

Provisional Tax and **Social Security** contributions

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OFFICE OF THE COMISSIONER FOR REVENUE

PROVISIONAL TAX

The purpose of this booklet is to help you fulfill your obligations concerning Provisioanl Tax so that you will avoid incurring unnecessary penalties.

Unless the text indicates otherwise, this booklet is about the PT that is payable in 2019. It deals with one particular year so that it will be easier for you to understand the principles involved, Unless there is a change in legislation, the same principles apply to subsequent years. This booklet is a guide only and has no legal force whatsoever.

1. What is the Provisional Tax System?

The Provisional Tax system is one of two main systems whereby the tax due for a particular year is collected during the same period in which income is earned. It applies mostly to persons whose sources of income include trade, business, profession or vocation. The other system is the FSS (Final Settlement System) which concerns employees and pensioners.

The provisions which govern the payment of provisional tax are found in Article 42 of the Income Tax Management Act, 1994 and in the Payment of Provisional Tax (PT) Rules, 2000.

2. Am I a PT payer for the year 2019?

- If you are an individual and you were obliged to send an income tax return and self-assessment (the green form) for basis year 2017, than you are a provisional taxpayer for basis year 2019.
- Also falling under the PT system during 2019 are all companies and other bodies of persons who were liable to tax in Malta for basis year 2017 (year of assessment 2018).

The Commissioner for Revenue may exempt any person from the provisions of the PT Rules, 2000 by means of a notice in writing.

Therefore, if you fall under one of the above categories, and unless you are specifically exempted by the Commissioner for Revenue, you are a PT payer.

As already explained above, we use the basis year 2017 as a reference when we are determing what PT should be paid for 2019. If we wanted to find out what PT is payable in 2020 we would take basis year 2018 as a reference, i.e that year which precedes the year in which you have to pay the PT by two years. This applies to individuals and to companies whose financial year ends on 31 December, as will be shown futher on in this booklet.

3. What is the PT benchmark?

Normally, the PT payable for the basis year 2019 is equal to the tax which was payable for the basis year 2017 as resulting from the self-assessment submitted by you.

This means that the amount which appeared as “Tax Underpaid” in line 42a of your basis 2017 self-assessment, adding back the PT which was paid for 2017 will be the **“PT benchmark”**, that is the amount which you are expected to pay during 2019.

Example A

Let us assume that the tax for the basis year 2017 (in line 27 of the tax return) was €1,000. PT paid for basis 2017 was €700. Tax Underpaid (line 42a) was €300.

In this case the PT benchmark is €300 (tax payable) + €700 (PT payments shown in the self-assessment) = €1000.

Example B

Let us assume that the tax for the basis year 2017 (in line 27) was €1,200. You had tax credits of €200 (deducted as tax at source) and €700 (PT paid for basis 2017). Tax underpaid (line 42a) was €300. In this example the PT benchmark is once again €300 (tax payable) + €700 (PT payments shown in the self-assessment) = €1000.

Although the PT benchmark is normally established in this way, where it appears to the Commissioner that the PT benchmark of a provisional taxpayer is substantially lower than the amount which in his opinion should be payable for the period by the said provisional taxpayer, the Commissioner may estabish the benchmark himself, and inform the provional taxpayer accordingly by a notice in writing. The notice shall also show when the PT payments are due.

4. When is the PT payment due?

PT is payable in three instalments during a basis period of twelve months from 1 January to 31 December. In the case of companies who have obtained a permission to have a different accounting date, the twelve months will end on their respective accounting date.

The three due dates are: **30 April**, **31 August** and **21 December**. In the case of individuals 30 April will always be the date of the first PT instalment. In the case of companies with a different accounting date, the first PT instalment date will depend on which of the three dates mentioned will come first during the basis period.

5. What is the amount of PT due for the year 2019?

The total PT due for basis year 2019 may not be less than the PT benchmark (see 3 above). The PT benchmark shall be paid as follows:

a. at least **20%** of the PT benchmark is to be paid by the first PT payment date. In the case of individuals this is always the 30 April.
b. at lease a further **30%** of the PT benchmark is to be paid by the second PT payment date. In the case of individuals this is always the 31 August.
c. at least a further **50%** of the PT benchmark is to be paid by the third PT payment date. In the case of individuals this is always the 21 December.

Example A

An individual whose PT benchmark is €1000, is obliged to make the following PT payments during the basis year 2019:

a. €200 (20% of €1000) by 30 April 2019
b. €300 (30% of €1000) by 31 August 2019
c. €500 (50% of €1000) by 21 December 2019

If in the self-assessment for basis 2019 (Year of assessment 2020) the tax due is €1200, the difference (€200) will have to be paid by the tax settlement date (30 June 2020).

Example B

A company with an accounting period ending 30 June 2020 has 31 August 2019 as its first PT payment date. Assuming that its PT benchmark is €5000, the PT payments which it is obliged to make are as follows:

a. €1000 (20% of €5000) by 31 August 2019
b. €1500 (30% of €5000) by 21 December 2019
c. €2500 (50% of €5000) by 30 April 2020

6. Shall I be charged any penalty if I pay late?

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

Example A

An individual who fails to pay his 2019 April PT will be charged €200 x 1% x 14 (there are 14 months from May 2019 to June 2020 – which is his tax settlement date) = €28.

If he also fails to pay his August 2019 PT of €300, he will be charged €300 x 1% x 10 (10 months from September 2019 to June 2020)= €30.

Example B

A company (with a 30 June 2020 accounting date) which fails to pay its August 2019 PT of €1000 will be charged €1000 x 1% x 19 (19 months from September 2019 to March 2021 – which is the company's tax settlement date) = €190.

7. Would I still have to pay additional tax if the tax according to my self-assessment is less than the PT benchmark?

If you do not pay provisional tax by the due date, but the tax resulting from your self-assessment is less than the PT benchmark, the additional tax on the difference is reduced by ninety per cent (90%).

Example A

An individual who does not pay the April 2019 PT instalment amounting to €400 is charged additional tax equal to €400 x 1% x 14 (there are 14 months from May 2019 till June 2020 – which is the tax settlement date) = €56.

If he does not pay the August 2019 instalment (€600), he will be charged additional tax equal to €600 x 1% x 10 (10 months from September 2019 till June 2020) =€60.

If he also fails to pay the December 2019 instalment (€1,000), he will be charged additional tax equal to €1,000 x 1% x 6 (6 months from January 2020 to June 2020) = €60.

The total additional tax is €(56+60+60) = €176.

His total PT payments for basis year 2019 were supposed to be €2,000.

However, if according to the individual's self-assessment for basis year 2019 (year of assessment 2020) the tax is €1000, the additional tax is reduced as follow:

- Additional provisional tax based on the PT benchmark = €176
- Additional tax based on the self-assessment (on €1,000) = €116 (56+60)
- Difference (176 – 116) = €60
- Additional tax reduction (90% of 60) = €54
- Additional tax = €(176 -54) = €122

8. If my PT payments will be based on the tax due for basis year 2017 what will be my PT benchmark if I have not submitted a self-assessment for that year?

If you have not submitted your self-assessment for basis 2017 (year of assessment 2018) you have received a Tax Statement as estimated by the Commissioner. In this case your PT benchmark will be based not on your self-assessment but on the Tax Statement.

9. If my projections for the year 2019 indicate a less amount of tax than the PT benchmark may I pay a reduced amount of PT?

If you are positive that your tax liability for the year 2019 will be less than the PT benchmark you may fill in the prescribed "PT Reduction Form" which may be obtained from the Department's Taxpayer Service or downloaded from the Department's wesbsite www.cfr.gov.mt

On this form you are to indicate the amount of tax which you estimate will be payable for the year 2019.

Example

The PT benchmark for basis 2019 shown in the PT1 form, and based on your last self-assessment, is €1000. The PT instalments are: €200 (April), €300 (August) and €500 (December).

However you estimate that the total tax for the year 2019 will be €800. In this case you may fill in a PT Reduction Form indicating €800 as the new total of PT payments for 2019. Your PT payments are to be made as follows:

a. 30 April: €200 (20% of €1000 – your PT benchmark for 2019 will remain €1000)
b. 31 August: €300 (30% of €1000)
c. 21 December: €300 (the remaining balance)

It is very important to note that, although you may have reduced the total of the PT payments to €800, the PT installments will have to be based on the original PT benchmark (€1000) and not on the reduced total.

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

10. I have received an estimated Tax Statement but I have now submitted my self-assessment for basis year 2017. Is my PT benchmark based on the estimated Tax Statement or on my self-assessment?

If you submit your self-assessment for basis year 2017 (year of assessment 2018) your PT benchmark will be revised to the tax payable as resulting in your self-assessment.

Example A
The PT benchmark for basis 2019 shown in the PT1 form, and based on the estimated Tax Statement, is €1000. Therefore the PT instalments are: €200 (April), €300 (August) and €500 (December).

You have subsequently submitted a self-assessment showing the tax payable for 2019 to be €800. The revised PT benchmark is €800 and your PT payments are to be made as follows:

a. 30 April: €160 (20% of €800)
b. 31 August: €240 (30% of €800)
c. 21 December: €400 (50% of €800)

Note that here we are not speaking of a simple REDUCTION in the PT payments but of a REVISION in the PT benchmark itself. Since the PT benchmark is based on the previous self-assessment, the submission (even late) of the said self-assessment will result in a revised PT benchmark. Such revision will have back-dated effect, that is, will be effective as from the **first** PT payment for the basis period. One important condition for this revision to be effected is that the self-assessment is to have been submitted before the start of the month which comes before that in which any PT payment falls due.

Example B
I have received an Estimated Tax Statement for basis 2017. At this stage my PT benchmark is based on the tax which is shown as payable in the Tax Statement, say, €650. My three PT instalments are: €130 (April), €195 (August) and €325 (December).

If, however, I submit a self-assessment (showing a tax payable of, say, €500) before 1 March or 1 July or 1 November (which is the start of the month which comes before that in which any PT payment falls due), my PT benchmark will be revised to €500. My three PT instalments will be revised to €100 (April), €150 (August) and €250 (December).

11. If basis 2019 is my first year of business what will my PT benchmark be based on?

If 2019 is your first year of business you are not obliged to pay any PT. You are obliged to pay the tax due for 2019 by 30 June 2020 which is the tax return date for the submission of the self-assessment which covers basis year 2019.

If your first year of business was basis year 2018 your PT benchmark for basis 2020 will be based on the tax payable for basis 2018.

12. If I submit an Adjustment Form (AF1 or AF2) to correct my self-assessment, will this affect my PT benchmark?

As already stated, the PT benchmark is based on the previous self-assessment. Anything which changes the self-assessment will therefore affect the PT benchmark.

If you submit an Adjustment Form (AF1 in the case of individuals, AF2 for companies) this will not only adjust the self-assessment already submitted, but will also revise the PT benchmark – provided the Adjustment Form is submitted before the start of the month which comes before that in which the **first** PT instalment falls due.

Example
My first PT instalment falls due 30 April 2019. If I submit an AF1 (AF2 in the case of companies) before 1 March 2019 this will not only adjust my self-assessment but will also revise my PT benchmark.

13. Which is the benchmark year of assessment for a company?

The **benchmark year of assessment** means the last year of assessment in respect of which a tax return was due to be furnished before the commencement of the calendar year in which the first PT instalment for a basis period falls due.

Where the company's accounting date is 31 December:
For basis year 2019 (year of assessment 2020) the benchmark year of assessment is basis year 2017 (year of assessment 2018). It was in respect of the year of assessment 2018 that the last tax return was due to be furnished before 1 January 2019. In other words, the PT payments to be made during the year 2019 (in respect of the year of assessment 2020) are based on the tax payable for the benchmark year of assessment, which is the year of assessment 2018.

Where the company's accounting date is other than 31 December, say, 30 June 2020

1. Establish the basis period; here, it is 1 July 2019 to 30 June 2020;
2. Establish when the first PT instalment is due: this is due by 31 August 2019;
3. Establish which is the last self-assessment due before 1 January 2019; the last tax return due to be furnished before the commencement of the calendar year in which the first PT instalment for a basis period falls due was for year of assessment 2018.

Therefore the **benchmark year of assessment** for a company with a 30 June 2020 accounting date will be the year of assessment 2018.

The following accounting period will be 1 July 2020 to 30 June 2021. The first PT instalment will be due by 31 August 2020. The last self-assessment due before 1 January 2020 will be that for year of assessment 2019 (tax return date being 31 March 2019, covering period 1 July 2017 to 30 June 2018 – which is year of assessment 2019).

14. Do I have to fill in the PT1 Form?

The PT section in the PT1 Form is not intended to be filled in. The PT1 Form contains the necessary details to help you pay the correct amount of PT for this period. However, you are to fill in the Payment Slip and attach it when making payment.

Notes on the PT section of the PT1 Form:

- The **PT benchmark** is shown in the top box. This is the tax payable for the basis period ending 31 December 2019 (or another date, in the case of a company with a different accounting date).

- If you fill in a **PT Reduction Form** this box will show the reduced total amount of PT payments which are to be made during the basis period. The original benchmark as resulting from your self-assessment will be shown underneath.

- The figures in the column entitled **Payment Due** show the PT payments which are due for the basis period. If you have submitted a **PT Reduction Form** this column will show the reduced PT instalments – with the original PT instalments in brackets.

- The fourth column shows the **payments** made during the basis period. This column will be blank if the PT1 refers to your first PT payment or if you have not made any PT payments.

- The **Additional Tax** column in the PT1 Form for the first period is blank. However future PT requests could show a figure for additional tax charged on PT due which may have been left unpaid.

- The **balance** for each row is the result after deducting the payments made and adding any additional tax charged.

- The box entitled **Provisional Tax Payable** shows the total amount of PT which has become due.

SOCIAL SECURITY CONTRIBUTIONS

The PT1 Form contains also a request for payment of Social Security Contributions (Class Two).

15. Who is liable to pay Class Two Contributions?

Class Two contributions are to be paid by all individuals who derive income from an economic activity and who are not employed.

Also liable to pay these contributions are individuals who are unemployed but whose total net income exceeds €1,005 per annum.

The Social Security Act defines these two categories of persons as **self-occupied** and **self-employed,** respectively.

16. What does "Self-Occupied" mean?

"Self-occupied" means a self-employed person who is engaged in any economic activity through which he earns more than €1005 per annum.

17. Who is a "Self-Employed" person?

"Self-employed" means a person who has not yet passed his 65th birthday, is ordinary resident in Malta, and is not an employed or a self-occupied person.

18. Which rates of Social Security Contributions (Class Two) are applicable for self-employed persons?

The rates for 'Self-Employed' persons are based on the annual net income for the year preceding the contribution year. These rates may be found on our website www.cfr.gov.mt.

19. Which rates of Social Security Contributions (Class Two) are applicable for self-occupied persons?

The rates for 'Self-Occupied' persons are based on the net profit for the year preceding the contribution year. These rates may be found on our website www.cfr.gov.mt.

20. Which rate of contribution should I pay?

The rate of contribution for a **self-employed person** is calculated on the **net income** for the year preceding the year in question. The rate of contribution of a **self-occupied persons** is based on the **net profit** of the year preceding the contribution year.

The Social Security contributions for categories **SP, SA** and **SC** are fixed amounts. Each amount is to be multiplied by the number of weeks (number of Mondays) for each pay period. The weekly rate for category **SB** is equivalent to 15% of the net income (in the case of self-employed) or the net profit (self-occupied) divided by 52.

Example
A self-occupied person had a net profit of €10,000 in basis year 2018.

The rate of contribution per week for this person is arrived at as follows:

€10,000 x 15% = €1,500 ÷ 52 = €28.84 per week

21. Which are the due dates for payment?

The due dates for Social Security Contributions (Class Two) are the same as for the PT payments, that is:

d. 30 April (Number of Mondays from January to April)
e. 31 August (Number of Mondays from May to August)
f. 21 December (Number of Mondays from September to December)

22. Is there any penalty if I do not pay or if I pay late?

An additional contribution of 1% per month is charged on the amount of Social Security contributions which are paid late or are not paid at all.

Notes on the SSC section of the PT1 Form:

- You are to fill in the blank box A at the top of the section with the Net Profit/Income for year ending 31/12/2018.
- Below this is the box B for the weekly rate (see no. 20 above for calculation).
- Insert the result of multiplying the weekly rate B by the number of weeks in the blank box C entitled "Payment Due".
- The Box I entitled "Social Security Contributions Payable" shows the total amount of Social Security contributions which have become due.

23. Paying Provisional Tax and Social Security contributions

Payments should be made online on https://cfr.gov.mt/onlinepayments or through internet banking, quoting the Payment Reference Number found on the PT1 Form.

Alternatively, payments may be sent to P.O Box 2296 or by calling in person at any MaltaPost branch. When using this option, it is important to use the payment slip of the PT1 Form, quoting the payment reference number and make cheques payable to MaltaPost.

For Further Information you may call at the CFR Taxpayer Service

Office of the Commissioner for Revenue, Block 4, Floriana
taxpayerservice.cfr@gov.mt
www.cfr.gov.mt
Telephone: Citizens: 153
Businesses: 144

PT1 Office of the Commissioner for Revenue - Malta

Provisional Tax and Social Security Contributions Payments

Payment Details

Provisional Tax (PT)

Period	Due Date	Payments Due	Paid	Additional Tax	Balance

Provisional Tax Payable

If payment is not received by the due date you will be charged 1% additional Tax per month or part thereof.

Social Security Contributions (SSC)

A

B

Period	Due Date	Weeks	Payments Due	Paid	Additional SSC	Balance
			C			F
			D			G
			E			H

Social Security Contributions Payable I

If payment is not received by the due date you will be charged 1% additional SSC per month or part thereof.

PT1 Payment Slip — Office of the Commissioner for Revenue - Malta

PT/SSC

To be paid by:

ID/Ref No.

Name of Bank

SSC Ref No.

Account No.

Claim No.

Cheque No.

Name

	Due	Enclosed
PT		J
SSC (Add SSC)		
Total SSC		K
Total		L