manner within the stipulated deadlines. The Directorate also took the initiative for the setting up of a Co-ordinating Committee for Own Resources within the Ministry of Finance involving all the relevant stakeholders.

The table below indicates the payments of Own Resources effected by the Directorate in favour of the Commission during 2006:

<b>Own Resources during 2006</b>	
<i>Resource</i>	<i>Lm</i>
Traditional Own Resources	4,227,246
VAT – Based	3,311,917
GNI – Based	12,717,817
UK correction	1,497,810
Reserve	22,576
<b>Total</b>	<b>21,777,366</b>

### Travel Vote

The EU Paying Authority Directorate managed the Travel Envelope of EU Funds allocated to Malta in respect of the reimbursement of travel expenses for participation in EU Council Meetings as per EU Decision 190/2003 and also implemented the procedures for reimbursement for participation in EU Commission Meetings.

The Directorate conducted the following related work in this regard:

- co-ordinated and completed an exercise with all government ministries, departments and entities to collect all outstanding travel claims from their end;
- formulated Malta's Travel Declaration in respect of the reimbursement of all travel expenses incurred following the participation in EU Council Meetings;
- authorised the transfers of the EU Funds from the Central Bank of Malta to Government Revenue and the respective government ministries, departments and entities claiming reimbursement of travel expenses following their participation in the respective meetings.

The total of travel funds claimed to date and transferred to Maltese revenue for participation in EU Council and Commission Meetings during the year in question amounted to Lm428,913. This included Lm309,969 for Council Meetings and Lm118,944 for Commission Meetings.

During 2006, two audits on the travel procedures in place were carried out by the EU Commission and local NAO auditors. The procedures were commended by the Commission auditors and further refinements were carried out on recommendation by the local auditors.

Discussions were successfully concluded with the EU Council on the payment of the outstanding instalment to Malta from the Travel Envelope for 2004 Council Meetings.

### Other Work

The EU Paying Authority was also involved in other specific areas of work as follows:

- The implementation provisions regarding the procedures to be adopted under the *EEA/Norway funding mechanisms*.
- PA fully prepared for *euro changeover*. PA Director participated in the Public Finance sub-committee of NECC as deputy chairman, in NECC Executive Committee meetings and other seminars, including the updating of the Master Plan for the euro changeover.
- Participated in meetings and other seminars organised by the *FORUM MALTA FL-EWROPA*, together with the submission of a contribution and comments by the Paying Authority which was included in an official report submitted to the EU Commission.
- As National Co-ordinator and Representative within the Ministry of Finance, the Directorate co-ordinated the participation in 17 seminars by Malta as part of the Action Plan under the *Fiscalis Programme 2007*, for the VAT, Customs and Inland Revenue Departments and also the participation in other activities such as Project Groups and Multilateral Controls. In all 52 officials from all departments participated in the various Fiscalis activities. Furthermore the organisation of incoming and outgoing Fiscalis Exchanges to and from Malta was also co-ordinated. The Directorate was involved in the hosting of a Fiscalis Seminar on Direct Taxation in Malta, which was organised in conjunction with the Inland Revenue Department. Moreover, the Directorate budgeted and requested funds from the EU to finance Malta's participation in the said programme, and managed the Fiscalis Account at the CBM in this regard. The Directorate also participated in the Inter-Ministerial meeting chaired by the Permanent Representative of Malta to the EU in Brussels, to put forward comments and recommendations on Malta's participation in the Fiscalis Programme 2013, together with participation in various fora on various fiscal matters.

CLAUDE G CUSCHIERI  
 Director (EU Paying Authority)



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## EU Affairs Directorate

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During 2006, the EU Affairs Directorate at the Ministry of Finance continued to co-ordinate meetings at the level of the Council of the EU and the EU Commission. The Directorate was involved in the dissemination of meeting agendas, co-ordination of attendance of officials at the meetings and the drawing up and clearance of Instruction Notes to be used by the technical officials and attachés participating in the meetings. The Directorate compiled Malta's position in consultation with the technical experts from both the public and the private sector.

The Directorate was also responsible for co-ordinating the consultation process on proposals published by the EU Commission. This included the presentation of memoranda on EU Commission proposals at the Inter-Ministerial Committee for EU Affairs. Once approved by the Committee and endorsed by the Cabinet of Ministers, the Directorate transmitted the approved memoranda to the House of Representatives for clearance by the Standing Committee on Foreign and European Affairs. A number of meetings were held with the Standing Committee in order to elaborate on the technical issues in hand. By the end of the year, a total of 112 memoranda were prepared for presentation at the Inter-Ministerial Committee.

During 2006, the Directorate continued co-ordinating the drawing up of the briefing notes and speaking notes for the Prime Minister, Parliamentary Secretary and Maltese delegations participating in the ECOFIN and the European Council meetings. This was done in close collaboration with line departments and ministries. In order to facilitate lobbying, the briefing notes included not only Malta's position, but also that of other Member States. The Directorate organised pre-ECOFIN briefing meetings, engaging all resident member state diplomats, in order to ensure that Malta's position on the agenda items was made known. The Directorate was also in contact with resident Maltese embassies established in the EU in order to obtain other member states' positions on the agenda items that were going to be discussed during the meetings.

The Directorate continued monitoring the transposition of the EU regulations and directives into Malta law. Its role included organising meetings with stakeholders in order to ensure a correct transposition of the *acquis*. As such, the Directorate was responsible for monitoring legislation from its inception (as a proposal) to its adoption as Maltese legislation.

Another function of the Directorate was the co-ordination, compilation and clearing of questionnaires prepared by the EU institutions. It was also responsible for addressing EU-related requests from both public and private organisations, both in Malta and abroad. Moreover, the Directorate continued offering support and advice to the Ministry of Finance on various issues pertaining to EU affairs.

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