

Malta Budget 2017

The budget speech was delivered by Professor Edward Scicluna, Minister of Finance, on the 17th October 2017 with the title of 'Malta: Wealth to reach Everyone'. In fact, while many provisions were made to continue to work towards better investment, tourism capacity and tax incentives, the budget this year was seemingly focused on social measures in order to empower further every person living in Malta, no matter their background or income.

The economy, as predicted by the Minister, is set to continue growing at a rate of 3.5% and 5.8% in nominal terms. Inflation then is to remain at a moderate level of 1.5% in 2017. Employment rates shall continue to grow at a predicted level of 2.7% in 2017 while unemployment should remain at a low level of 5%.

Below is an overview of the most pivotal points included in the Budget as regards both the tax as well as the social sector.

Tax

Malta Stock Exchange: Currently tax at source on dividends paid by companies listed on the Malta Stock Exchange (MSE) is not refundable at individual shareholder level. However, with effect from 2017, shareholders who own not more than 0.5% of the nominal share capital and dividend rights of a company listed on the MSE shall be entitled to declare the respective dividends in their tax return and claim a refund from the tax suffered at source on profits generated on or after 1st January 2017.

Furthermore, within the course of 2017, a new fiscal incentive in the form of an annual tax credit capped at EUR 250,000 in terms of a Risk Investment Scheme shall be introduced. Such tax credit will be afforded to those persons who invest either in SMEs registered on an alternative trading platform on the Malta Stock Exchange (MSE), like the newly introduced 'Prospects', or in Collective Investment Schemes investing in such SMEs.

Finally, the Government shall introduce an exemption from capital gains tax on shares transferred to the public through a listing on the MSE, which is currently taxable at the rate of 15%. A similar exemption shall be introduced to gains on sales of shares listed on alternative trading platforms.

As per the Minister's announcement, the abovementioned measures are intended to complement various initiatives that shall be introduced in due course by the MSE.

Malta Enterprise schemes assisting business: Malta Enterprise, with the aim of providing assistance to businesses, shall introduce a number of schemes as per below:

- ✓ Financial assistance capped at EUR 25,000 per business to assist disadvantaged individuals set up a business;
- ✓ Tax credits in the amount of between 25% and 45% of the expenses incurred during a research project;
- ✓ Tax credits up to 30% of expenditure incurred by entrepreneurs investing in digital gaming with cultural themes;
- ✓ Tax credits in relation to expenditure incurred in renovating hotels and restaurants, capped at EUR 200,000 and EUR 50,000 respectively;
- ✓ Tax credits capped at EUR 10,000 for local restaurants when employing chefs with international experience on a temporary basis

Pensions: The Government, in order to encourage contributions from companies into private pension schemes in the name of their employees, will introduce a fiscal incentive whereby such contribution shall be considered to

be a tax deductible expense for the employer (or an association of employers, as the case may be). Additionally, the employer shall also be entitled to a further tax credit in the amount of EUR 150 for every EUR 1,000 contributed. Such contributed amount shall not be considered to be a taxable fringe benefit for the employee, who shall be further allowed a tax deduction of up to EUR 150 when investing in the same private pension scheme (depending on the total amount contributed).

Pensioners aged 61 years and over in receipt of pension income shall be exempt from tax on the first EUR 13,000 received per annum. This exemption shall be introduced over the course of the following two years and shall apply to foreign pensions as well.

Status	2017 exempted income	2018 exempted income
Single	EUR 10,500	EUR 13,000
Parent	EUR 11,500	EUR 13,000
Married	EUR 13,000	EUR 13,000

Furthermore, married couples in receipt of pension income shall benefit from an additional exemption in the amount of EUR 500 (in 2017) and EUR 1,000 (from 2018 onwards) per annum on their total income.

Employees' Transportation: Companies that provide free organised transport to their employees shall be entitled to a tax deduction in the amount of 150% of the incurred expenditure for the provision of such service, which shall be capped at EUR 35,000 for companies providing this service on their own and EUR 50,000 for companies offering this service in conjunction with another company.

Stamp Duty: The rate of stamp duty applicable to a qualifying transfer of a business by parents to their children shall be reduced from 5% to 1.5%.

The stamp duty exemption for first time buyers on the first EUR 150,000 paid shall be extended to acquisitions effected in 2017.

The rate of stamp duty on acquisitions of residential property in Gozo shall be reduced from 5% to 2% for the next year only. This is subject to the requirement that the respective promise of sale agreement is registered with the Inland Revenue Department by the end of 2017 and the contract is finalised by the end of 2018.

Restoration grants for first time buyers: First time buyers of immovable property situated within an Urban Conservation Area or specific qualifying properties shall be entitled to a grant of up to EUR 100,000 on incurred expenditure for the restoration of the said property.

Transfers of inherited property: Transfers of inherited property made by means of a judicial sale by auction shall be subject to a final tax at 7% on the transfer value if inherited prior to November 1992. If such property was inherited after that date, it shall be subject to provisional tax on the capital profit at 7%.

Registration of rental agreements: Subsequent to the favourable 15% tax regime on the rental of residential as well as commercial property, the new Budget introduces an anti-abuse measure pursuant to which all rental agreements with duration of 3 months or more shall be required to be registered with the Inland Revenue Department either by the lessor or the lessee. Should such registration not be effected, the lessor will be subject to statutory penalties.

Eco-contribution and excise duty: By the end of 2016, certain products such as plastic containers and kitchen utensils, batteries, oil and fuel filters etc. will no longer be subject to eco-contribution. Instead, excise duty will

either be introduced or increased on such products, as well as additional products such as toiletries, non-biodegradable bin bags and non-alcoholic drinks (excluding mineral water).

Tax Consolidations: The Minister has announced that there is the intention of introducing new measures favouring foreign investment in Malta. One such measure would be that groups of companies would be allowed to calculate their profits and losses as if they were one entity. Such consolidation, utterly respecting the principles of transparency and exchange of information, would corroborate Malta's robust tax framework.

Joint Enforcement Tax Force: In an attempt to combat unfair competition between companies as well as tax evasion, a Joint Enforcement Task Force is being set up to ensure co-ordination between the Inland Revenue Department, the VAT Department and the Customs Department. The Tax Compliance Unit shall also be a participant in this welcome initiative.

The Joint Enforcement Task Force shall be tasked inter alia with identifying unregistered employees, undeclared property rentals as well as unfair competition stemming from illegal importation of goods, also by means of more frequent spot checks.

Social

Cost of Living Adjustment (COLA): The cost of living adjustment has been calculated to EUR 1.75 weekly.

Assistance to Low-Income generating individuals: Families with low income shall continue to benefit from the 'In Work Benefit' (extended to families where only one of the parents is in employment). Other supplementary benefits to low income individuals and couples shall also be increased.

Pensions and Pensioners: The minimum pensions shall also be increased for the second year running. Married pensioners who receive the pension of age shall also receive an increase. Supplementary benefits shall also be given to individuals receiving minimum pension rates. Furthermore, a benefit of EUR 300 per annum is to continue to be given to every individual over 75 years of age living in his/her own home.

Individuals, who have paid social security contributions throughout their life, but not for enough years to qualify for a pension, shall continue to receive a bonus upon reaching pensionable age. This bonus has been increased again by EUR 50. An increase shall also be given to pensioners receiving a service pension based on their service in the forces.

A fund of EUR 8 million shall be inducted in 2017 to be able to deal with complaints regarding unpaid pensions throughout the past. Furthermore, the Carers Allowances and pension shall also be considerably increased.

The law shall also be amended to cater for Government Savings Bonds in which pensioners may invest their money and receive a higher level of interest than if the money is kept in commercial banks.

Aid to Persons with Disability: Aid to persons with disability shall continue to be increased.

Rent Benefits: Rent subsidies already being provided shall be doubled. A new pilot project with regards to rent is that for landlords leasing premises to families with low income to be able to pay a special tax rate of 5% on the rental income upon the conclusion of a 7 year lease agreement with that family.

Means Test Revision: The 'means' test shall be revised this year so that it more accurately reflects reality. This test must seek a balance, as the Minister specified, between reaching the vulnerable and avoiding abuse.

Education: Several governmental based schemes regarding education shall continue to be offered and improved. Furthermore funds shall be allocated for renovation and upgrading of the University of Malta and other educational facilities.

Energy and Sustainability: The new natural gas fuelled electricity plant is ready to operate while developments towards the introduction of the gas pipeline in conjunction with Sicily are to continue. There are also several schemes and grants for projects within the renewable energy sector especially when it comes to solar energy. The Government is always seeking new innovative and sustainable projects in this regard. With regards to agriculture, new provisions shall be drafted in order to facilitate the transfer of governmental agricultural land between farmers.

Tourism: A new quay is projected to be built in order to accommodate further cruise liners in the harbour simultaneously. Furthermore, incentives for business establishments to modernise and improve their local communities shall be introduced.

Property: Government owned temporary emphyteusis that have expired or are about to expire may be renewed with the same conditions except for an update in the ground rent rate. An extension of emphyteusis shall also apply to shops outside Valletta owned by the government and rented out. Several projects around Malta and Gozo shall continue to be developed. The Government shall provide for a scheme of funding with regards to restoration of historic buildings made by the owners.

Gozo: Apart from general assistance provided to Gozitans, additional funding for students studying in Malta and further incentives for employment in Gozo, there is currently an open call for proposals for a fast ferry service to operate between Malta and Gozo. There is the potential for a public call for the design, build and operation of a sub seabed tunnel connecting the two islands.

Investment: Several new projects are in the pipeline with regards to generating investment. The Maltese Development Bank is to start operating in 2017. An Export Credit Agency is also to be established. The Government has also confirmed that financial services remain in the forefront of the Maltese interest.

Health: Further sites are being built for primary health care in Malta, including the building of a hospital specialised in mother and child care. Further medicines including for diabetics and cancer patients shall continue to be given free of charge.

The Budget 2017 places on Malta's offering table a mosaic of more than welcome developments. The tax incentives regarding acquisition of property as described above render the various residency programmes already available under Maltese regulatory framework an even more appealing option. With a number of incentives (deductions, tax credits, financial assistance etc.) focusing further on pension schemes and foreign investment, Malta is bound to remain at the forefront of international developments and is likely to continue to outperform its Eurozone peers.

The content of this article is intended to provide a general guide to the subject matter and should in no way be construed as advice. Specialist advice should be sought about your specific circumstances.

