

Ministry of Finance

Treasury Department

GOVERNMENT ACCOUNTING OPERATIONS (GAO)

The Cash Office

Cash Flow Projections

During the year under review, this Office has succeeded in increasing the rate of departmental compliance in the submission of Cash Flow Projections returns according to pre-defined categories. These returns help Government in assessing the extent of its borrowing requirements, both in terms of amounts and timing.

Bank Reconciliation Exercise

As from February 2005, electronic reconciliations have been brought up to date and are being carried out monthly after the month-end routine. Unreconciled items following the first cut reconciliation must be reconciled manually. As from January 2005, unreconciled items started to be tackled immediately after the first cut reconciliations. This enabled officers in charge of Bank Reconciliations maintain a closer link with government departments and line ministries for the early detection and correction of errors and avoidance thereof in future. This approach also allowed better monitoring of transactions on real-time basis and avoided the creation of further backlogs.

Accounting Methodology and Compliance Unit

Since its setting up just over 18 months ago, the Unit has managed to increase the rate of compliance for the Accrual Accounting Returns. During 2005 the Unit has therefore focused on improving the quality of data transmitted by the various government departments. Officers deployed within the Unit monitored and took a mentoring role as required.

The Unit was involved in the implementation of the Stock Ledger System Version 1. This system was developed by MITTS Ltd to cater for those departments that did not already own a computer-based system for stock recording. During the year, Version 2 was developed. The Version 2 software package will be launched in early 2006 following a final user acceptance testing.

Bank Transactions Unit

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

Transaction Type	Number	Value (Lm)
Debit Advice	2,928	490,666,682
Telegraphic Transfers	1,499	12,664,576
Draft	1,030	1,266,166
Letter of Credit	5	342,372
Travel	3,183	1,178,209

As from 2005, the Unit became responsible for the 2005 onwards post-travel verifications as per Treasury Circular 6/2005. The task was formerly carried out by the National Audit Office.

EU Financing Unit

The Unit continued to process payments in respect of Pre-Accession and Transition Facility, simultaneously gearing up for Post-Accession Funding. Apart from this, the unit continued to exercise its control function in accordance with EU Regulations. Through continuous liaison with the Office of the Prime Minister, the Ministry of Finance and other stakeholders it has also introduced improvements to payment practices which were eventually introduced in the relative Manuals of Procedures.

SALARIES AND PENSIONS

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

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. Coupled 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.
- *HR, Payroll, Pensions integrated IT System:* In view of the forthcoming replacement of government human resources and payroll IT applications (namely, the HRIMS, PayPer, Treasury Payroll and Treasury Pensions systems) within the public service with a new integrated system, the Treasury continued to take part in various technical fora with a view to arriving at the optimal business solution.
- *Support Services:* Following meetings held in the early part of 2005 between senior officials within Treasury and MPO, it was agreed that the enhancement feature in the departmental monthly reporting system, introduced during December 2004, whereby Heads of Department/Director Corporate Services are notified three months in advance of those employees whose contract date is due to expire, be reinforced by the issue an OPM Circular. For this purpose, OPM Circular No 18/2005 dated 2 May 2005 was issued.

Towards the end of October 2005, Government signed a new Collective Agreement for employees in the public service covering the period 2005 to 2010. As a result of the new provisions in the said Agreement affecting salaries, Treasury in consultation with MPO would ensure that the agreed provisions and measures are implemented in a timely manner.

During the month of December, MPO requested Treasury to assess the best way forward on how the current payroll system could be enhanced to cater for the introduction of a Donation Scheme whereby government employees could donate, on a voluntary basis, a fixed amount directly from their salaries to approved charitable institutions. The parameters within which the said Donation Scheme could operate are to be approved in early January 2006 and it is expected that by March 2006 the first scheme would be operational.

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

Treasury Pensions

General Data

By the end of 2005 the Pension Payroll stood at 13,969, being a net increase of 288 pensioners over 2004. The new pensioners for the year under review approved by the President reached 760 comprising the following: Civil Servants - 564; Police Officers - 56; AFM Personnel - 42; Widows & Orphans - 93; Members of Parliament - 5.

Pensioners who passed away and ceased to be on the payroll during 2005 reached 472. The total payouts in pensions during 2005 rose to Lm23,220,377 representing an increase of 7.45% over the previous year.

By end of December 2005 the amount paid as Gratuities was Lm8,155,748, an increase of Lm1,128,030 over the previous year. Out of the total pensions paid to beneficiaries during the year, 66% 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.

ADMINISTRATION

Quality Service Charter

During the year under review, the Treasury launched its Quality Service Charter aimed at setting out the standards of service it provided. It included services given to various stakeholders namely, the general public, pensioners, stockholders and Financial Institutions. The Quality Service Charter was officially launched in June 2005.

PUBLIC DEBT

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.

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 2005 was Lm190,223,000.

Interest rates ranged between a low of 2.9548% for 3 month Bills (14 January 2005) and a high of 3.5066% for 1 year Bills (13 May 2005).

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

Tenor	Applications	Amount
28 days	18	31,050,000
91 days	335	262,118,000
182 days	84	90,588,000
273 days	49	48,789,000
364 days	28	29,510,000

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

Government Bonds

The Public Debt Section is also responsible for the issue of Malta Government Stocks in accordance with the Government programme. Stocks are normally issued to finance the budgetary Public Sector Borrowing Requirement (PSBR). Apart from new issues, existing issues may also be converted into new tranches as the case may be.

The Section also services the half-yearly issue of dividend warrants to existing stockholders.

During 2005 there was a redemption of Lm55m matured stocks and issue of new stocks amounting to Lm165.6m.

Foreign Loans

These loans are specifically issued to finance capital projects. A total of Lm3.3m was repaid according to the Repayment Schedule resulting in an end-of-year balance of Lm65.2m.

NOEL CAMILLERI
Director (Treasury)

Special Projects Division

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 project undertaken in the year under review was to oversee the implementation of Accrual Accounting in government ministries and their respective departments.

ACCRUAL ACCOUNTING

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

- completion of extensive accounting training in conjunction with SDO, leading to the “A” level Matsec accounting examination for employees who are willing to continue their studies in the accounting field. Five participants sat for the “A” level Matsec examination, all of whom passed the examination;
- completion of the development of computer based training courses (CBT) in general accrual accounting, asset management, management of debtors and creditors, and cash flow management. The CBT courses have been distributed through CD media and on the Department of Treasury Intranet for a wider and more cost effective distribution;
- increasing quality and timeliness of information collected from all government departments through the intervention of the Accounting Methodology and Compliance Section 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 2003. These financial statements are prepared for internal evaluation and have the objective of gradually developing the accounting accuracy base for the full implementation of accrual accounting in Government;
- finalisation of the technical and business systems requirements tender specifications for the replacement of the Departmental Accounting System (DAS). The draft specifications prepared by MITTS Ltd have the objective of changing the Government's accounting basis from the current cash accounting method to an accrual accounting methodology. Wide consultations have been held with all ministries through the respective Directors of Corporate Services and the National Audit office;
- preparation of a technical guidelines regarding: Decentralisation of the budget process; Inter-Departmental transfers; Depreciation of fixed tangible assets; Valuation of fixed tangible assets;
- updating of the Malta Government Accounting Standards (MGAS) to bring them in line with the International Public Sector Accounting Standards (IPSAS);
- continued support to departments for the compilation of financial statements under (partial) accrual accounting rules at year ending 31 December 2004 and 2005, in conjunction with the Treasury Department and MITTS Ltd;

- maintaining a repository on the Malta Government website regarding accrual accounting that includes the MGAS, stock control management; fixed tangible asset management; management of debtors and creditors; prepayments, accruals and capital commitments; and cash flow management procedures;
- continuation (in conjunction with MITTS Ltd) 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.

OTHER ASSIGNMENTS

Other assignments that have been undertaken include:

- extensive organisational reforms within the Customs Department;
- a detailed study and analysis of overseas travel requirements within the Customs Department related to the European Union obligations;
- preparation of a comprehensive Ministry of Finance pandemic influenza contingency plan to ensure that the departments within the Ministry would still operate under pandemic conditions;
- detailed studies concerning European Union Directives related to taxation;
- presentation of a technical paper to the European Group of Public Administration related to public personnel policies held in Bern, Switzerland;
- active 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;
- provision of advice regarding the Identity Management Strategy;
- acting as the key focal point concerning Malta's financial contributions towards the European Union budget.

EMANUEL CAMILLERI

Director General (Special Projects)

Economic Policy Division

The Economic Policy Division provides Government with expert advice and assistance in the formulation of economic policy and the management of economic activity, with the aim of attaining Government's overall objectives of economic growth and development, high employment, low inflation and a sustainable external sector. Currently, the main challenges facing the Maltese economy are to attract foreign direct investment, to continue to develop the tourism industry, to improve the competitiveness of the domestic economy, to support small and medium sized enterprises, to reduce excess bureaucracy, to support creativity and innovation and to restore fiscal sustainability. Challenges and opportunities exist also in the area of international economic relations and its respective economic impact on Malta. 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 Directorate provided information on the latest developments and outlook for the Maltese economy as well as on the international economic environment. This information is important in order to ensure that the appropriate economic policy measures are formulated.

Furthermore, during 2005, the Directorate provided support and input during the drawing up of the 2006-2010 Pre-Budget Document (A Better Quality of Life).

EU ECONOMIC POLICY CO-ORDINATION

The Directorate continued to participate actively in the EU economic policy co-ordination processes. In particular, the Economic Strategy Directorate participates in the Alternates formation of the Economic and Financial Committee (EFC) and the Economic Policy Committee. The Directorate also participates in a number of working groups attached to the EPC. The Directorate is actively involved in the Working Group on Ageing Populations (AWG) which examines the economic and budgetary consequences of ageing. During 2005, the AWG produced a set of age-related public expenditure projections for all 25 Member States covering pensions, health care, long-term care, education and unemployment transfers. The AWG also examined how these projections could be used to help assess the overall sustainability of public finances. Moreover, the Directorate 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 Directorate is also engaged in the preparation of briefings on relate items of ECOFIN meetings as well as for European Council meetings.

During 2005, the Directorate provided direct input in the preparation of the *Update of Convergence Programme 2005-2008*. This document follows the submission of Malta's first Convergence Programme in May 2004 and the first Update in December 2004. The Update of Convergence Programme 2005-2008

reflects recent developments in the economic situation as well as in the fiscal position and in particular it reflects the measures announced by Government in the Budget Speech for 2006. The document was compiled in collaboration with the Budget Office of the Ministry of Finance, with important inputs being received from various ministries and entities, including the Central Bank of Malta and the National Statistics Office. 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. It sets out the fiscal policy objectives within a macroeconomic policy framework. It presents the medium-term projections of the key macroeconomic variables and fiscal projections, together with an analysis of government revenue and expenditure. Sensitivity analyses of the budgetary projections are also included together with an analysis of the long-term sustainability of public finances.

The Economic Strategy Directorate participated in the implementation of the EU's excessive deficit procedure for Malta and in the assessment of Malta's Update of Convergence Programme 2004-2007, which was submitted in December 2004. In particular, it presented Malta's position in the Economic and Financial Committee (alternates) and contributed towards the preparation for the relevant Ecofin meeting.

During 2005, the Directorate also provided support and input in the drafting of the National Reform Programme (NRP) which was submitted to the European Commission in October 2005. In the NRP, Malta identified the areas which present the most pressing challenges for the economy and explained the actions and measures that are intended to be taken over the next three years to address them. Moreover, the Directorate participated in the Cabinet Committee on Competitiveness which was directly involved in the preparation of this programme. The Directorate also participated in the country examinations meeting held by the EPC in November 2005. During this meeting, Member States made a horizontal assessment on the NRPs. This assessment dealt with whether the NRPs address the challenges faced and identified by Member States; whether they make it possible to reach the policy goal of the Broad Economic Policy Guidelines of raising growth and employment in Europe; and whether they identify the key priority areas for further reform in Europe.

The Economic Strategy Directorate took an active part in the 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. This includes issues related to Malta's entry in ERM II, which took place in May 2005. In fact, the Directorate prepared a comprehensive economic assessment to provide the necessary background for the decision on the application of Malta's entry into ERM II. Moreover, on this issue, the Directorate also participated in consultations with the European Commission, the Economic and Financial Committee and the European Central Bank.

Regarding the issue of the adoption of the euro, the Directorate is also represented in sub-committees of the National Euro Changeover Committee.

The Directorate continued to provide information on the domestic economic situation and on the economic policies and measures that are being pursued by Government to the European Commission and other relevant parties. During 2005, the Directorate continued to co-ordinate closely with Malta's desk officer in DG Ecfm. In particular, bilateral meetings were held in Malta in February 2005.

MALTA COUNCIL FOR ECONOMIC AND SOCIAL DEVELOPMENT

The Directorate is represented in the Malta Council for Economic and Social Development and during 2005 continued to participate actively in its proceedings. Furthermore, as in previous years, the Directorate computed and presented the relevant cost-of-living adjustment for 2006 as stipulated in the Incomes Policy Agreement of 1990.

NATIONAL ECONOMETRIC MODELLING

The Directorate 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 2005, the Directorate 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 Update of the Convergence Programme 2005-2008.

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. In addition, work proceeded to further fine-tune this extensive model 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. To this effect, the foreign experts working on this project held a visit during December 2005.

INTERNATIONAL INSTITUTIONS

The Economic Strategy Directorate 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 Directorate also contributed in meetings with representatives from international organisations, namely the International Monetary Fund (IMF) and credit rating agencies such as Standard & Poor's and Moody's. As the credit ratings assigned to Malta bear a direct influence on the interest rate charged on loans raised from international markets, the Directorate 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.

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. In the process of drafting the NSRF, the Directorate was responsible for leading a working group focusing on economic development and competitiveness which carried out consultation with relevant stakeholders on this area. 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 2005, the Directorate was engaged in the preparation of an economic impact assessment of the White Paper published by Government on Pension Reform.

Furthermore, the Directorate was actively involved in the Technical Working Group set up by the Chairman of the Pensions Working Group to analyse the feedback received during the public consultation process on the White Paper on Pension Reform. Support was also given in the preparation of a number of

scenarios/simulations for the Final Report by the Pensions Working Group, which was presented to Government in June 2005.

The Directorate also provided input in the preparation of work carried out on the 2005 National Strategy Reports on Adequate and Sustainable Pensions.

In the context of the work carried out by the Directorate in the area of pension reform, officers from the Directorate participated in a course, carried out under the guidance of staff from the World Bank, dealing with the use of PROST (Pensions Reform Simulation Toolkit).

FINANCIAL PERSPECTIVES 2007-2013

During 2005, the Directorate provided 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.

RESEARCH AND PUBLICATIONS

The professional staff at the Directorate carries out research work on various issues. Moreover, the Directorate published the *Economic Survey* for the January-September 2005 period. This document, which is presented to the House of Representatives at the beginning of discussions on Government's budgetary estimates, provides a comprehensive analysis of Malta's economic performance and emerging economic trends, as well as an overview of international economic developments.

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

INTERNATIONAL ECONOMIC RELATIONS DIRECTORATE

The International Economic Relations Directorate provides expert advice and assistance to Government on the economic/financial impact of international trade issues in general and of the formulation and implementation of the common commercial policy of the EU in particular. Through its participation in the Commission Working Parties and Article 133 formations, the Directorate, strives to advise upon the economic impact the pertinent issues and strategies concerning the EU's common commercial policy. The Directorate provides an economic and financial analysis and appraisal of Malta's international, regional, bilateral and multilateral obligations. Ultimately, such an analysis is used by Government in the determination of the most appropriate position for Malta.

During 2005, the International Economic Relations Directorate continued to enhance its consultative role to ministries/organisations, in particular the Ministry of Foreign Affairs, on issues involving international economic and trade relations. Where necessary, follow-up action has been taken. Furthermore, the International Economic Relations Directorate concentrated its attention on providing an efficient and effective input in the preparation of national positions on international trade and economic issues. The necessary internal liaison with the EU Unit within the Ministry of Finance has been maintained.

THE COMMON COMMERCIAL POLICY - ARTICLE 133 COMMITTEE

The Article 133 Committee is a trade co-ordination and advisory committee to the European Union on all aspects of trade policy. The International Economic Relations Directorate 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.

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

Other Commission meetings on different trade areas take place regularly in Brussels and normally experts from the capitals attend these meetings. Participation is at times covered jointly by officers within the International Economic Relations Directorate and Malta's Trade Attaché in Brussels. Those having a more pronounced trade content are the Working Party on EFTA and the Working Party on Trade Questions. Normally, these meetings are covered by the Trade *Attaché* in Brussels. Co-ordination with the Trade Attaché ensures that relevant authorities in Malta, including this Directorate, are adequately briefed of developments.

- *Article 133 Titulaire:* The *Titulaire* composition of the Article 133 takes place once a month and is covered through participation from the capital. During 2005, the *titulaire* committee has been consulted on a number of trade policy areas, such as the Doha Development Agenda, bilateral trade relations, WTO accessions, and WTO dispute settlement matters. Other sectoral issues dealt with relate to textiles, aluminium, bananas and the "Made in" proposed Regulation.
- *Article 133 Deputies:* The Article 133 Committee (Deputies) is convened to discuss a variety of trade matters and to prepare discussions for the Article 133 Committee (*Titulaires*). The Trade Attaché at the Permanent Representation of Malta in Brussels participates in the weekly meetings.

During 2005 a variety of topics were discussed. A large focus of the discussions revolved around the WTO Doha Development Agenda and the EU's position in preparation for the Hong Kong Ministerial Conference that took place in December 2005. Other issues discussed include bilateral/regional issues, such as the current state of play on the establishment of Free Trade Agreements with third countries. WTO accessions were also discussed.

- *Article 133 Textiles:* The Directorate participated in the 133 Textiles Committee, either directly from the capital or through the Permanent Representation in Brussels.

On 1 January 2005, the EU lifted the quotas imposed on textiles and clothing items imported from China following the WTO Textiles and Clothing Agreement, concluded at the end of 2004. However, in view of the large influx of Chinese textiles and clothing goods into the EU market, the EU felt it had to re-introduce quotas on a number of textile and clothing items imported from China in line with the Textile Specific Safeguard Clause (TSSC) included in China's Accession Agreement to the WTO.

Various meetings were held in connection with the reintroduction of quotas which were agreed in a Memorandum of Understanding (MOU) agreed between the EU and China signed in June 2005 after consultations with all Member States. The issue of blocked imports in Chinese ports was discussed in various meetings in summer and in September 2005. The Commission adopted a Regulation to clear these Chinese textile and clothing imports. Malta always supported the Commission's efforts to find a swift, balanced and satisfactory solution for the benefit of all concerned with respect to the issue of blocked products.

All through the year, the Directorate worked in close liaison with the Commerce Division, MCMP which is responsible for the issuing of import licensing and the management of quotas.

TRADE DEFENCE INSTRUMENTS

The International Economic Relations Directorate has continued to monitor and analyse the ongoing developments in the fields of Anti-Dumping, Anti-Subsidy and Safeguard mechanisms. The Directorate provided advice on the economic impact of proposals.

BILATERAL AND REGIONAL TRADE RELATIONS

The International Economic Relations Directorate consulted competent authorities in a bid to provide assistance to the Ministry of Foreign Affairs and other competent authorities on the following agreements with third countries:

- *EU-US Partnership:* The EU initiated negotiations for a stronger EU-US partnership and a more open market for the twenty-first century. In addition, draft work programmes of the EU-US Economic Integration and Growth Initiative as agreed at the June 2005 Washington Summit were discussed. The Directorate reviewed all the relevant documentation pertinent to Malta's position, and spelled out its views to competent authorities.
- *EU-China Framework Agreement:* The Directorate submitted its views to Government with respect to the proposed framework Agreement on Partnership and Co-operation with China.
- *EU-Japan Regulatory Reform:* The Directorate followed and relayed its draft comments to Government with respect to the dialogue on the EU-Japan Regulatory Reform.
- *EU-Canada Trade and Investment Enhancement Agreement:* In consultation with other pertinent authorities, the Directorate submitted feedback with respect to the EU-Canada Trade and Investment Enhancement Agreement.
- *EU-GCC Free Trade Area:* The EU-GCC revised services offer has been submitted during 2005. The Directorate has consistently submitted its feedback in this respect.
- *EU-Mexico Free Trade Area:* The EU-Mexico Free Trade Area has been ratified by the Council in 2000. Following the progress achieved in 2004, the Commission has once again in 2005 invited Member States to comment on further liberalisation in trade in services with Mexico. The Directorate analysed all the correspondence relating to liberalisation in this area and proposed a Maltese position in line with economic feasibilities.
- *EU-Mercosur Free Trade Area:* In contrast with the significant progress achieved in 2004, progress during 2005 has been minimal. The Directorate is monitoring the situation with respect to this agreement.
- *EU-India:* The Directorate contributed towards the formulation of a Malta position with respect to economic co-operation, in particular on investment related issues, the EU-India summit and GSP.
- *EU-Russia:* The Partnership and Co-operation Agreement (PCA) is the central plank of the EU-Russian relations. On 27 April 2004, Russia extended the PCA to the new EU Member States. During 2005, the Commission continued to further improve trade and economic relations with Russia through further initiatives to enhance the common economic space. The Directorate has been in the process of analysing the state of affairs and in proposing draft Malta positions.
- *EU-Euromed Free Trade Area:* Further to the political commitment by EU Trade Ministers in 2005, the Commission has formally asked the Council to issue the mandate for further trade liberalisation between the EU-MS and the Euromed countries. The Directorate has been actively involved in the technical and economic aspects, especially in relation to agricultural and services liberalisation as well as investment issues. The technical feedback of the Directorate has been passed on to the pertinent Maltese authorities within the Ministry of Foreign Affairs.

MULTILATERAL TRADE: THE WTO DOHA DEVELOPMENT AGENDA NEGOTIATIONS

The Directorate assisted the Ministry of Foreign Affairs, the Permanent Representations in Brussels and Geneva and other pertinent authorities, co-ordinate and construct a Malta perspective of the EU Revised Offer in connection with the Doha Development Agenda negotiations. The main issues included agriculture, services, intellectual property rights, non-agricultural market access, environmental goods, trade facilitation and Rules.

The Round's negotiations culminated in the Hong Kong Ministerial Meeting in December 2005. The Maltese delegation was composed of eight persons and was led by the Minister for Competitiveness and Communications. The Economic Policy Division was represented by the Director General.

THEMATIC ISSUES

Market Access Advisory Committee

The Market Access Advisory Committee meets on an *ad hoc* basis and seeks to address market access opportunities to EU exporters. The Committee is also an important forum where tariffs and non-tariff barriers affecting EU exports to third countries are addressed. The Market Access Database is available to Maltese businesses free of charge as a result of membership and is an indispensable tool for Maltese exporters tapping third country markets. The Directorate was instrumental in disseminating a Commission questionnaire to local users of the database regarding the use and effectiveness of this database.

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

The International Economic Relations Directorate and Customs liaise and co-ordinate the issues in question. Participation in these meetings is mostly covered by Customs while the Directorate is a member of the PanEuroMed Cumulation of Origin Working Group. The issue of the derogation from the rules of origin aimed at anticipating the effects of pan-Euro-Mediterranean cumulation of origin among Tunisia, Turkey and the EU was closely studied by the Directorate after consultations with the local industry. The Directorate also provided assistance to the Ministry of Foreign Affairs regarding the textile industry in connection with the regional conference on the Euro-Mediterranean Partnership that was held in May 2005 in Cairo.

General System of Preferences

In July 2004, the Commission released a Communication concerning guidelines for the EU's GSP System for the ten-year period over 2006-2015 since the previous scheme was due to expire in December 2005. Further to these guidelines, the Commission released a Proposal for a Council Regulation applying a scheme of generalised tariff preferences for the period 2006-2008. The Directorate continued to follow and monitor all GSP meetings to discuss this proposal. Technical Assistance was provided by the Directorate to the Ministry of Foreign Affairs and the Ministry for Rural Affairs and the Environment on the issue.

INVESTMENT GUARANTEE AGREEMENTS

During 2005, the International Economic Relations Directorate assumed responsibility for the negotiation of Investment Guarantee Agreements. The Directorate, in consultation and co-ordination with the Ministry of Foreign Affairs and other pertinent authorities, is consistently evaluating negotiations with respect to a number of bilateral Investment and Protection Agreements.

ADVISORY SUPPORT SERVICES

The International Economic Relations Directorate has continued to extend its advisory services to various government entities, mainly through the compilation of briefings, the drafting of instruction notes, technical advice, research and economic analysis with respect to the economic impact and financial repercussions of specific agreements, including the CHOGM.

RELATIONS WITH FINANCIAL/ECONOMIC INSTITUTIONS

The Economic Policy Division provided the necessary support to the Maltese government in the area concerning Malta's relations with international financial institutions. Such support was useful to help Malta manage and co-ordinate its relation with such important financial institutions.

The Division monitored the relations with these financial institutions and provided the pertinent advice to Government with respect to the World Bank, the Multilateral Investment Guarantee Agency, the International Finance Corporation, the International Monetary Fund, the European Bank for Reconstruction and Development and the European Investment Bank. Support by both Directorates within the Division was indispensable for the drafting of positions/Instructions Notes on related issues.

The Economic Policy Division also conducted the necessary preparatory work for the convening of the World Bank Constituency that has been scheduled to be held in early 2006.

GENERAL SUPPORT TO DIRECTORATES

HUMAN RESOURCE DEVELOPMENT

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

In order to meet its expanding demands, during 2005 steps were taken to increase the complement of Economics Officers in the Division. Furthermore, the recruitment process of senior professional staff was also initiated.

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 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)

Department of Contracts

RESTRUCTURING

The Department endeavoured to strengthen its organisational structure by means of an internal restructuring exercise. This was augmented with the addition of new staff.

THE NEW PUBLIC CONTRACTS REGULATIONS

Malta's membership into the European Union led to the introduction on 1 January 2004 of the Public Contracts Regulations, 2003 to transpose into national legislation the relevant EC public procurement directives.

Whilst the Department was still adapting to the introduction of these regulations, two new Directives namely 2004/18/EC and 2004/17/EC of the European Parliament and Council were established on the 31 March 2004. The Commission made it mandatory that these directives be transposed into the national law of Member States by 31 January 2006. Hence, the Department undertook the necessary steps to transpose these new directives into local legislation and this was undertaken well before the January 2006 deadline. Legal Notices 177 and 178 of 2005 relating to Public Contracts Regulations, 2005 and Public Procurement of Entities operating in the Water, Energy, Transport and Postal Services Sectors Regulations, 2005 respectively, came into force on 3 June 2005.

In order to cope with the implementation of the new practices adopted, the Department successfully carried out a training programme organised by the Italian Department of Community Policies in collaboration with the Staff Development Organisation.

Inquiries with SIGMA on a TAIEX funded Project with the aim of obtaining further expert training on the new procurement procedures stipulated under the new directives was also initiated during the latter part of 2005.

While all these changes were taking place, the Department continued with the usual publication of tenders as part of the Department focused on EU funded tenders with the other part dealing with the locally funded calls for tenders. The Department also initiated an exercise to create a holistic approach to all tendering procedures by means of creating new tender document templates. Initial work on this initiative commenced in the latter part of 2005.

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 Public Private Partnership to be formed for the Mellieha Residential Care Facility as well as that for the provision of Catering Services at the new Mater Dei Hospital. The procedure will also be utilised in another large project for the Malta Tourism Authority, preparations for which commenced towards the end of the year.

EUROPEAN UNION MATTERS

The Department is responsible for the administration of all tenders that 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 the year 2003, from the Financing Memorandum signed for the Transition Facility for the year 2004 and also from the Single Programming Document for the years 2004-2006.

A review of the administrative processes was carried out and a major change in the role of Evaluating Committees was implemented. This resulted in better management and quicker response times in concluding contracts.

The Department of Contracts is actively 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. Assistance was provided to the independent auditors contributing to the drawing up of Malta's Single Programming Document (2004-2006).

The final contracts applicable to the Pre-Accession Programme for Malta for 2003 were issued by 30 November 2005. The Transition Programme 2004 for Malta is in an advanced stage while the Transition Facility Programme 2005 for Malta is at the initial stages of its implementation. The Structural Fund Programmes for Malta for 2004-2006 are presently in full swing with the majority of tenders launched at an advanced stage of processing and a number nearing implementation.

The Department also contributes to the development of public procurement methodologies adopted in the European Union. Senior officials from the Department actively participate in meetings organised by the Commission on 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 a seminar organised by the EU Public Procurement Laboratory.

Officials of the Department were afforded specific training by means of participating in an 'Introductory and Practitioners Seminar on European Public Procurement Rules, Policy and Practice' organised by the European Institute of Public Administration (EIPA) in Maastricht and other officials attended a training seminar on FIDIC General Conditions of Contract in Brussels.

EXTENDED DECENTRALISED IMPLEMENTATION SYSTEM

Following the granting by the European Commission, in 2004, of the Extended Decentralised Implementation System (EDIS) to Malta, the former sent an audit mission to Malta in June 2005. The Department adopted several minor recommendations by the 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 final preparatory work was concluded concerning training to Senior Programming Officers and project leaders on the new amendments earmarked to be carried out in January 2006.

The Directorate responsible for Compliance has also launched a series of monthly meetings in order to be able to identify the projects that may be at risk of implementation. As a result of the initial meeting, a template based on the status report presented to the Joint Monitoring Committee was forwarded to all SPOs who in turn circulated it to the project leaders under their responsibility, for better reporting and proposals of solutions.

AUDIT VISITS

Three other audit visits relating to the Structural and Cohesion Funds were effected in June, September and October 2005. One focused on the European Social Fund (ESF), another on the European Regional Development Funds (ERDF) while another was on the administrative set-up to deal with the Cohesion Fund. 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. The auditors commented favourably on the procedures in place at the Department.

GENERAL CONTRACTS COMMITTEE

The General Contracts Committee held 109 sittings during which 1,024 cases were considered. The Committee evaluated reports and recommendations submitted by contracting authorities resulting in the issue of 340 Letters of Acceptance by the Department. The Committee deliberated on 19 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 2005, the Public Contracts Appeals Board held various sittings that dealt with 34 objection cases, 18 of which were upheld.

WEBSITE

Information regarding tender publications and awards was successfully maintained to keep customers abreast of government procurement. 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.

STATISTICS

Projects Fully or Partially Funded through EU 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.

<i>Pre-Accession Programme 2003 for Malta</i>				
	Launched	Estimated Cost	Contracts Signed	Value of Contracts Signed
Commercial Tenders (Supplies, Services and Works) in Euros	14	11,665,000	14	11,137,075
Twinning Light Contracts in Euros	2	500,000	2	249,101
<i>Transition Facility Programme 2004 for Malta</i>				
Commercial Tenders (Supplies, Services and Works) in Euros	14	3,573,800	5	861,946
Twinning Contracts in Euros	6	2,600,000	4	1,700,000
Twinning Light Contracts in Euros	15	1,770,753	8	1,084,894
<i>Transition Facility Programme 2005 for Malta</i>				
Twinning Contracts in Euros	2	1,000,000	Nil	Nil
Twinning Light Contracts in Euros	1	163,000	Nil	Nil
<i>Structural and Cohesion Funds 2004-2006 for Malta</i>				
Commercial Tenders (Supplies, Services and Works) in Euros	61	40,355,968	23	5,814,276

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 370 calls for tenders, resulting in over 1,500 offers being submitted. The total value of contracts awarded by the department in 2005 reached Lm24,997,000. The following is a breakdown of the contracts awarded:

Categories	No. of Contracts Awarded	Totals (Lm)
Supplies	250	14,455,700
Works	63	9,273,600
Services	21	1,262,300
Sale	6	5,400
Total	340	24,997,000

Purchase of Pharmaceuticals	Lm 11,402,000
Housing Construction	Lm 5,749,600
Maintenance on Schools	Lm 1,158,800
Construction on Roads	Lm 966,600
Purchase of various equipment	Lm 921,300
Period Contracts	Lm 803,800
Purchase of Foodstuffs	Lm 784,000
Installation of Lifts	Lm 658,200
Supply of Miscellaneous Items	Lm 623,200
Various Works	Lm 592,200
IT Equipment and Software	Lm 362,600
Loading and Transportation of Material	Lm 288,000
Hire of Vehicles	Lm 242,000
Security Services	Lm 129,800
Testing of Foodstuffs	Lm 120,000
Production of Cultural Events	Lm 80,900
Various Construction Works	Lm 65,300
Medical Care	Lm 43,300
Sale of Unserviceable Vehicles	Lm 5,400
Total	Lm 24,997,000

In order to satisfy the Department's obligations in submitting the annual statistical report to the EU the Compliance Directorate devised an electronically transmitted user friendly template that was distributed by means of a circular to all departments.

NEW INITIATIVES

e-Procurement

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

The European Commission has outlined its plan for the attainment of a uniform electronic public procurement system across all Member States. It also lists the benefits that should result from applying such a system and places emphasis on the correct application of such a tool in order to increase efficiency and levels of competitiveness.

Subsequently, 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 Action Plan for the introduction of electronic public procurement in Malta. The work carried out by the Group involved intensive work with MEU and MITTS Ltd on past initiatives. Participation in a seminar on international e-Procurement in Spain was followed up by an in-depth report on experiences of introducing e-Procurement in various countries. A meeting of the e-Procurement Working Group of the Advisory Committee on Public Contracts in Brussels was attended as well as a visit organised for members of the Working Group to the Scottish Executive. This was also followed up by a detailed report on the visit contributing to the formulation of the Action Plan. Numerous meetings were held by members of the group culminating in the drawing up of a draft report entitled *Action Plan 2006-2009 Implementation of e-Procurement across Government*. Once finalised and adopted, the Action Plan is to serve as the roadmap that leads to the implementation and use of e-Procurement across all Government.

Green Procurement

At the same time as Green Leaders were appointed in each ministry/public entity to help manage the environmental initiative undertaken by the Government, the Department was entrusted to lead the drive towards the introduction of environmental criteria and initiatives within all public procurement. The introduction of specific references on environmental issues in Directives 2004/18/EC and 2004/17/EC, necessitated the adoption of these aspects in LN177 and LN178 of 2005. Consequently, and as a first step, the Department introduced generic guidelines aimed at officers responsible in the preparation of tenders. These guidelines, formulated in conjunction with MEPA, encourage the application of technical specifications and criteria and their access through related internet links to bring 'green' procurement closer to both providers and clients, creating as a first goal an awareness mentality.

Specifically aimed at this objective the DG Environment and DG Internal Market invited a number of senior officers from the new Member States to attend a seminar in Brussels. The Department of Contracts together with the Ministry for Rural Affairs and the Environment represented Malta in this initiative. As a result of the Seminar the Department was directly involved in the issue in the Maltese language of the booklet *Ixtri Malti*, an initiative by the DG Environment.

EDWIN ZARB

Director General (Contracts)

Inland Revenue Department

GENERAL

In the year 2005, the Inland Revenue Department continued with further legislative amendments to the Income Tax Acts. The Tax Audit Section has established itself by conducting and concluding more cases, with a higher yield of revenue over previous years.

A new business process was introduced within the Final Settlement System, while the Income Tax Declarations and Self-Assessment returns were processed within the set time-frame. The concept of non-filers was also introduced to taxpayers within the selected parameters.

The enforcement for the collection of revenue was high on the agenda and the desired results were satisfactorily obtained. Enhancement of IT systems and a broader menu of online services was introduced to the benefit of various categories of taxpayers.

The International Tax Unit concluded two other double taxation agreements and started negotiations on a technical level with other countries.

INCOME TAX

Legislation

The Income Tax Act and the Income Tax Management Act were amended by the Budget Measures Implementation Act (Act II of 2005). The more important amendments were the following:

- a change to a flat rate of taxation in cases of income from overseas employment
- extension of the benefits regarding taxation of part-time work to spouses where one spouse works part-time
- increase of the Commissioner's powers to collect information for the purpose of determining taxability.

A considerable number of legal notices were also issued, as listed hereunder. The more noteworthy concerned extensive amendments to the capital gains tax rules; a special scheme for the taxation of agricultural produce; a tax credit to women who return to employment; a number of incentives in the form of tax credits for various sectors of industry; new rules to regulate the taxation of finance leasing.

The following legal notices were also published during the year:

LN 3/2005	Adjustments to Declared Value of Immovable Property Rules <i>allows adjustments to the denunzja of property inherited between 24/11/92 and 25/11/03</i>
LN 4/2005	Tax on Capital Gains (Exemption) (Repeal) Order <i>repeals the previous exemption order on inherited property</i>
LN 5/2005	Capital Gains (Amendment) Rules <i>extensive amendments to the CGT rules</i>
LN 49/2005	Sale of Agricultural Produce Rules <i>3% withholding tax on agricultural produce sold</i>
LN 52/2005	Income Tax Exemption (Philanthropic Work) Notice <i>exempts the MITTS Foundation for IT Accessibility</i>
LN 105/2005	Part-Time Work (Amendment) Rules <i>amendments re persons working part-time only but with spouse working full-time</i>
LN 110/2005	Tax Credit (Women Returning to Employment) Rules <i>tax credit to women returning to work after five years</i>

LN 190/2005	Income Tax (Form of Return for a Company, Body Corporate or Undertaking) Rules <i>adds attachment-schedule re agricultural produce</i>
LN 191/2005	Income Tax (Form of Return) Rules <i>adds schedules to the return</i>
LN 192/2005	Electronic Communications (Income Tax) (Amendment) Regulations <i>provides for electronic filing of FSS forms, individual returns and mandatory electronic filing of returns by companies benefiting from fiscal incentives</i>
LN 193/2005	European Union Directives (Amendment) Regulations <i>incorporates the EU guidelines re the Savings Directive</i>
LN 234/2005	Income Tax Exemption (Philanthropic Work) (No. 2) Notice <i>exempts the Rotary Club La Valette</i>
LN 235/2005	Authorised Financial Intermediaries (Inv. Income) (Amendment) Regs. <i>extends date for tax deduction to end of June</i>
LN 330/2005	Deductions and Tax Credits (Research & Development) Rules <i>various deductions and tax credits to incentivise R&D</i>
LN 331/2005	Tax Credit (Back Office Operations) Rules <i>tax credit incentive for back office operations in Malta</i>
LN 332/2005	Tax Credits (Owners and Operators of Warehouses Situated in Free Zones) Rules <i>tax credits as an incentive for owners and operators of warehouse situated in approved free zones</i>
LN 333/2005	Tax Credits (Electronic Business) Rules <i>tax credit as an incentive for e-business</i>
LN 334/2005	Reinvestment Tax Credit (Income Tax) Rules <i>tax credit as an incentive for reinvestment of profits</i>
LN 335/2005	Deductions and Tax Credits (General and Specific Qualifications) Rules <i>various deductions and tax credits as an incentive for qualified personnel</i>
LN 369/2005	Finance Leasing Rules <i>legislates on the taxability and deductions consequent to a finance lease</i>
GN 1222/05	First and Second Boards of Special Commissioners <i>appointment of Boards</i>
GN 1225/05	Appointment of Secretary <i>appointment of secretary to the BSC</i>

FSS Tax

During 2005 the number of employers who submitted the FSS annual reconciliation documents for 2004 amounted to 9,811. The FSS division captured and reconciled data covering 267,251 employees for 2004; 101 employees for 2003; 88 employees for 2002.

The FSS division also issued 3,952 notices for collection of outstanding tax and social security contributions due by employers.

FSS enforcement efforts resulted in Lm1,127,283 in FSS tax and Lm2,194,125 in SSC as well as Lm1,653 in additional taxes being collected over and above the normal monthly tax revenue through employers' payroll.

The Division also issued 1,626 clearances to the Citizenship and Expatriate Affairs Department for the renewal of work permits to foreigners.

Assessments

During the period under review, the Department continued with its drive to clear the backlog of assessments and to collect arrears of tax. A total of 38,063 assessments for past years prior to year of assessment 1999 were served on taxpayers.

Self-assessment Returns for Y/A 2005

A total of 67,566 self-assessment returns for 2005 were processed up to 31 December 2005 apart from 131,105 tax declarations. These resulted in 205,671 statements for the year being issued to taxpayers up to the end of December 2005.

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 2005.

Book Balance for Years of Assessment up to 1998

The Debit balance up to year of assessment 1998 as on 31 December.2005 was Lm123,172,118. 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 Lm123.1 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 2005

On 31 December 2005 the book balance, estimated tax and tax in dispute for years of assessment 1999 to 2005 stood as shown in the following table:

Y/A	Book Balance		Estimated Tax		Tax in Dispute	
	Taxpayers	Amount Due (Lm)	Taxpayers	Estimated Tax (Lm)	Taxpayers	Amount in Dispute (Lm)
1999	16,854	30,314,005	11,078	28,127,900	72	599,698
2000	15,851	9,965,506	11,039	7,783,914	73	866,182
2001	18,657	14,123,043	12,349	9,376,386	91	824,577
2002	21,272	14,357,704	13,892	11,353,747	73	702,360
2003	22,557	15,423,493	15,193	13,222,911	42	566,245
2004	26,141	30,970,488	18,383	28,978,386	14	198,382
2005	32,374	31,338,429	22,820	28,001,889	0	0

Included in the book balance is an amount of Estimated Tax charged to taxpayers who did not submit any form of Tax document. This book balance will be reduced by the difference between the value of self-assessment returns submitted after end 2005 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 2005 as on end 2005 stood at Lm13,454,240, of which Lm106,539 represents Estimated Tax in Foreign Currency in respect of taxpayers who did not submit any form of Tax document.

Tax Audits

During the year, the Department continued to conduct tax audit enquiries. A total of 640 new cases were opened while 725 cases were concluded, resulting in an increase in income brought to charge of some Lm18,195,669. Cases in hand at the beginning of the year were 518, while at the end of the year the cases in hand were 433.

During the year a total of 185 new objections were received by the Department against assessments raised under the self-assessment system. A total of 128 objections were concluded, resulting in an increase in income brought to charge of Lm2,186,368. At the beginning of the year the objections in hand were 197, while at the end of the year the objections in hand were 254.

Computerisation

The Information Systems deliverables that were implemented during 2005 were:

- Final Settlement System: New business process to image all the FS3 paper forms received from employers.
- Taxpayer Registration: Comprehensive review of data as compared to the Common Database with a system that identifies double registered taxpayers.
- Budget 2004 related enhancements to the Tax Return processing software. These include the provision of Tax Credits under the Scheme for Agricultural Produce, Capture of Information from the Capital Gains attachment, capture of employment sources mismatch during data capture and enhancements to the interest on refund logic.
- The Tax Compliance Management System was further reviewed to enhance the software to provide facilities such as preview of omitted tax calculations to specific users, processing of objections and improve functionality of the software. Further work was carried out to define a pre-audit business process to improve the effectiveness of the compliance procedures.
- The Tax Calculation processing software was also enhanced to automatically identify undeclared employment sources and undeclared interests and re-issue new statements to taxpayers.
- Further Software enhancements were implemented to improve the functionality of the Works Management System.

Website

Enhancements

- *Final Settlement System*: Improved the online validations for employers with the major validation being the verification of valid identity cards on-line. Employers were also given the facility to view payments they effect during the year.
- *On-Line Payments*: Implementation of processing of Income Tax payments using Internet Banking facilities for Taxpayers. Corporate taxpayers were given the facilities to effect payments online using this channel.
- A major upgrade to the secure service for the filing of Income Tax Returns by Taxpayers was also implemented. The upgraded service includes viewing of the tax return in both Maltese and English and an improved message display system.

Take up statistics

During 2005 the transactions effected through the IRD Website were as follows:

e-returns transmitted over the web	11,951
Online Payments (Bank and EPG)	8,556
PT reduction forms	382
FSS Submissions	1,623

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 under review, 84,071 work items were received and forwarded for processing, while 79,716 cases have been closed.

Objections

Individuals

The number of pending objections of individual taxpayers against one or more assessments on 1 January 2005 stood at 22,180. There were 2,883 new objections registered during the year whilst objections settled by the Department for the year were 10,218, leaving 14,845 objections outstanding as at end 2005.

Companies

At the start of 2005, there was an outstanding balance of 6,081 years of assessment under objection. During the year, new objections were filed against 272 years of assessment. 1,485 years were cleared leaving a balance of 4,868 years of assessment under objection, as at 31 December 2005.

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.

At the end of 2004, the then applicable nominations of the members of the two Boards expired. As these were renewed late in the year, the Board only held one sitting in 2005. The number of outstanding undecided/unceded appeals increased from 42 at end 2004 to 101 at end 2005.

Cases before the Court of Appeal

The number of cases involving the Court of Appeal during 2005 was as follows:

<i>Cases before Court of Appeal in 2005</i>		<i>Cases before the Constitutional Court</i>	
Cases pending as on 01.01.05	16	New cases	2
New cases for 2005	4 *	<i>Law Court Sittings</i>	
Concluded cases	13 **	Court of Appeal	41
Total cases pending 31.12.05	7	Civil Court	34

* 3 of the new cases are all Re-Trials, the 4th concerns a preliminary plea

** Including a preliminary sentence

Revenue

Revenue from Income Tax collected in 2005 totalled Lm221 million. The Department also collected Lm195.5 million in Social Security Contributions. As from January 2005, 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 Income Tax collected over the past seven years and the percentage variance from the previous year:

Year	Revenue	Variance from previous year	
	<i>Lm million</i>	<i>Lm million</i>	%
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

The table below gives a breakdown of the revenue collected in 2005:

I INCOME TAX					
	Settlement Tax Lm	PAYE/FSS Lm	Provisional Tax Lm	Self-Assessment Lm	Total Lm
Government/Parastatal Employees	1,041,601	20,324,330	1,301,987	1,745,534	24,413,452
Dockyard Employees	66,161	2,066,532	50,272	102,745	2,285,710
Private Employees	1,254,162	59,049,838	2,047,315	2,674,157	65,025,472
Shareholders	54,276	0	98,997	223,873	377,146
Expatriates	134,516	0	1,878,773	901,964	2,915,253
Business, Trade, Profession & Ecclesiastic Entities, Clubs	1,549,575	0	5,833,464	4,315,487	11,698,526
Rentiers	398,889	0	714,055	1,160,945	2,273,889
Companies (local)	2,114,098	0	56,308,789	11,530,275	69,953,162
Companies (foreign)	6,179	0	685,184	642,737	1,334,100
Other Categories	58,479	0	88,836	754,557	901,872
Capital Gains	0	0	23,663,261	0	23,663,261
Tax at Source	0	0	909,576	0	909,576
15% Withholding Tax	0	0	14,655,779	16,450	14,672,229
Others	1,335,072	0	961	0	1,336,033
Total	8,013,008	81,440,700	108,237,249	24,068,724	221,759,681
II SOCIAL SECURITY CONTRIBUTIONS					
Class I					117,012,834
Class II					13,288,794
Further Contribution					134,414
State Contribution					65,150,814
Total					195, 586,856

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	268,370	Lm 185,104,448
Social Security Contributions	149,710	Lm 94,786,844

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	6,587	10,538,900
Judicial letters created	4,929	8,794,906
Agreements	1,141	867,026

Pre Y/A 1999 - Companies		
Type of Enforcement	No	Value (Lm)
Demand Notices issued	49	529,381
Judicial Letters created	652	4,126,284
Agreements	43	247,162

PAYE/FSS Pre-2004		
Type of Enforcement	No	Value (Lm)
Demand Notices issued	1,768	12,195,513
Judicial Letters created	920	14,921,381
Agreements	126	3,961,826

Year by Year - Individuals	
Type of Enforcement	No
Default Notices issued	3,326

Year by Year - Companies	
Type of Enforcement	No
Default Notices issued	2,163

There were 160 court cases sittings during the year.

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/ Social Security Contributions (SSC) deducted from salaries/wages under the Final Settlement Systems (FSS) system, and tracing taxpayers who fail to claim assessments sent by registered mail.

Inspections by RSC carried out in 2005 were:

Cash Escorts	748
Collection purposes	712
Investigation	119
Capital Transfer Duty Branch	603
PAYE	240
General enquiries	98

In addition, members of the RSC Investigation Section were committed on a special exercise carried out between October/December 2005 to conduct enquiries and collect outstanding payments for FSS and SSC from various taxpayers/employers. This exercise consisted of 82 documents and the amount collected was Lm104,521.

Taxpayer Service

The Department operates a one-stop-shop taxpayer service to address the needs of taxpayers, especially pensioners and individuals. During 2005 the Department's Taxpayer Service Office (Help Desk):

- dealt with 29,920 personal encounters;
- registered 1,973 new taxpayers;
- reached 1,330 direct agreements for programmed tax payments by individuals;
- reached 873 agreements with employers on behalf of taxpayers for programmed payments of tax;
- amended 3,781 addresses
- issued 10,108 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 Lm2.19 million. This figure does not include the amount of Lm2.98 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 2005 works out at 1c. When considering also the actual revenue collected from social security contributions, the cost per Lm1 of revenue collected from both sources works out at 5 mils.

Refunds

A total of 2,336 refunds of overpaid tax amounting to Lm611,843 was issued for years of assessment prior to 1999. Up to 31 December 2005, the total of refunds issued for year of assessment 2005, which also in some cases included year of assessment 2004 and year of assessment 2003, was 37,759, amounting to Lm15,758,624.

Social Security Contributions

During 2005 the Social Security Division continued with the verification and enforcement of social security contributions. Class two 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 2005 were the following:

- 4,680 personal encounters;
- 276 determination of class one contributions for persons working abroad;
- 785 adjustments of receipts;
- 45 refunds issued, amounting to Lm45,000;
- 914 pensions scheme applications.

INTERNATIONAL TAX UNIT

Double Taxation Agreements

The double taxation agreements with Spain and San Marino have been signed. Negotiations at the technical level were concluded with Spain and Serbia and Montenegro. Negotiations at the technical level were held with Switzerland but have not been concluded.

Work Processed

During 2005 the International Tax Unit processed:

- 1,059 requests for certification of exemption from duty under the provisions of the Duty on Documents and Transfers Act;
- 470 claims for refunds;
- 337 applications for new Advance Revenue Rulings;
- 29 applications for renewals of Advance Revenue Rulings;
- 85 exchanges of information with foreign tax authorities.

Revenue

During 2005, Lm5,553,000 were transferred to revenue from tax paid by companies dealt with at the International Tax Unit

EU and OECD Affairs

Staff of the International Tax Unit attended 22 meetings in connection with EU/OECD related matters abroad.

Tax Law Amendments

The International Tax Unit took part in the drafting of subsidiary legislation concerning the taxation of trusts and EU-related matters.

CAPITAL TRANSFER DUTY

Duty on Documents

During 2005 the Department examined 14,502 notarial deeds, out of which 4,582 cases were inspected by the Department's engineers. As a result, 5,078 original assessments were raised. During the same period

1,024 objections were filed, 788 revised claims were issued and 1,115 objections were settled. 108 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 Lm38,927,962 (Duty on Documents) whilst outstanding balance of assessed duty, including disputed duty up to and including 31 December 2005 amounted to Lm12,160,725. 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 Lm2.3 million through intensified action of collection and conclusion of objections.

Since its inception, late in 1992, the *Causa Mortis* Section received 26,950 declarations of *causa mortis* transfers, mainly consisting of multiple transferees or beneficiaries in respect of Malta and Gozo. During the year, 4,827 *causa mortis* returns and *causa mortis* adjustments were processed and 179 declarations filed by notaries were referred to the Department's technical experts to verify the valuation of immovable properties declared therein.

The Department receives and investigates a number of deficient returns. In fact, during the year, 2,398 claims were issued and 550 revised assessments were raised.

During the same period 255 objections were filed by transferees against the said *causa mortis* claims, while 599 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 158 - all were processed and no outstanding returns remained unassessed. Duty claimed was Lm17,176. Revenue collected, including prepayments on account and from arrears, totalled Lm73,651. Outstanding balances of assessed duty, including disputed duty up to end 2005, amounted to Lm2,382,625.

Acquisition of Immovable Property by Non-Residents

The number of AIP Permits issued during the year 2005 was 401.

Revenue

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

	Lm
Death and Donation Duty	73,651
Duty on Documents and Transfers	38,927,962
Fines and Late Fees	6,010
Fees on AIP Permits	44,300
Total	39,051,923

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 2005 the Department registered a total of 9,762 Promise of Sale Agreements, of which 782 were registered in Gozo.

Il-Monti

Il-Monti advances money on pledges of precious metal. Below is a record of its activities during 2005:

Pledges accepted	3,512
Pledges redeemed	4,067
Money loaned	Lm164,296
Money received back	Lm185,122
Interest received	Lm17,050

The number of pledges remaining on hand at end 2005 was 8,964 against which Lm384,304 had been advanced. Besides advancing money on pledges, Il-Monti also holds regular Court deposits lodged for safe keeping. On 31 December 2005 a total of 693 deposits were still held.

Expenditure in running Il-Monti during the period was Lm350, excluding Lm16,350 for Wages and Bonus. Moreover, a sum of Lm49,768 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 2005 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.

	Gold	Silver	Total
Articles received	2,087	44,073	46,160
Assays	381	460	841
Articles weighed and valued	336	0	336
Articles broken up on being found to be made of an inferior standard	24	285	309
No of Inspections			
		31	

Revenue from fees on assays, hallmarking, valuing and manufacturers/sponsors registrations was Lm4,456. Expenditure incurred in running the Consul's Office was Lm67,203 including salaries, overtime and bonus.

ADRIAN CHETCUTI
Director General (Inland Revenue)

Customs Department

MANAGEMENT

For the year 2005, the Department of Customs developed its activities and operated under the following three strategic objectives:

- Effectiveness in the action to combat tax evasion.
- Protection of public economic and financial interests.
- Improvement in efficiency and effectiveness in the administrative action to achieve operational objectives.

Customs focused in particular on the following sectors:

- The fight against fiscal evasion.
- Collection of revenue.
- The fight against organised crime with particular regard to violations of origin and preferential rules, to terrorism financing, to drug trafficking and cigarette smuggling.
- Controls on spending to make the best use of the resources available.
- The fight against counterfeiting of marks and audio-visual piracy.

The Department of Customs is structured organisationally as follows: Administrative function; Compliance function; Enforcement function.

The Department as at 31 December 2005 had a complement of 548 compared with that of 577 on 31 December 2004, a reduction of 29, mainly as a result of retirement.

Most of the training is carried out in-house and is organised by the Customs Training Unit which drafts an Annual Training Plan. Additional training to staff is provided from the Customs 2007 Programme and the Fiscalis Programme of the European Union. All training activities are targeted at the functions which the officials will be called upon to carry out, and have the aim of developing the knowledge, capacity and skills required to perform the tasks they will be entrusted with. Faced with the manifold and complex duties the Department has to carry out, the Management has metabolised in its organisational culture the firm conviction that professional training may not be restricted to a limited time period but has to be constant along the entire span of the working life of the employees. In a society that attaches more and more importance to knowledge, the Management considers its own human resources the strategic resource par excellence, in the awareness that only by building upon this wealth any organisation may successfully keep up with the evolution of its role and the transformation in progress with the global system. Therefore through the training activities carried out each year are imparted the knowledge and skills necessary to achieve national and Community objectives and the institutional strategies set down by the Management of the Customs Department.

Coupled to this, the Department operates a management control system, thanks to which it directs its own activity towards the production of measurable results. The system ensures the monitoring of the operational initiatives undertaken and the evaluation of the impact of the deviation from the targets, in order to allow for any corrective interventions. This approach allows Management to optimise the use of the resources, reaching high levels in terms of efficiency and effectiveness.

The following functions have been carried out during 2005:

- Fiscal checks in defence of the national budget and of the European Union in order to safeguard the revenue utilising flexible and targeted tools such as audits and risk management techniques. One of the significant missions of Customs is that of safeguarding the European Union budget. This task is aimed at the prevention and suppression of violations in the field of Customs, border duties and other Own Resources.
- Excise duties in our tax system have always been intended to play a relevant role both in terms of tax revenue and of consumption policy. Considering this, Customs and Excise have always operated a constant and qualified surveillance action.
- Cigarette smuggling appears to be in general decrease although a new trend has emerged in the transit of cigarettes destined to the Northern Europe black market. However, this illicit phenomenon which during 2005 was detected more and more together with the counterfeiting one continues to represent a criminal activity of great danger.
- Customs controls cover the carrying out of activities to search and suppress illicit international traffic in the widest meaning. Customs controls are steered to ensure that transactions take place in compliance with the relevant national, Community and international rules. The selection of the goods to be checked is more based on constant risk analysis and on the intelligence action typical of a modern Customs Administration.
- Customs serves as an agency for other departments and authorities particularly in the area of health and the environment. Customs collaborates with these organisations.
- Customs, during 2005, was strongly engaged in the action to combat the illicit phenomenon of counterfeiting which illicit activity has grown to mammoth proportions.
- The illicit traffic of drugs feeds criminal activity. Customs operational activity is based essentially on strict border controls at the ports and airports and regular surveillance of the seashore.
- The fight against international crime has to develop more intense international co-operation with our foreign counterparts for the protection of the national and the European Union budget. During 2005, Customs has implemented a series of initiatives aimed at strengthening co-operation and relations with other EU member states Customs administrations and the Commission.

Customer Care

Requests for assistance were dealt with quickly and any complaints and queries were referred to the Director responsible for prompt action. Information was distributed on a regular basis to explain our services and keep the traders informed of changes to procedures.

COMPLIANCE

Prior to accession, the general perception was that the role of Customs shall be reduced considerably but this has been proved wrong because following accession, Customs responsibilities have been increased significantly with addition of the following roles:

- Most of the EU goods are brought into Malta on non-regular shipping services and the EU status has to be established before the goods are taken out of Customs areas.
- Customs has the exclusive competence for control of illicit, illegal and restricted goods at the border;
- Customs has the experience to assist other government departments and agencies enforcing controls at the border on both imports and intra-community supplies;
- The application of customs duties as set out in the Combined Nomenclature and interpretation of the EU legislation requires specialised officers to assist and give opinion to fellow officers at the border;
- Co-ordinate continuously with the Commission and Customs Administrations of other member states;
- Several questionnaires are received from the Commission and have to be replied to within limited time frames.

Several sections were restructured prior to accession and the roles and responsibilities of these units have been revisited to include experience gained from the initial months of accession.

Consultation meetings were held separately with all stakeholders namely; ship agents, *burdnara* and traders to explain legislation and procedures and discuss any pending issues. Furthermore, in view of the strategic position and experience that customs has at border, other follow-up meetings were held with government departments and agencies/authorities to share information and co-operate on issues of mutual interest.

PROCESSING SERVICES

Trade facilitation, post clearance compliance verification and Malta's accession to the EU were the prime movers which transformed the operations of the Processing Services. From a core function based on a pre-release scrutiny of documents, the role of the Processing Service was transformed into a risk-based targeting of consignments selected for control and post release verification of documents. This new character brought about the need to specialise in certain areas.

Common Agricultural Policy Unit

During the year under review, the CAP Unit continued to fine-tune the assignments initiated in 2004, on Malta's accession to the EU. The experiences gained were varied but can be described as successes.

The Unit was responsible for the control of the Inward Processing authorisation for sugar granted to a local company.

The Unit was also responsible to monitor the physical controls on intra-community purchases of sugar. These controls were undertaken on behalf of the Department of Commerce which is responsible for the subsidies handed out to purchasers of sugar from the EU.

During the year the Unit approved electronically the importation of consignments under an agricultural quota system or AGRIM licence. Same were submitted to issuing bodies for verification. The Unit also controlled goods under transit procedure (T5) and the importation of wine.

Since most agricultural controls are provided by the CAP Unit as one of the delegated services of the Ministry for Rural Affairs and the Environment, the Unit was in constant liaison with the Ministry especially personnel from the Paying Agency. This liaison applied both to the importation and the exportation of CAP products. The CAP Unit co-operated fully with the Paying Agency especially in its pre-accreditation stages. The Temporary State Aid section, also within the MRAE, was assisted by the Unit by helping in the formulation of control procedures over agricultural consignments eligible for state aid.

Members of the CAP Unit also attended Trade Mechanisms Committee meetings held in Brussels by the DG AGRI.

The Unit was involved in preparing training material and conducted two half-day briefing sessions on CAP Transit Procedures. These sessions were delivered to a number of Customs Officers who were selected to participate in this training.

Customs Valuation Office

During 2005, valuation performance followed the previous year's pattern although it seems that a few more referrals from Customs out-stations have been recorded. Queries from the general public about the valuation methodology were also registered. Verbal advice was given accordingly, emphasising the importance of relevant documentation to support the transaction value.

The customs work approach regarding the correct declaration of the customs value is being tackled by various sections and it is considered opportune to build up a more holistic approach. A number of meetings

were held in order to discuss the possibility of reaching this aim. Members of this Section participated in the Customs Code Committee – Valuation Section held in Brussels.

Binding Tariff Information Unit

The main activity at the BTI section is to provide Tariff and TARIC information to importers and Customs Officers. Importers may request Binding Tariff Information as set out in EU Regulations orally or in writing. Customs Officers, who phone up for guidance on particular imports and declarations are, at times, requested to submit samples for classification purposes.

The Unit kept abreast of developments by attending various meetings and seminars held in Brussels.

Customs Analyst

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

Locally produced fruit juices & nectars for drawback	132
Alcohol for determination of denaturant	3
Kerosene, aviation turbine fuels for flash point and/or specific gravity determination	5
Diesel & other mineral oils for the determination of the fiscal marker	136

A total of 53 requests involving 186 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 350 documents relating to goods imported from non-EU countries for the checking of the correct Customs Classification and of other technical details.

The Laboratory assisted the CAP Unit in technical matters relating to the formulation of an operational strategy within this same Unit.

The Laboratory was actively involved in the organisation of the Seminar on accreditation, quality and centres of excellence which was held in Malta on 14-16 November 2005 and in which over 70 chemists and laboratory quality managers from European Customs Laboratories participated. The Seminar was supported by the Taxation & Customs Union Policy Commission. The organisation involved preliminary group meetings in Malta, Brussels and in Amsterdam.

Customs Economic Procedures Unit

The processing of documents, which previously was the core duty of this section, was phased out during 2004. During 2005 a total of 19,564 documents were prepared. This consisted of export documents EX 1 for goods dispatched to third countries, T2Ls for intra community supply of goods, temporary importations and transit documents. The transit documents, which initially were presented in a manual format, were later entered and submitted electronically through the New Computer Transit System (NCTS). 673 preferential certificates were also issued during 2005.

The section is also responsible to issue authorisations for procedures having an economic impact. During this same period authorisation holders were informed to apply only when absolutely necessary. This section maintains constant liaison both with Malta Enterprise and the Customs Audit Unit.

CEPU was also responsible for the sale of Customs seals, carrying out export duties and the preparation and issuing of *Burdnara* Licences. A member of the staff was responsible for the preparation of *Burdnara* employees' ID Cards which are valid for five years. Customs personnel of the Landing and Warehousing staff were also issued with ID Cards.

Binding Origin Information Unit

23 verification requests re origin certificates were made. In the same period 12 certificates were verified correct while four proved incorrect. Maltese Customs and OLAF started investigating fraudulent transactions brought to the Maltese Customs. As a result the Commission issued alerts to other Member States to watch out against such fraudulent activities intercepted by Maltese Customs.

In March 2005, four INF 1 certificates were referred to UK Customs, of which one resulted to be incorrect. Four verification requests of certificates that were issued in Malta were received.

Document Verification Unit

The primary task of this Unit is the checking of declarations earmarked for release without examination in the Customs Electronic System (CES). About 33,914 declarations on non EU imports were approved in the system of which 35 per cent were scrutinised for fiscal and non fiscal offences. It resulted that several queries were raised and the number of post entries issued tallied to 284. The revenue collected by these post clearance controls tallied to Lm137,506.

Another role that falls under this section is the verification of Intra Community declarations for shipments brought into Malta through the Freeport.

Risk Analysis is carried out by selecting particular consignments either for a documentary check or physical inspection.

During 2005 the Verification Unit participated in three audits undertaken on behalf of the EU Commission: DG TAXUD re Tariff/TARIC in March; European Court of Auditors re Traditional Own Resources in September; DG Budget re Traditional Own Resources in October.

The results obtained from these audit visits were very positive and satisfactory. In December this unit participated in assessment sessions conducted by two Euro Customs Experts who visited our department to check Post Clearance controls and procedures.

Front Office

This office is responsible for processing of documents in respect of importation of personal effects and vehicles by persons coming from third countries, transshipments and shipping bills, EU Taric Database queries, refunds and correspondence in connection with Euro 1 Certificates, and other correspondence in connection with various Customs queries.

The main activity of the Data Input section, which now forms part of the Front Office, is the inputting of manually prepared import declarations presented by the traders or their representatives, into the Customs Electronic System.

This section is also responsible to input statistical data regarding intra community trade arriving from and departing to other EU Member States as per the 'Intrastat' forms presented by traders, post clearance input of export declarations for statistical purposes, registration of new importers and administering user accounts of the CES. The Office is also responsible for the sale of Customs Forms to the public.

Archives/Records Office

The Section was responsible for the archiving and retrieval of files and Customs release documents referred from Customs Stations.

Administrative Support Services

The total sum collected for Groupage Bond Operators' Licence fees was Lm98,868. A total of 35 Bond Operators made use of Hal Far Complex, of which two ceased operating and the spaces vacated are to be allocated to four new pending applicants.

The Unit is also responsible to follow up cases of Incorrect Declarations up to the final decisions and eventual settlements. 211 cases of incorrect declarations were settled while 111 new cases were referred and 35 remained pending. Total taxes and fines collected amounted to Lm133,823.

The Unit processed and assessed requests for the issue of copies of misplaced Customs Documents. While 38 documents were issued, four requests were refused or withdrawn.

In conjunction with Yacht Marina and in liaison with Assistant Director Processing, this Unit monitored the status of yachts/pleasure sea craft and collected taxes where applicable.

The Unit collected Lm12,105 in respect of unsettled Post Entries, referred to it by other sections. As at end year the amount of Lm905 was still pending. The Unit had the competence to refer Garnishee Orders to Landing/Excise stations with the resulting feedback referred back to the Civil Courts.

LANDING AND RELEASING

Deep Water Quay

During 2005 a total of 363 vessels berthed at DWQ discharging 9,751 containers/trailers. 250 full containers/trailers were exported/dispached to another EU member state.

During last year the number of vessels unloading at Deep Water Quay dropped by 20% when compared to 2004. However, there was an increase of 3% in the number of containers and trailers discharged. A substantial increase of 38% conventional cargo was recorded during this period and this was attributed mainly to an increase in imports of iron and steel. Importation of new cars was also up by 10%. Up to the end of November two vessels were operating under the 'regular authorised shipping line' status.

Freeport

During 2005 the following activities were performed at the Freeport.

- 1,694 *pratiques* were carried out, of which 769 were for vessels coming from non-EU countries and 925 from EU countries. 165 vessels were not boarded.
- 28,711 containers were discharged, of which 9,492 were despatched with Customs seals;

At the Freeport there was a slight drop of 3% in the number of containers destined for release for free circulation in Malta. A substantial increase of 28% was noted in the number of containers imported from non-EU countries. The move to the new premises with improved facilities, which took place at the end of the year, is offering better working conditions to the staff who work in such a hectic environment. Another system which is having the desired results is the system of vetting of Customs documents at Custom House prior to the units being despatched from Freeport. This system has facilitated the flow of container despatch to the benefit of *burdnara* and importers who are no longer experiencing long queues.

Malta Shipyards

Following accession into the EU, measures were taken by Customs to ensure that all taxes due on goods which were not intended for use or not used on seagoing vessels undergoing maintenance works or alterations at the yards are collected. The process continued this year. Lm23,949 were collected as VAT.

Luqa Airfreight

During 2005 the following activities were carried out at this Section:

- 6,599 Aircraft manifests were registered;
- 26,421 Customs documents were processed, of which 11,590 were selected for control;
- Lm37,846 were collected on 368 post entries;
- IPR Officers were called 170 times.

The above Section offers a one-stop shop Customs service. This was the first full year of operation under EU regulations and compared to last year there was a significant drop in revenue due to the fact that most of the cargo in this section originates from EU countries. From this section, Lm346,050 were collected as customs and excise duties, resulting in a drop of 45 % while VAT collected amounted to Lm2,581,721, representing a drop of 23 %. The Customs Electronic System (CES) is now functioning well and problems throughout this year were minimal. A limited number of industrial concerns continued to benefit from a simplified procedure which facilitated the release of urgent cargo.

In October 2005 a new handling operator started its operations. The Company has its own freight shed within the airport precincts and so far most of the cargo handled was of Community status. No permanent staff is detailed at this shed, however, regular inspections by Customs officers from the Airfreight section are carried out.

This year officers from this section raised 368 post entries. This contributed to an increase of 118% in revenue normally raised through post entries. 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.

General Examination Shed

During 2005 the following activities were carried out:

- 1,319 Containers/trailers were stripped and searched for illicit goods;
- 1,962 Containers/trailers were examined by other staff attached to the Section at importers' premises;
- 1,248 Containers/trailers consisting of second hand vehicles and parts were examined at Laboratory Wharf;
- 151 discrepancies were detected, of which 57 constituted incorrect declarations;
- four inspections by the Fraud Section were carried out throughout the year.

Considering that the amount of units examined this year decreased by about 15% this Section still managed to collect Lm49,548 as post entries and Lm14,907 as additional amount pending possible fine; an increase of 18% over last year. Most of the discrepancies detected consisted of incorrect declarations, freight charges not included and classification errors. The release of 26 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 Enforcement Unit inspected four containers using the mobile X-ray Unit.

Hal Far Groupage Complex

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

- 5,468 Containers/trailers entered the complex, of which 3,906 contained EU goods only;
- 1,115 Containers/trailers were unstuffed and tallied under Customs supervision;
- 95 instances where spot inspections on EU cargo were carried out;
- 71,166 Exit Gate Passes were collected;
- Lm31,877 were collected from Post Entries;
- Lm6,997 were raised as fines.

A good proportion of goods imported in Malta are handled at this complex. The amount of units which entered the Complex registered a slight increase of 48 units. Movements of non-EU units are managed through the Transit module in CES where a complete track is kept from the time the unit leaves the place of landing up to the time of arrival at the Complex. Although Community status containers are unstuffed and released without customs supervision, random inspections are carried out by officers from the SIAT team at the gate. This year a new procedure was introduced whereby Bond Operators were asked to deconsolidate also EU groupage cargo. This was done mainly to assist NSO to easily identify consignments which had to be declared in the “arrivals” forms. The introduction of a cash-point at the Complex last year also proved to be of great benefit to both importers and *burdnara*.

Although the amount of physical checks was reduced, officers at this section still maintained a good record in post entries and managed to collect Lm31,877, that is, 93% of the revenue collected last year. Lm6,997 was collected as deposit pending possible fine.

Laboratory Wharf

During 2005, 368 vessels berthed at Laboratory Wharf as follows:

<i>Discharges</i>	<i>Loading</i>
7,076 (EU) and 846 (Non-EU) Containers/trailers;	1,158 Full load containers/trailers, of which 96 were intended for transshipment
4,021 New vehicles	5,648 Empty containers/ trailers
139 Live animals	19,540.79 Metric tons of scrap iron
346,926.43.43 Metric tons of bulk cargo including sand, cement, marble chippings;	
78,796,600 metric tons of cereals, feedstuffs, etc.	

This section experienced an increase of 20% in the amount of vessels discharging and loading cargo. A marked increase of 18 % was also noted in the amount of second hand vehicles imported. Officers at this station monitor ships` manifests with regards to status and non-EU containers are sealed upon landing. This section is also responsible to supervise bulk imports of cement, animal feed and marble chippings. Silo landings are also the responsibility of this section.

Parcel Post Office

Compared with last year this section experienced a drastic reduction in revenue, however, the amount of declarations processed (3,149) shows an increase of 8%. Lm17,678 duty was collected, a decrease of 27% over previous year. Lm134,377 VAT was collected; this also shows a reduction of 48% over the previous year. This can be attributed to the fact that most goods are brought into Malta from another EU member state and also that Malta was not yet an EU member during the first four months of 2004. Furthermore, importation by postal services is continually on the decline and a good part of packets imported count for personal purchases made over the Internet. Random scanning of parcels for illicit and/or illegal goods continued to take place.

In collaboration with Port Health Services and Maltapost, a new system was introduced to expedite clearance of medicinals that need the approval of Port Health services. So far this system has proved to be of great benefit for individuals who make use of parcel post to purchase their medical requirements.

Courier Office

During 2005 Lm79,720 duty, Lm872,377 VAT and Lm8,385 additional amounts pending classification and possible fine were collected.

This section handled over 21,000 bags, an increase of 26% over last year. This shows that this means of importation is getting more popular. Regular X-ray scanning is carried out especially on bags declared as

documents. A total of 5,628 cartons and 4,258 bags were scanned. This section also handled over 600 consignments transhipped through this section.

Weighers Section

During the year under review, weighing fees collected amounted to Lm1,111. Compared to last year, this shows a decrease in revenue. This can be attributed to decrease in imports of goods which are subject to duty according to weight of goods.

EXCISE AND SYSTEM CONTROLS

Computer Section

The section administers the Customs Declaration Processing System, the Tariff Quota and Surveillance Applications and any other electronic system that interconnects with central EU or member states' systems, the implementation of the TARIC database requirements, preparation for the extensive future developments foreseen in the modernised Custom Code and the Multi Annual Strategic Plan published by DG TAXUD, dissemination of information to interested parties, and delivery of training as and when needed.

In order to carry out their duties the team members have had to gain expertise on legislative, business and technical issues. This necessitated, in 2005, frequent attendance at various training courses, meetings and seminars both in Malta and abroad.

Following specific training all members are now conversant with the Unified Modelling Language (UML) which is used for all new EU programs. Two team members obtained the NCC International Advanced Diploma.

The section also represents the Department on the Automated Import System Working Group, which has been set up by the Commission to design the business processes of the forthcoming system. From 2005 traders importing excise products from EU member states were obliged to submit a declaration using the Import System. Changes to the system reference data and tariff were needed to accommodate this process.

The Export and the Risk Analysis for manifest were extensively tested in conjunction with other sections as part of the implementation procedure. The Deferred payment system of Accounting was introduced at the beginning of the year, after workarounds were set up for some existing problems. A new version of the MCC transit application was implemented following full conformance testing together with the members of the National Transit Office, and with assistance from MITTS Ltd.

Quota and Surveillance Office

The section was set up as a separate unit in June 2005 after it was split off from the Computer Section. It is responsible for administering applications for preferential duties under the EU Tariff Quota system via the TQS application, and for sending, on a regular basis, surveillance information to the EU's central services. It also administers the warehousing application, and provides first-line helpdesk services to users of the Customs Import and manifest systems.

Members of the team attended Commission 'Economic Tariff Questions Group' meetings which are held regularly in Brussels on Quotas, Surveillances and Suspension of Duties.

Excise – Local Production and Services

This section is responsible for the collection of Excise Duty on alcoholic and tobacco products made locally, or imported by local manufacturers, as well as Excise Duty on mobile telephony. The Duty Free shops at the airport and at the seaport both also come under their remit. It is also responsible for the

registration and control of other Excise traders who are not also warehouse keepers. Tobacco Excise Tax banderols for both local producers and for importers are issued by, and controlled from this office.

Tax Warehouses Monitoring Unit

The Tax Warehouses Monitoring Unit supervises 22 Traders who are established within Barriera Tax Warehouse, plus another 25 Traders who have Private Tax Warehouses.

During January and February a stock taking exercise was carried out at Barriera Bonded Stores so that they could be handed over to the new owners, namely Barriera Tax Warehouses Co. Ltd. This was eventually finalised on the 14 February 2005, on which day Customs Personnel moved to their new office at Customs House.

The new paper-based controls and post clearance audit procedures that are required by EU tax warehouse Regulations were introduced while physical controls were carried out where necessary. Those Tax Warehouse Keepers who had never submitted a monthly report or who were late in sending them to Customs were contacted and the opening balances of each and every Tax Warehouse were tallied.

One of the unit's main duties consists of thoroughly checking the monthly statements against relative AAD's and the relative payments. This audit procedure is performed through the Customs Electronic System and by visiting the Tax Warehouse offices. It is envisaged that by the end of February 2006 it will be ensured that all Tax Warehouse Keepers are fully compliant with existing regulations.

In the very near future the stock situation in all the warehouses and all inward and outward movements and transactions will be recorded in real time. These initiatives are aimed at producing, in as far as is possible, a water-tight control system of control without overly affecting trade flow.

Excise Liaison Officer

The liaison officer is responsible for the upkeep of the SEED database of European excise traders, mutual assistance with other Member States in connection with the tracking and tracing of intra-community movement of Excise goods via the exchange of information over the Movement Verification System (MVS) and the Early Warning System (EWS); both systems have now been made electronic. He is also the implementation officer for the new Excise Movement Computerisation System and in 2005 he attended a number of meetings in Brussels of the Excise Computerisation Working Party, working on the design of the EMCS.

Excise – Fuel Section

Following is a table indicating the amount of various types of fuel imported during 2005:

<i>Product</i>	Imports		Exports
	<i>Vol (Ltrs.)</i>	<i>WGHT (M/T)</i>	<i>WGHT (M/T)</i>
Benzine 'P'	0	0	0
Benzine 'U/L'	92,372,933	68,027.957	0
Kerozene	3,699,194	2,462.401	0
Gas Oil	476,329,687	433,371.195	101,816.144
Avgas 100	179,852	128.307	0
Jet A1	79,468,702	64,160.432	1,816.480
Fuel Oil	0	1,583,472.570	21,990.297
L.C.O.	0	15,624.698	0
L.P.G.	0	18,598.121	0

Total duty collected on all fuels shows an increase of 8% over the previous year bringing the amount to Lm27,106,942. There was also a considerable increase of 42% in bunkering tax collected over the previous year bringing the amount to Lm205,999.

IT Centre

The IT section is responsible for the upkeep and upgrading of the ICT infrastructure at Customs. They are on call seven days a week. In 2005 three new Local Area Networks (LANs) were set up, while others were connected via fibre-optic cable to the government network. Relocation of several Customs offices, such as the Front Office, the Accounts Section and the Parcel Post Office led to the redesign and modification of the relative networks. The section gave its contribution to the migration of the Customs network to the new MAGNET II.

During 2005 several new computers were installed at various sites and other equipment had to be moved between sections according to specific needs. Software installation, repairs and upgrades were carried out in-house wherever possible.

During the course of the year the Malta Customs website www.maltacustoms.gov.mt was kept updated. On various occasions this involved the introduction of new sections to enhance the site so that a better service could be provided.

The section provides support services and development work to the Department. Staff members attended several seminars and courses to keep in tune with the latest technological changes.

Transit and Free Zones/Free Warehouses Section

Transit and Free Zones/Free Warehouses are new areas of customs operation. Prior to accession to the Community the concept of transit, whereby goods travel across the Community under cover of guarantees until they are placed under a customs procedure at the country of destination, did not have any relevance. Likewise, where the importation and exportation of goods were concerned, free zones and free warehouses were as much third country territories for Malta as the rest of the Community.

With accession to the Community, Malta has become part of the customs territory of the Community and so Transit and Free Zones/Warehouses had to be set up in line with the Community Customs Code and Implementing Provisions. A lot of groundwork had to be done in a relatively short period, at the same time that changes were taking place to existing legislation and procedures within the Community regarding both sectors, particularly the transit sector where major targets for the computerisation of the sector were being set.

Transit

The transit regime provides for the tracking of cargo movements through the Community until the goods are placed on a customs procedure at the office of destination and the guarantee is cleared. The computerised version of the transit procedure (MCC) is a Community/EFTA online application with computer terminals at border customs offices and central monitoring in Brussels.

The transit section of Malta Customs monitors movements of transit goods through Malta using MCC. The transit section provides feedback to the Commission and the Central Project Team (NCTS) in Brussels about the state of play of transit in Malta. It validates data required by the Commission from each member state for the purpose of analysing and developing the transit system. It participates in regular transit meetings held in Brussels with the Commission and other national administrations.

Apart from the Community/Common transit procedures, use is made within the European Community of other transit procedures, most notably TIR (*Transport Internationaux Routiers*).

Free Zones/Free Warehouses

The Free Zones Section supervises the application of rules on free zones and free warehouses.

Besides the basic activity of storage, goods held in a free zone or free warehouse may undergo certain forms of handling without having their essential character and value altered for the purposes of customs duties.

The Free Zones Section exercises control over the stock records of goods kept within the free zone and free warehouses at Malta Freeport. It ensures that the conditions under which the free zone and free warehouse operators have been authorised to carry on their business are adhered to. This is achieved through periodical inspections and meetings with the free zone manager as well as individual operators.

Warehousing Unit

During 2005, a total of Lm1,158,443 duty and Lm1,757,811 VAT were collected on goods released for free circulation from warehouses, either for local consumption/use or for onward supply to other EU member states.

At present, an exercise is being carried out where all private warehouses which were authorised under the Customs Ordinance are being requested to submit a fresh application so that the authorisation is re-issued according to the Customs Code. This is also necessary in view of the upcoming operating of the Warehousing Module of the CES. A total of five new warehouses were approved during 2005.

Newport Bonded Stores

During 2005, 19 consignments were received for safe custody whilst seven consignments were released.

During the year, 28 lots were sold in two auction sales. Total income from these sales amounted to Lm12,400. Other merchandise is being selected for inclusion in the next Auction Sale.

ENFORCEMENT

Customs Baggage Room

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

Grand Harbour

During the year, 4,846 vessels, 2,261 of which from non-EU countries, arrived in Malta and 4,821 were cleared outwards. These figures include Arrivals/Departures at Marsamxetto, Marsaxlokk and Mġarr harbours. Rummages on arriving vessels amounted to 49. Passenger arrivals totalled 78,037 whilst departures amounted to 74,740.

Airport

A total of 2,560 aircraft, from non-EU countries, landed in Malta. Import Duty, Excise Duty and VAT amounted to Lm14,781, Lm1,303 and Lm41,834 respectively. The sum of Lm2,351 was collected as fines on dutiable goods undeclared by passengers passing through the Green Channel. Freight landed amounted to 5,961,895 kilos whilst 7,918,036 kilos were exported.

Yacht Marina

A total of 2,228 yachts, 216 of which from non-EU countries, arrived at the Msida and Gozo Marinas and Grand Harbour with departures amounting to 2,247. Duty collected amounted to Lm474 and VAT Lm7,671.

Prohibitions and Restrictions

Total duty collected amounted to Lm20,896 whilst VAT amounted to Lm110,514. The sum of Lm5,362 was collected as fines in terms of the Customs Ordinance. A total of 107,433 DVD's were submitted for censorship, 1,782 of which were viewed. 439 were withheld, 171 of which were appealed and 58 were released by the Printed Matters Appeals Board.

Non-Proliferation Unit

This unit carried out 92 enforcement activities, 84 of which were carried out on goods transhipped through the Malta Freeport. All cargo checked resulted compliant with local laws and regulations.

Enforcement Unit

72 temporary importations of vehicles were issued. A total of 32 vehicles were surrendered to Customs.

Two Auction Sales were organised by the section – one for seized vehicles which yielded Lm11,267 and the other for seized jewellery which yielded Lm17,163. Regular inspections for excise goods were carried out at various business outlets. These resulted in the confiscation of 6,726 bottles of spirits and 2,961 cartons by 200 cigarettes. Other items seized by the section were costume jewellery, live birds, wine, small arms, jewellery and bird skins.

Officers from the Enforcement were instrumental in collecting Lm16,519 from Customs debts.

The section was very active in the detecting of counterfeit trade arriving in Malta as transit cargo. A total of 50 full load containers (34 being 20' and 16 of 40') were seized. The bulk of the merchandise was cigarettes with a total of just over 28 million. The other main items seized were car parts and footwear.

A number of drug related seizures were made by the Section. The drugs seized were: Heroin – 6.47 Kgs; Cocaine – 6.2 Kgs; Cannabis – 1.1 Kgs; Marijuana – 5 grms; Sinsimilla – 1.5 grms; XTC – 10,000 tablets.

Container Monitoring Unit

The year under review was a most successful one for this unit, based at the Malta Freeport, since it was instrumental for the largest number of containers containing counterfeit cargo to be retained by Customs. The number of containers for domestic market that were scanned amounted to 1,946 while those in transit amounted to 7,827. In all the number of containers seized amounted to 61.

Legal Office

Personnel attended 1,017 court sittings: 554 during Civil cases and 462 Criminal cases. During the year under review, 15 Criminal and seven Civil cases were decided by the Court with fines amounting to Lm8,528. A total of 42 Letter to Prosecute and 39 Seizure Notes were issued by the Section. A number of cases were settled against Section 63A and Section 63 with a total of Lm107,348 collected as fines (VAT involved).

Special Investigation Action Team (SIAT)

This section continued to offer assistance at Hal Far Complex while doing observation and surveillance duties at various localities. A total of 96 groupage containers/trailers were tallied by the section during the year under review at Hal Far. However, some trailers were also tallied at importers' premises. Between March/April owners of all vehicles parked at Hal Far Complex were asked to remove them.

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

Officers from these two units carried out various visits to Importers' premises and local Manufacturing Industries. Some were visited on more than one occasion. A total of 218 visits were conducted by the PCA while 27 were made by the EPEU. During this year the PCA collected a total of Lm950 in Duty, Lm1,795 VAT and Lm337 in fines. The EPEU was involved in Lm35,929 in Duty and Lm6,724 VAT.

Customs Intelligence Unit

The CIS continued to build on the 2004 achievements and is fast becoming a reference point to other sections of the Department. The section's main tasks are information gathering, analysing and disseminating. During this year the CIS issued 290 alerts (general, cargo and passenger) and selected 2429 containers for scanning by the VACIS. The section took an active part in three International Customs Operations namely *FAKE*, *ENEAS* and *CALIMERO*. Personnel from the section attended a number of courses/lectures locally and abroad. This year the section was represented in security meetings regarding the CHOGM.

ADMINISTRATION

A new Director for Administration was appointed on 26 April 2005 following the retirement of the former incumbent.

The Directorate took the initiative to initiate a process leading to the relocation of offices at Customs House, maintenance to the Customs House, renovation of the Annex Building, Mifsud Verandahs and Laboratory Wharf. The Customs Quay and part of the Customs House façade were also repaired.

Following a number of meetings an agreement was reached between MPO, Customs and the two main Trade Unions on the request of five ex-postal grade employees to be included again for releasing duties after an interruption of four months.

Due to the difficulties being encountered by Customs officials to park their vehicles after carrying out fieldwork, and following representations to the Valletta Local Council, the Park and Ride Committee was asked to consider the peculiar nature of Customs officials in its strategic plan for access to Valletta and Floriana.

A blueprint on how Customs will be undertaking the required changes for the introduction of the Euro was submitted to the Chairman of the Sub-Committee on Finance. The paper specified eight areas but laid particular importance on information systems, amendments to Customs legislation and the updating of forms.

The Department initiated an awareness campaign on the Bird Flu through the issue on a monthly basis of a departmental internal bulletin, in view of the possibility that it could be Customs officers who may be the first to come across infected birds at the airport or seaport. A contingency plan was devised in accordance with a government-wide initiative that foresees continuation of operations with a reduction of 25 per cent of the staff complement who may turn up sick, should the pandemic flu hit Malta. Protective clothing was purchased and disinfectant soap dispensers installed in all the Customs offices.

The Training Centre was upgraded with the purchase of additional equipment to make its training delivery more effective.

An exercise was undertaken to audit trail all the files at the Registry with the objective of reducing the 2,260 files held in offices. Two university graduates were recruited for two weeks to carry out the initial phase of the audit, and heads of sections were requested to adhere to the normal procedure of allocating files to the registry. By the end of the year, more than 1,200 files were traced and their movement recorded in the DocReg system.

An exercise to renew Customs Identity Cards was initiated following an absence of such an exercise for at least a decade. The complete process was carried out in-house.

FINANCE

All outstanding payments were settled to initiate 2006 with a clean sheet, thus gearing the Department well in advance for the introduction of the accrual accounting system in two years' time.

Customs' new obligations have led to the participation in a large number of meetings abroad with other member states.

Below-the-Line account 8556 was reduced to zero balance at the end of 2004. A new balance had to be allocated in order to cater for the necessary refunds of levy which were still being received. As levies were dismantled on 30 April 2004, the need for funds in this respect would eventually be phased out. For the purpose of still outstanding deposits covering Levy, Budget Office has voted Lm7,000.

A new agreement between the Government and Malta Freeport Terminal Limited was reached in July to settle all outstanding debts which accrue to each side.

In connection with other Customs clients, the Accounts Section continued in its attempts to collect debt accruing for services rendered by the Department

Capital expenditure in 2005 covered the following projects:

- The procurement of a sea craft – the vessel will serve to enable the Customs and Excise Officers to perform better and timelier interventions in harbour operations against illicit trading on yachts and fishing boats that often berth alongside harbour quays;
- The upgrading of the electrical supply at the Customs Annexe building.

A proposal from the Director General to locate all senior staff on the first floor was approved by the Management board. This involved the relocation of the Accounts Section to the former Front Office on the ground floor after being refurbished, and the partitioning of the vacated area into five offices. Both initiatives were undertaken during 2005, with the works in the new Management offices nearing completion by the end of the year.

Several area offices and warehouses were refurbished. With the need of new sections, several offices mainly at Customs House had to be refurbished.

Customs Debt Unit (CDU)

The Customs Debt Unit (CDU) was responsible for the monitoring and for the reporting of all duties concerned with the Traditional Own Resources (TOR) due to the European Commission. Besides, the CDU maintains records relating to guarantees required by the Department to cover duty, cheques and other transactions in CES.

The year 2005 was characterised by four audit visits: two from local government bodies namely the Internal Audit and Investigations Directorate (IAID) and the National Audit Office (NAO), one from the European Court of Auditors and another from the European Commission. All the visits were carried out to analyse, verify and confirm the transparency of the Customs Electronic System (CES) accounting system where it concerns the CDU.

The purpose of the visit of officers from the IAID was to analyse and confirm the transparency of the audit trail in the Customs CES accounting system.

The visit of two officials from the NAO during July 2005 was intended to cover a detailed overview of the Accounting module in the CES system, in preparation for the visit and joint audit participation with the delegation from the European Court of Audit.

Officials from the European Court of Auditors visited Customs from 26 to 30 September to inspect and audit revenue relating to the EU Traditional Own Resources (TOR) and the 'A' and 'B' accounts in the CES system. The CDU was directly involved in the inspection as the Audit team held investigations on the operations of the CES. A report for the visit was submitted to Customs for its evaluation, terms of reply, and follow-up action.

During October, officials from DG Taxud and DG Budget of the European Commission services visited Malta for a one-week audit visit as a follow-up to that undertaken in December 2004.

HUMAN RESOURCES SECTION

The Human Resources Section provided support to the Budget Office, senior management, Section Heads and to employees in general. The staff complement at the end of 2005 was 553.

Staff Turnover: During 2005, there was an overall staff turnover of 31 officers. Four officers were transferred to Customs while nine Customs employees were transferred to other departments. Sixteen staff members retired, eight employees were medically boarded out, and two officers resigned from Government Service.

Staff on reduced hours: Twenty employees were working on a reduced-hours timetable, while four employees availed themselves of thirteen weeks paid maternity leave. At the end of 2005, there were 15 employees who were on unpaid leave.

Training Unit

Internal Training Courses: During 2005, the Training Unit organised a total of 63 courses of which 61 were delivered to Customs staff and two to the private sector from which a total of 1,543 participants, included 19 traders, shipping agents and stevedores (*burdnara*) benefited, giving an overall total of 6,920 man/hours. Forty percent of this training was specialised whilst the remaining was in basic training (29%), briefings (22%) and seminars (9%). Staff and traders' percentage of attendances was 83% and 100% respectively.

External Training Courses: Seven additional courses were organised by other training organisations in collaboration with the Training Unit and held at an external location: four US-sponsored courses intended to four groups of selected Customs staff; one workshop sponsored by the Technical Assistance Information Exchange Unit (TAIEX); one course sponsored by the Department held at Malta Red Cross to a group of applicants; one course sponsored by the Department to a group of selected Enforcement staff held at their premises. These were attended by 113 members of the staff and amounted to a further 2,180 man/hours.

Moreover, 86 Customs Personnel attended a total of 164 SDO courses, giving an average of two courses per participant.

Health and Safety Unit

The Customs Health and Safety Officer was accepted as a Member of the Institute of Safety and Health of the United Kingdom (MIOSH). He maintained his high level of awareness by participating in a number of activities held locally, including those held by Malta Standards Authority, Occupational Health and Safety Authority and other institutions on various topics. He also attended a conference organised by the Infection Control Unit of St Luke's Hospital re the Pandemic Influenza. Meetings were held with the Principal Medical officer at the Disease Surveillance Unit in preparation for a possible outbreak of the Bird Flu Pandemic. This high profile by the Health and Safety Officer is essential in view of the many outposts that Customs has around the island and to the peculiar working environment of Customs staff who operate close to the movement of merchandise.

Eight risk assessments were carried out. These covered both work places and work practices.

A Radiation Protection Course was organised in-house for personnel who act as Radiation Protection Supervisors on the VACIS scanner and X-Ray equipment. This was carried out by officials from the Radiation Protection Board of the Occupational Health and Safety Authority.

Following an internal call for applications, the Department nominated eight Health and Safety representatives. These were given a comprehensive Health and Safety induction course which was carried out by the Occupational Health and Safety Authority. The first *ad hoc* meeting for the Health and Safety representatives was held in November 2005.

Procurement Section & Stores

With effect from 2005, a thorough process was put in place to secure value for money in the procurement of supplies.

INTERNATIONAL AFFAIRS

Foreign Travel

Members of the Customs Department made 177 foreign trips during 2005. These involved 73 persons and were mostly EU-related.

Business Change Management Plan/Transition Facility/Malta IV (Eurocustoms)

The execution of the Malta III contract by Eurocustoms was successfully concluded during 2005. In September work started with Eurocustoms and Department of Contracts re: execution of the follow-up contract (Malta IV). The first visit under the contract took place in December.

JOHN MIFSUD

Director General (Customs)

Value Added Tax Department

AIM

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

VAT LEGISLATION

During 2005, the following legal notices were published under the VAT Act 1998:

Amending Legal Notice 219
Act XIII – Amending various articles of the VAT Act.

REVENUE AND EXPENDITURE

Compliance Rate

VAT returns continued to be issued regularly each month. The following table shows the returns issued and received during 2005. The overall compliance rate as on due date, expressed as the percentage of returns received over the number of returns issued, was 81.87%, increasing to 89.36% by end year.

	<i>Returns Issued</i>	<i>Returns Received as on Due Date</i>	<i>Compliance Rate as on Due Date</i>	<i>Returns Received up to End of Year</i>	<i>Compliance Rate as at End of Year</i>
Total	107,248	87,801	81.87 %	95,840	89.36 %

Revenue

During 2005, gross revenue collected under the VAT Act 1998, the CET Act 1997 and the VAT Act 1994 was Lm197,473,507 compared to Lm164,615,488 in the previous year. Refund of excess credit paid out of revenue amounted to Lm29,277,574 resulting in a net revenue of Lm168,195,933 compared to Lm141,720,689 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	196,632,173	221,894	619,440	197,473,507
Less Refunds	28,528,411	209,072	540,091	29,277,574
Total Net	168,103,762	12,822	79,349	168,195,933

Refund to Taxpayers of CET on Stocks 1998

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

Outstanding Credits and Debits

As at end 2005, the Department had a net debit balance, after deducting outstanding taxpayers' credit, of Lm85,985,974. The amount of Lm79,247,215 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 Lm6,738,758 in the form of taxpayers' credit, as shown below:

	VAT Act 1998 (Lm)	CET Act 1997 (Lm)	VAT Act 1994 (Lm)	Total (Lm)
Net Debit Balance	91,940,286	3,430,179	10,409,094	105,779,559
Outstanding credits	19,544,703	48,621	200,261	19,793,585
Net Balance	72,395,583	3,381,558	10,208,833	85,985,974
Less Estimated Assessments	50,426,212	526,685	1,389,316	52,342,213
Less Interests	16,202,186	2,292,962	8,409,854	26,905,002
Realistic Net Balance	5,767,185	561,911	409,663	6,738,759
Accounts with a balance as at 31.12.05	17,617	3,447	5,387	26,451
Accounts with a balance as at 31.12.04	16,939	4,020	5,844	26,803

ENFORCEMENT

Inspections

During the year, 13,019 field inspections were carried out, consisting of 12,989 spot-check inspections and 40 surveillance visits. As a result, 466 cases were referred for Court action (vide table below):

Number of Inspections					
	Spot-Checks	Surveillance Visits	Total	Court Action	Hit-Rate
Total	12,989	40	13,029	466	3.59 %

Throughout the same year, the majority of Inspectors were assigned work connected with administrative tax enforcement and review of tax assessments. Eleven 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, 294 cases involving failure to issue fiscal receipts were brought before the Court, of which 190 were decided. Of these, 152 cases were together fined a total of Lm24,100, whilst 38 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 2005, 398 taxpayers availed themselves of this option, paying a total of Lm31,000 in fines.

Another 1,392 appointed cases involved failure to submit tax returns. As a result, 250 cases were together fined Lm302,833 whilst 1,198 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	
Total	294	152	24,100	38	1,392	250	302,833	1,198

Manual Fiscal Receipt Booklets

The number of fiscal receipt booklets distributed during 2005 was 79,750, an increase of 0.51% over 2004:

Printed Booklets	80,604
Distributed Booklets	79,750
Returned Booklets	51,964

Fiscal Receipts Lottery

The Fiscal Receipts Lottery continued to be run by the Public Lotteries Department. During 2005 an amount of Lm312,423 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 38. A total of 81 cases were concluded, resulting in Lm419,547 of under-declared tax. The number of cases pending investigation as at the end of 2005 was 116.

Validation of VAT Returns/Review of VAT Refund claims

VAT returns are regularly validated for erroneous tax declarations. During 2005, 63 cases were verified resulting in 45 final assessments amounting to Lm54,935. VAT credit claims are also regularly monitored. The number of claims reviewed during 2005 was 710, of which 289 claims were deduced, amounting to Lm802,704.

Type	Cases Assigned	Cases Concluded	Final Assessments	
			No	Lm
Validation	49	63	45	54,935
Correction	618	483	268	620,053
Credit Control	680	710	289	802,704
Investigations	201	199	145	1,818,631
Total	1,548	1,455	747	3,296,323

Objections

During 2005, a total of 945 objection letters were dealt with completely. The number of objection letters received by the Department during the same year was 641. As a result, the number of outstanding objections as at the end of the year was 81.

Appeals Boards

During 2005 the number of new appeals lodged with the VAT and CET Appeals Boards was 130. The Boards decided a total of 330 cases compared to 420 in the previous year.

COLLECTION OF TAX ARREARS

Civil Procedures

A total of 153 cases were settled through Civil Court action, resulting in the collection of Lm2,993,411 of tax in arrears, as shown in the following table:

	Demand Notices	Judicial Letters	Garnishee Orders/ Warrants of Seizure	Civil Cases Settled	Tax Collected
Total	2,149	146	66	153	Lm 2,993,411

TAXPAYERS' REGISTRY

Registration and De-registration

During the year, 4,431 taxpayers were registered with the Department, bringing the total number of registered persons to 77,788. The number of outstanding applications as at the end of the year was nil. 3,856 new applications were received for de-registration. A total of 2,777 applications were processed completely.

Maintenance of Taxpayers' Details

During the same year, a total of 4,824 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. An ongoing survey was launched in May 2005. Customers were asked to reply whether or not they are satisfied with the service given. Out of 633 replies, 599 replied in the affirmative which is 94.6% of the total questionnaires replied. The Department is also analysing comments made by customers in order to improve the service.

e-Government

In September 2005 the VAT Department adopted the electronic identification system for online services as part of e-Government project.

Updating of Internet Website

Throughout 2005, the VAT Department has continually updated the Department's website at 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.

Setting up of a Legal Committee

During 2005, the VAT Department set up a legal committee to discuss the various changes proposed by the European Commission and the EU Council to the VAT 6th 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 chaired 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.

Scheme for Waiving Off of Penalties

As part of the measures announced in the Budget Speech for 2005, the VAT Department has launched a scheme for those taxpayers who fell behind in the payment of VAT arrears.

Under the conditions of the scheme, a taxpayer who paid the VAT and interest due by 31 June 2005 had his penalties waived off, provided that the balance due to the Department was equal or in excess of the penalties incurred. Such scheme was extended to 30 September 2005. The Ministry of Finance has also made arrangements with the local banks to assist taxpayers in providing a financial facility at a rate which is more advantageous than the interest imposed by the Department.

The number of persons who benefited from the scheme was 3,127 and this involved 9,248 transactions. The amount collected through such scheme was Lm3,235,282.

ECO Contribution

From September 2004 the VAT Department became the competent authority for the administration and collection of ECO Contribution. During 2005 the amount collected from this contribution was Lm4,449,353. During the year various meetings were also held with businesses, in conjunction with the Office of the Parliamentary Secretary for Small Business and the Self Employed. During these meetings, VAT Department officials explained to traders the correct application of ECO Contribution.

Meeting re Market Surveillance

During 2005, 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.

Seminar on Carousel and Missing Trader Fraud

In April 2005, the VAT Department together with HM Revenue and Customs of the UK organised a two-day seminar on Carousel and Missing Trader VAT Fraud. In this seminar delegates from 25 member states, as well as from OLAF and the European Commission, discussed ways how to tackle and improve the fight against VAT fraud especially that concerning missing traders.

UK – Malta Twinning Project

In November 2005, the Parliamentary Secretary in the Ministry of Finance launched the UK-Malta Twinning Project. This project provides assistance by the UK Revenue and Customs to the Maltese VAT administration and the Tax Compliance Unit, 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. For this purpose, a Resident Twinning Advisor has been attached to the VAT Department for 15 months. This project, which costs around Euro 400,000, is financed through the EU Transition Facility Programme.

JOSEPH SAMMUT
Director General VAT

Tax Compliance Unit

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;
- continuing with the implementation of the Advance Tax Agreements Scheme;
- improving the expertise and technical knowledge of the TCU professional staff through continuous education programmes.

ADMINISTRATION

Finance & Budgetary Control

During 2005, the TCU's expenditure was kept within its pre-established budgetary limits and incurred in accordance with the Financial Administration and Audit Act.

HUMAN RESOURCES DEVELOPMENT

In 2005, the Tax Compliance Unit maintained the same staff complement as at end 2004.

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 for two of the staff on IT duties on Information Security Management Principles organised by MITTS Ltd and QinetiQ;
- a three-day seminar on Missing Trader VAT fraud with the participation of the UK Revenue Authority (six members of staff participated);
- Capital Gains & transfer duty Seminar (Malta Institute of Taxation);
- Euro-tax Seminar (Malta Institute of Taxation).

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

Business Objects Query Tool Software – Standard Reports

Further enhancements to the data analysis software (Business Objects programme) were developed to generate additional analytical reports on taxpayers and business sectors:

- Following the integration of the amended VAT system, CES, Intrastat and VIES within the data warehouse, all major reports have been updated in order to include data forthcoming from such data sources.
- All new/updated reports have been integrated within the Audit Trail and User Rights systems to protect the TCU data bank from unauthorised access.

Business Objects Software Migration to new Microsoft Platform

During 2005, a testing plan was initiated whereby the Data Warehouse and Business Objects installations were replicated on a Microsoft platform in order to evaluate the performance and reliability of such a platform. Plans are underway to migrate the actual data warehouse onto the new platform.

Concurrently, the Business Objects version will be upgraded from v5.4 to XI. This upgrade has been further necessitated by the fact that the technical support to the former version will cease as from 2006. This migration is planned to be finalised by mid 2006.

Use of TCU information by other departments

Throughout 2005 a total of 3,291 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, on specific taxpayers. The number of reports furnished to the departments during 2005 show an increase of 850 (35%) over 2004, an indication that the efforts of the TCU to raise awareness amongst the departments involved in enforcement against tax evasion or benefits fraud is bearing fruit.

In fact, apart from the VAT and IRD, a liaison channel was established in 2005 with the new Benefit Fraud Directorate of the Ministry for the Family and Social Solidarity and the ETC for these two entities to make requests for information on a regular basis.

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

<i>TCU Reports for other Government Departments/Entités</i>						
	IRD	VAT	DSS	ETC	MFIN	Total
January	49	114	-	-	2	165
February	29	119	-	-	-	148
March	66	8	-	-	-	74
April	36	284	1	101	-	422
May	24	5	-	-	-	29
June	25	207	-	-	-	232
July	16	4	732	-	-	752
August	11	3	2	-	-	16
September	11	9	-	-	-	20
October	9	19	1	-	-	29
November	30	2	1,123	245	-	1,400
December	6	-	-	-	-	6
Total	312	774	1,859	346	2	3,293

COMPLIANCE TESTING TEAM

Towards the last quarter of 2005, a Compliance Team was set up in order to compile a series of sectoral and categorical tax compliance reports on taxpayers based on information available within the data warehouse as well as on information available within other governmental entities and/or third parties, depending on the case. The objective of this initiative is to promote tax compliance, by inducing TPs to be more factual in their declarations considering that data about their specific activities and/or wealth is being collated. Such reports will be referred to the Inland Revenue and VAT Departments for action as necessary.

OPERATIONS

Tax Investigations

During 2005, a total of 61 tax investigation cases were concluded – an increase of 16 cases over 2004. These audit cases resulted in:

Assessed income tax: Lm1,623,299 - an increase of 33% over 2004
 Assessed VAT: Lm1,294,123 - an increase of 297% over 2004
 Total Assessed Tax: Lm2,917,442 - an increase of 89% over 2004

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

Advance Tax Agreements Scheme

The Unit continued with the implementation of the Advance Tax Agreements Scheme announced in the Budget speech for 2002. During 2005, the following tax agreements were concluded:

Agreements reached under VAT Act	
Agreements concluded	77
3-year VAT liability agreed	Lm403,761

Agreements reached under Income Tax Act	
Agreements concluded	92
3-year Income Tax liability agreed	Lm517,502
3-year Social Security Contributions	Lm220,164

Total number of Agreements: 169
 Total tax liability and SSC over 3 years agreed to: Lm1,141,428

Tax Assessments Cost

The total cost per Lm1 of assessed tax during 2005 works out as follows:

TCU personal emoluments cost 2005: Lm 397,153
 TCU Operations & Maintenance cost 2005: Lm 93,934
Total operational cost: Lm 491,087

Tax assessed resulting from 2005 tax audits:

VAT assessed: Lm 1,294,123
 Income Tax assessed: Lm 1,623,299
 3-year tax agreements (tax for 3 years): Lm 1,141,428
Total tax audits & tax agreements: Lm 4,058,850

Total cost of assessed/agreed tax liability: Lm0.121 per Lm1 of assessed/agreed tax.

PAUL J BARBARA

Director General (Tax Compliance Unit)

EU Paying Authority Directorate

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 regards 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 2005

Pre-Accession and Transition Facility Funding

The Director EU Paying Authority is also vested with the responsibility of NAO which is a function directly delegated by the Minister of Finance. The NAO is recognised as the leader in the implementation process of the programmes regulated by EC Regulation 555/2000.

During 2005, 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. To ensure sound financial management, proper accountability and transparency in the Pre-accession and Transition Facility funding, the Directorate, together with the co-operation of the horizontal, as well as

vertical stakeholders involved in the project implementation process, updated the detailed Manual of Procedures and checklists. The Manual provided the necessary tool to guide all users to the best practice possible across all government entities dealing with project implementation.

The NAO was also involved *inter alia* in the following:

- chaired meetings with the participation of all the horizontal stakeholders, including the National Aid Co-ordinator, the Contracts and Treasury Departments and the Internal Audit & Investigations Directorate 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 Sectoral Monitoring Sub Committees together with the National Aid Co-ordinator (NAC) and 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 Joint Monitoring Committee meeting held between the European 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 one on the carrying out of on-the-spot checks, another on Budget Estimates for each Project, and another on the End of the Commitment 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.

The total amount of funds received from the EU Commission during 2005 to finance projects of the Programmes still open amounted to €6,536,756. Following authorisation of payments according to expenditure effected at project level, €2,608,978 were actually transferred to Government Revenue. Detailed information is included in the following table:

Pre-Accession and Transition Facility Funds 2005		
Programme	Funds received from EC	Funds transferred to Government Revenue
	€	Lm
NP 2000	-46,676.21	33,107.95
NP 2001	87,582.43	130,129.44
NP 2002	1,618,174.40	1,489,458.36
NP 2003	2,471,000.00	562,300.72
TF 2004	2,360,000.00	393,982.30
TF 2005	0	0

Structural and Cohesion Funds

The Directorate also had the role of Paying Authority (PA) for Structural and Cohesion Funds and during 2005 honoured Malta's commitments and obligations and fulfilled its functions and tasks emanating from EC Regulations 1260/1999 and 438/2001.

During 2005, the Directorate experienced a heavy load of work since it had to start coping 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 the first certifications of expenditure to the Commission 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.

During the year the Directorate had three EU Commission Audit visits related to Cohesion Fund, European Social Fund (ESF) and European Regional Development Fund (ERDF). Their findings reflect positively on the way the Paying Authority functions and executes its tasks.

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 OPM.

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 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 interim Evaluation of the implementation of Projects under the Structural and Cohesion Funds for the period 2004 to 2006, comments on the Implementing Provisions for the Structural and Cohesion Funds for the period 2007 to 2013, the treatment of advance payments under the various funds and also completed and submitted to the EU Commission a Central Harmonisation Unit questionnaire on the financial management of EU Funds.

The table below indicates the aggregated amounts of Structural and Cohesion Funds per fund received from the EU 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 by the Commission was €1,520,386 was transferred to Government Revenue.

Structural and Cohesion Funds during 2005				
Fund	Funds Received from EU Commission during 2005	Expenditure Certified by the Directorate	Funds Reimbursed by the Commission after Certification	Equivalent amount in Lm of column 3 transferred to Govt. Revenue
	€	€	€	Lm
ERDF	3,475,061.86	673,261.71	673,203.52 ⁽¹⁾	288,756.12
ESF	1,401,809.33	834,359.33	834,359.33	357,642.11
EAGGF	252,000.00	136,675.59	0 ⁽²⁾	0
FIFG	170,250.00	0	0	0
Equal	85,863.91	11,394.13	11,394.13	4,885.80
Interreg	1,329.37	- ⁽³⁾	1,329.37	570.70
Cohesion	0	0	0	0

¹ Discrepancy between Certification and Funds reimbursed due to co-financing rate used for measure

² Certification done in December and therefore reimbursement in 2006

³ Certification effected by foreign lead Paying Authority.

Lump-sum Budgetary Compensation

The EU Paying Authority Directorate was also responsible for managing the Lump-Sum budgetary compensation which the EU pays to Malta as part of the EU accession negotiations - a monthly sum of €8,601,072, totalling to €103,212,864 (Lm44,341,966⁵⁹) which was transferred to Government Revenue in 2005.

Own Resources

The EU Paying Authority Directorate also managed the Bank Account relating to EU Own Resources. During 2005 close relations were maintained with the relevant services in DG Budget of the European 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, the National Statistics Office (NSO) for the GNI-based workings and the Special Projects Division (MFIN). 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 Table below indicates the payments of Own Resources effected by the Directorate in favour of the Commission during 2005.

Own Resources during 2005				
	Own Resources (Lm)	Traditional Own Resources (Lm)	Total	Notes
January	4,310,038.69	407,901.75	4,717,940.44	TOR paid wrt Nov 04
February	1,207,548.20	447,604.50	1,685,152.70	TOR paid wrt Nov 04
March	1,298,255.74	388,198.00	1,686,453.74	TOR paid wrt Jan 05
April	973,691.81	384,499.00	1,358,190.81	TOR paid wrt Feb 05
May	1,298,255.74	442,008.75	1,740,264.49	TOR paid wrt Mar 05
June	1,298,255.74	415,770.75	1,714,026.49	TOR paid wrt Apr 05
July	1,298,255.74	440,427.00	1,738,682.74	TOR paid wrt May 05
August	1,319,254.07	544,799.25	1,864,053.32	TOR paid wrt June 05
September	1,622,124.43	380,212.50	2,002,336.93	TOR paid wrt July 05
October	172,027.26	392,602.50	564,629.76	TOR paid wrt Aug 05
November	1,477,237.32	413,778.00	1,891,015.32	TOR paid wrt Sep 05
December	1,477,237.32	459,051.75	1,936,289.07	TOR paid wrt Oct 05
	-567,691.29	-	-567,691.29	Adjustment
Total	17,184,490.77	5,116,853.75	22,331,344.52	

European Economic Area (EEA)

During 2005, the Directorate was involved in the drafting of the Memorandum of Understanding regulating the whole process for projects which are financed by the EEA, Norwegian and Swiss Financial Mechanisms. The first meeting was held with the Swiss Delegation to discuss the way forward on the financial management of the funds. The line taken in this regard will be to follow the system used for the EU Structural and Cohesion Funds. Information regarding the EEA Programmes will also be communicated to the EU Commission since the financing agreement does not only cover the bilateral agreement between Malta and the EEA countries but emanate from an agreement between the EU and the EEA.

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 total of travel funds claimed and transferred to Maltese revenue for participation in EU Council and Commission Meetings during the year in question, amounted to Lm378,010, approximately €880,534. This included Lm280,515.08 (€653,432) for Council Meetings and Lm97,494.89 (€227,102) for Commission Meetings.

Other Work

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

- the implementation process for the Euro changeover. The Director EU Paying Authority was appointed Deputy Chairman of the Public Finance Sectoral Committee, as a sub-committee of the National Euro Changeover Committee (NECC) structure. The Directorate participated in meetings of the Public Finance Sectoral Committee, the Public Sector Sectoral Committee and the NECC Executive committee and also in the National Euro Changeover Conference organised by NECC which launched the Master Plan for the Euro changeover. The Directorate formulated the Euro changeover impact on the operations of the EU Paying Authority.
- the setting up of the centralisation of the National co-ordination and representation of the Fiscalis Programme 2007 within the Ministry of Finance.

CLAUDE G CUSCHIERI
Director (EU Paying Authority)

EU Affairs Directorate

During 2005, the EU Affairs Directorate was responsible for:

- **Co-ordination of Council of the EU and EU Commission meetings** - involving the dissemination of meeting agendas, co-ordination of the attendance of officials at the meetings and the drawing up of Instruction Notes to be used by the Ministry officials and technical *attachés* participating in the meetings. Malta's position is drawn up in consultation with technical experts from both the public and the private sector.
- **Preparation of Memoranda for National Consultation** - co-ordinating the consultation process on proposals submitted by the Commission. Malta's position is drawn up in consultation with both internal and external entities. The Directorate was also responsible for presenting the proposals at the Inter-Ministerial Committee. Once approved by the Committee, the memoranda were then presented to the Cabinet for endorsement. The Directorate co-ordinated the transmission of the approved memoranda and the holding of meetings on very technical subjects with the Standing Committee on Foreign and European Affairs for discussion. During 2005, a total of 87 memoranda were prepared for presentation at the Inter-Ministerial Committee.
- **Preparation for the Economic and Financial Ministers meeting and other meetings** - preparing the briefing notes and speaking notes for the Prime Minister, Parliamentary Secretary and Maltese delegations participating in the ECOFIN and the European Council meetings. The briefing notes include not only Malta's position, but also that of other member states, thus enabling meeting participants to lobby effectively.

In order to facilitate informal lobbying, the Directorate started organising pre-ECOFIN briefing meetings, engaging all resident EU member state diplomats, which ensured that Malta's position on the various issues was known before the actual ECOFIN meeting. The Directorate was also in contact with Maltese embassies within the EU in order to obtain other member states' positions on particular agenda items of the ECOFIN meeting.

- **Transposition of EU *Acquis*** - monitoring the transposition of the EU regulations and directives into Maltese law. Its role included organising meetings with stakeholders in order to ensure a correct transposition of the *acquis*. The Directorate monitored legislation from its inception (as a proposal) to its adoption as Maltese legislation. This exercise has been facilitated via the creation of an EU Regulatory Monitoring Database that assists in keeping track with the legislation being proposed.
- **Questionnaires and other requests related to EU** - the co-ordination, compilation and clearance of questionnaires prepared by the European Commission and the Council of EU. It was also responsible for addressing EU-related requests from both public and private organisations, both in Malta and in the EU.

FRANCIS ATTARD

Director (Programme Implementation)