



Malta Budget

A review and commentary

2019



Highlights



Weekly cost of living increase of €2.33



Vacation leave entitlement increased by one day to 26 days per annum



Tax credit for qualifying contributions to increase for third pillar pensions



Refund of tax of up to €68 to be granted to employees earning up to €60k



Increase in tax deduction for private school fees



Exempt pension income up to €13,434



Social security pensions increase by a total of €4.50 weekly, inclusive of the €2.33 COLA



Anti tax avoidance measures to be introduced in line with EU Anti Tax Avoidance Directive



Extension to next year of reduced stamp duty rate of 1.5% on donations of certain assets to family members



Children's allowance increase for all families earning less than €20k per annum



5% reduced VAT rate on certain printed matter to be extended to electronic publications

Performance of the economy

1.1%

The surplus for 2018 is expected to amount to around €16.6m (1.1% of GDP). For 2019, this is expected to grow to around €33m.

€12bn

GDP for 2018 is expected to be €12bn representing an increase of 7.7% in nominal terms (5.3% in real terms).

3.9%

The unemployment rate for the first quarter of 2018 stood at 3.9%. The unemployment rate for 2019 is expected to be 4.1%, remaining below the EU average rate.

€2.33

The weekly cost of living increase for 2019 is €2.33 per week. In line with recent years, this increase will be granted in full to employees and pensioners and pro-rata to students.

5.7%

During Q2 of 2018, the property price index increased by 5.7% when compared to the same quarter of 2017.

1.7%

The 12-month moving average rate of inflation in September 2018 stood at 1.7%. Inflation is expected to reach 1.9% in 2019.

€4.2bn

Estimated tax revenue for 2018 is expected to be €4.2bn and is expected to rise to €4.6bn by 2019.

2.2m

Inbound tourists for 2017 numbered 2.2m. Inbound tourists increased by 16.9% between January and July 2017 over the same period in the previous year.

€5.6bn

Government debt as at the end of 2018 is expected to amount to around 46.8% of GDP (i.e. €5.6bn) and is expected to reduce to 43.8% of GDP by 2019.

€1.7bn

The trade gap amounted to €1.7bn for the period January to July 2018, €123.7m wider than the corresponding period in 2017. It reflects the fact that exports decreased at a higher rate than imports when compared to the same period in 2017.

Income Tax

Tax refund to employees

- The tax refund paid this year will be granted again to employees earning less than €60,000.
- The refund will vary between €40 and €68 depending on the level of income and tax status of the employee.

Reduction of tax for part-timers

- A reduction of tax for certain individuals deriving income from part-time work.

Exemption on pension income

- Following the introduction of the exemption in respect of pension income as from 1 January 2017, the maximum amount of exempt pension income will be increased to the amounts set out in the table below:

Single	Parent	Married
€13,434	€13,434	€13,434 (+ €1,000 tax free amount derived from other sources of income)

Fiscal incentives for contributions to private pensions

- Increase in the tax exemption/tax credit for personal pension plans and voluntary occupational pension plans.

Property

- Discussions relating to the introduction of a lower tax rate applicable to transfers of immovable property where the property was rented out for a period of 7 years at an affordable amount.

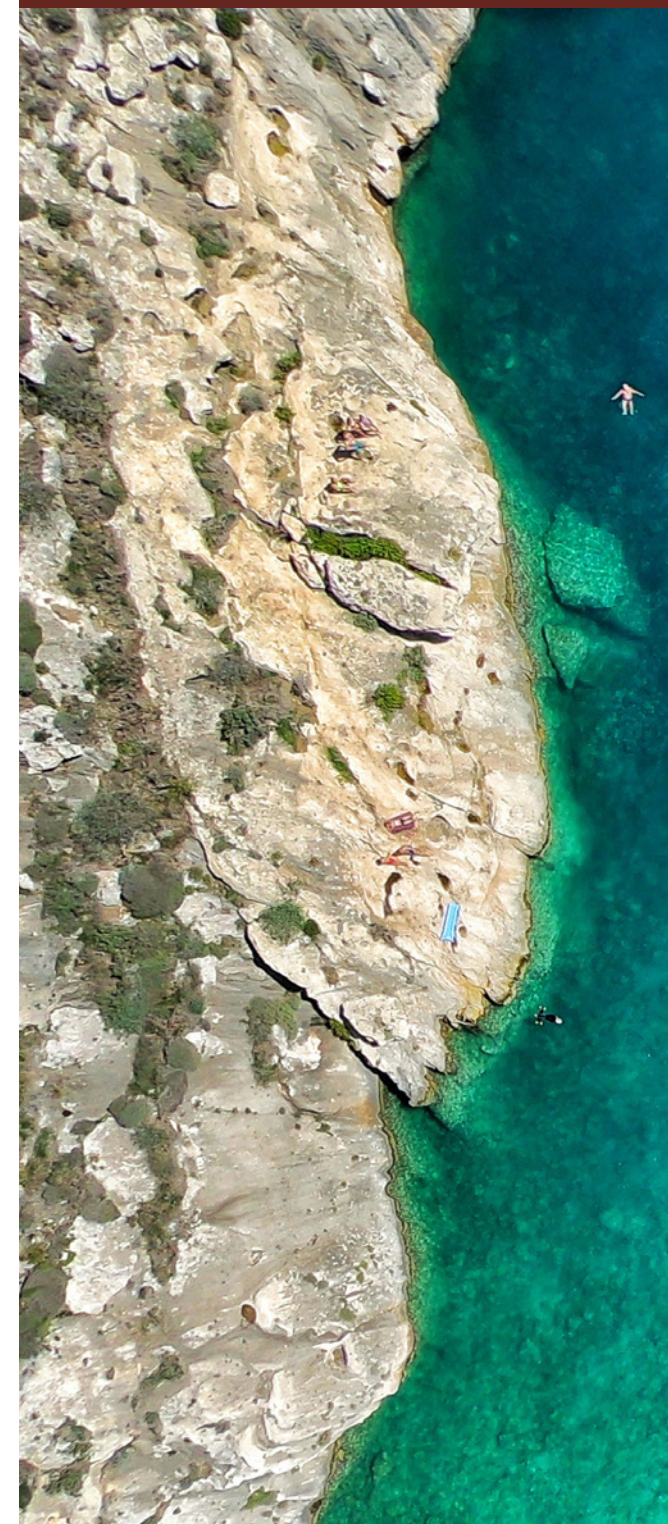
Deduction for private school fees

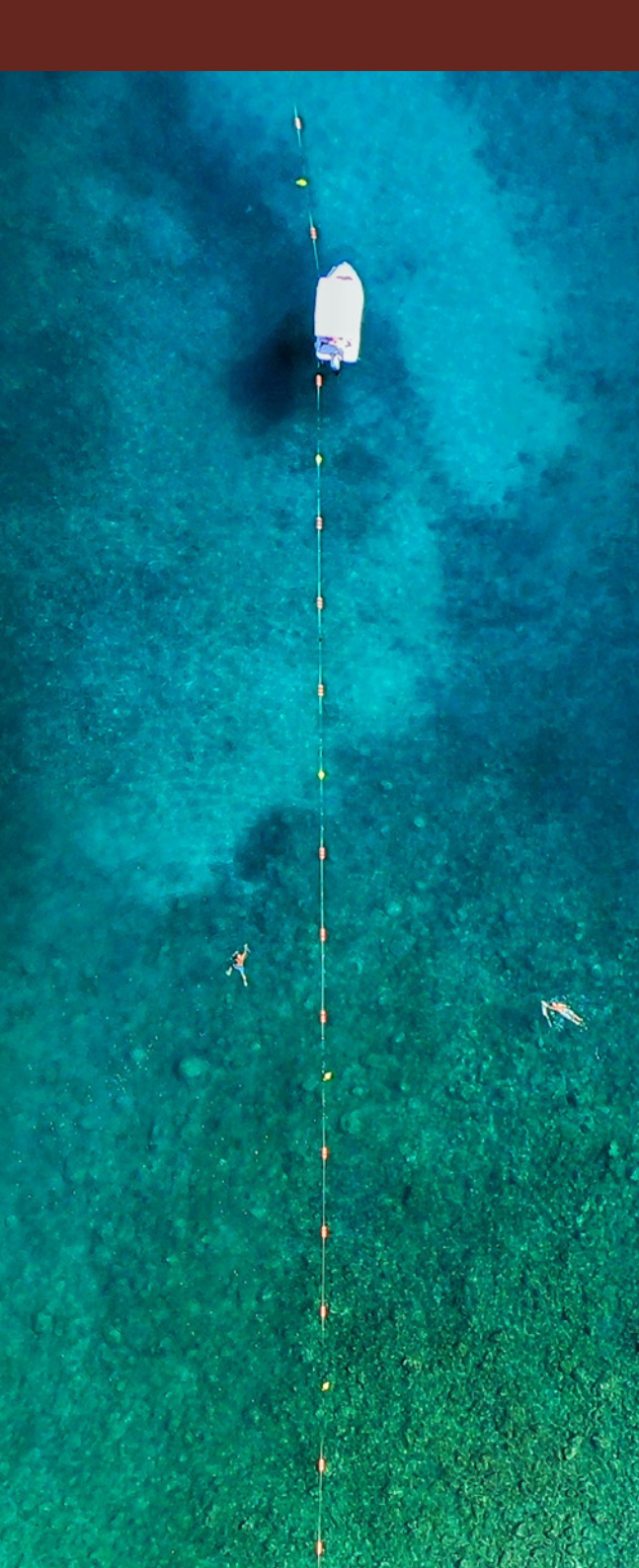
- Parents of children who attend private schools will benefit from an increase of €300 per child in the current tax deduction, as follows:

	2018	2019
Kindergarten	€1,300	€1,600
Primary School	€1,600	€1,900
Secondary School	€2,300	€2,600

Exemption for voluntary organisations

- Voluntary organisations with annual income not exceeding €10,000 will be exempt from income tax, subject to their registration with the Commissioner for Voluntary Organisations.





Anti tax avoidance measures and initiatives

Malta signed up to the OECD's BEPS (Base Erosion Profit Shifting) initiative to assist in the fight against aggressive tax avoidance strategies.

Malta will transpose the Anti tax Avoidance Directive (ATAD) and, starting from 1 January 2019, the following measures will be introduced:

- Interest limitation rules
- Exit tax rules
- General anti avoidance rules
- Controlled Foreign Company (CFC) rules.

Regulations for the transposition of ATAD 2 (which will include provisions on anti-hybrid mismatches) are also being prepared to meet the Directive's implementation deadlines (1 January 2020 and 1 January 2022).

In this respect, apart from implementing the ATAD, Malta has taken other measures including:

- implementation of the OECD's Multilateral Instrument - signed in June 2017;
- implementation of the EU Mandatory Disclosure Directive (DAC6) - 1 January 2020;
- engagement in discussions relating to the taxation of the digital economy;
- implementation of the EU Dispute Resolution Mechanism Directive (DRM) - by 30 June 2019;
- introduction of a patent box regime in line with the EU Code of Conduct on Business Taxation and the OECD BEPS standards.

Other taxes

Stamp duty

Extension of “First-Time Buyers” stamp duty exemption scheme

- The stamp duty exemption for first-time buyers on the first €150,000 of the value of the property is being extended by a further year.

Refund of stamp duty on the purchase of a new residential home for “Second-Time Buyers” - extension of scheme

- Where a person sells his residential property so as to acquire another residential property and such person does not own other properties, he is granted a reduction of stamp duty, by way of refund.

Extension of stamp duty reductions for property purchases in Gozo and Urban Conservation Areas

- The reduction in stamp duty introduced in previous years in respect of property acquired in Gozo (reduction from 5% to 2%) and property acquired in Urban Conservation Areas (reduction from 5% to 2.5%) is being extended for another year.

Extension of the reduced duty rate on intra-family transfers of business property and securities

- The reduction in stamp duty rate to 1.5% has been extended by another year.

Other measures

Grant on purchases of motorbikes, scooters and pedelec bicycles

- The grant on the purchase of motorbikes, scooters and electric assisted bikes will be extended for another year.

Extension of VAT refund on purchases of bicycles and pedelec bicycles

- The full VAT refund on the acquisition of bicycles and pedelec bicycles is being extended for another year.

Grant on the purchase of musical instruments

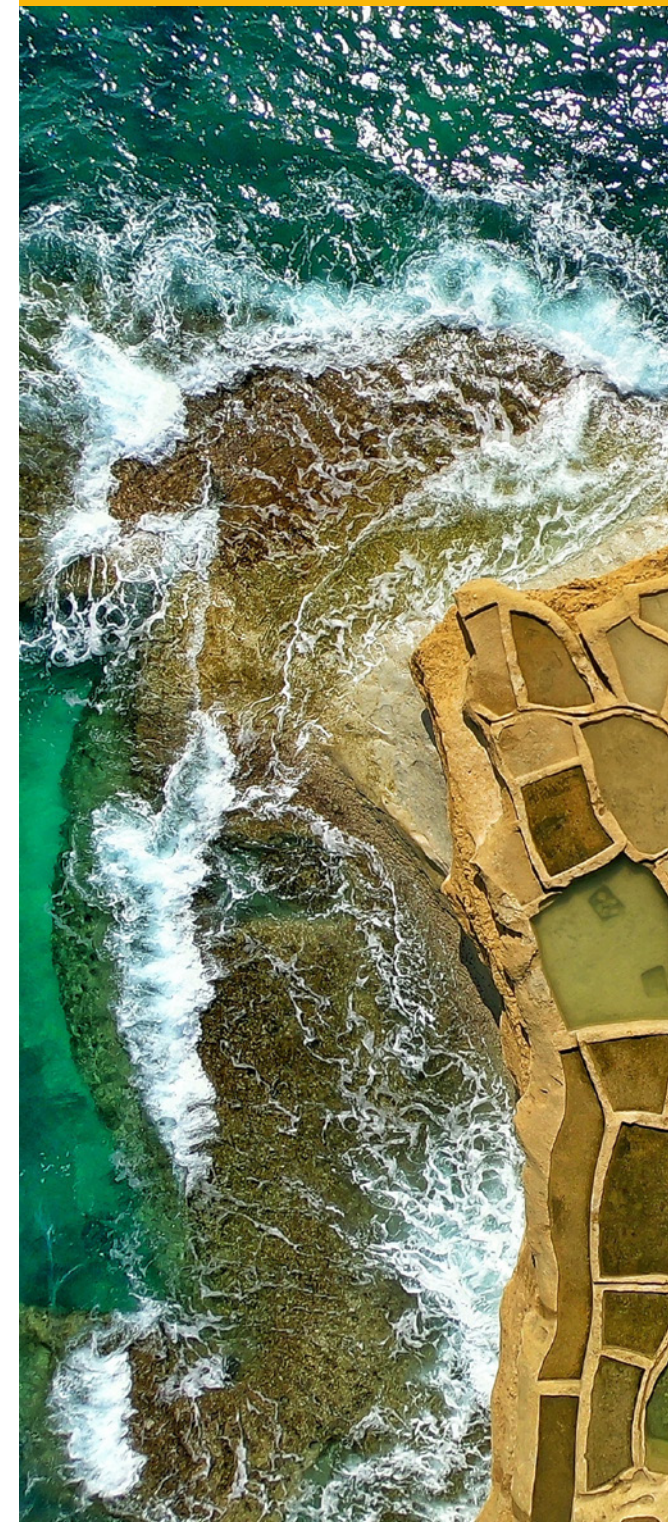
- This grant (equivalent to the VAT paid) has been extended to purchases of musical instruments acquired from outside Malta.

Transport

- An ex-gratia payment will be given to all persons who registered a new vehicle in 2008.

Increased refund on wedding expenses incurred

- The existing grant given to couples on wedding expenses incurred is being increased to a maximum amount of €2,000.





VAT

Reduction of the VAT rate on electronic publications

- The 5% reduced VAT rate on certain printed matter is being extended to cover also electronic publications.

Customs

Increased security at customs

- The Government will be investing in new security equipment at the Malta International Airport and at the Grand Harbour in order to prevent tax evasion, illicit activities, entry of illegal goods and to promote fair competition.

Social Measures

Cost of living increase

- The cost of living increase for 2019 amounts to €2.33 per week. Such increase will be granted to all employees, to pensioners and to those receiving social benefits. Students will also be granted such cost of living increase on a pro-rata basis.

Measures relating to employment

- Employees will benefit from an additional day of leave bringing the total vacation leave entitlement to 26 days.

Pensions

- Social security pensions will be increased by €2.17 per week. Thus, together with the cost of living increase, the total increase for pensioners will amount to €4.50 per week.
- Similarly to previous years, the portion of the service pension not to be reduced from the retirement pension is being increased by a further €200. Service pensioners over the age of 72 years will also be entitled to a similar increased benefit.
- The possibility to continue working beyond retirement age up to 65 years in order to increase pension entitlement (where applicable), is also being gradually extended to employees working in the public sector.

Other social measures

- Families with gross income of less than €20,000 will receive a maximum increase in children's allowance of €96 per year per child.
- €50m investment for the construction of almost 700 social housing units. Part of the investment is being funded from the National Development and Social Fund.
- Revision of the *Travel Reimbursement Scheme for patients undergoing cancer treatment at Mater Dei Hospital* to include adults accompanying patients. This will also be extended to Maltese patients who will be undergoing treatment in Gozo. An additional accommodation allowance will be granted to patients travelling either to Malta or Gozo accordingly.
- Introduction of benefits for members of the Disciplined Forces in the case of fatal incidents or permanent disabilities sustained during the carrying out of their duties.
- A grant of €300 will continue to be paid to each person who is 75 years and over and still living in his/ her own household.
- The bonus for persons who are not entitled to receive a pension will increase by €50 per annum.
- Allocation of €11 million for the continuation of the fund created to cater for inequalities suffered by persons in the past due to changes in the pensions system.
- Re-issue of Savings Bonds for pensioners who are over 62 years of age.





- Eligibility for the Carers' Allowance will no longer be subject to means testing.
- Payments made to persons with severe disability will increase by €10 per week, from €140 to €150 per week.
- The allowance for parents with children suffering from a physical or mental disability will increase by €5 per week.
- A white paper has been launched addressing issues related to property rental agreements, including obligatory registration of rental contracts.
- A new scheme will be introduced to reduce the rental burdens for persons whose gross income does not exceed the established benchmark while their current rent exceeds the rental benchmarks applicable under such scheme. An aid of between €3,000 and €5,000 per year will be granted according to the circumstances of the particular family.

Measures relating to self-employment

- Similarly to employed persons, self-employed persons who for certain reasons had to stop working will have a right to receive unemployment benefits in line with the social security contributions paid during their period of self-employment.

Gozo

- A compensation of €1.50 per day will be granted to each Gozitan government employee organising shared transportation services from Cirkewwa to their place of work.
- With effect from 1 January 2019, as part of the extension to the 'Gozitan Works Subsidy', a refund of the ferry ticket fare will be given to Gozitan employees employed with the private sector.
- Aid to Gozitan tertiary education students renting out accommodation in Malta.
- Extension of the scheme implemented last year whereby entrepreneurs offering a minimum of a 3 year full time contract of employment in Gozo to an employee will receive a 30% refund (up to a maximum of €6,000) calculated on the employee's average wage.

Health

- An increase of €5.14 per week in the non-contributory medical assistance granted to married couples where two adults of the family suffer from chronic illnesses.

Other Measures

Property

- An Equity Sharing scheme will be introduced in 2019 allowing persons aged 40 and over wishing to acquire a residence to obtain a bank loan to cover not more than 50% of the purchase price with any interest on such bank financing being paid by the Government.
- Various measures will be introduced to increase, upgrade and maintain properties available for social housing purposes.
- Discussions on the regulatory and fiscal framework around the introduction of Real Estate Investment Trusts are being finalised with a view to being implemented next year.
- Individuals buying and restoring property within Urban Conservation Areas or any other property scheduled within the first or second grade will continue benefiting from a refund of certain expenses incurred in restoring such property.

Transport

- Investment of €100 million to continue works aimed at upgrading the road network.
- Improvement of public transport including enhancing the ferry transportation network and the possible development of additional parking areas equipped with modern technology.

- The scheme entitling persons between 16 and 20 years to one year free public transport will be extended for another year and will also be granted to full time students aged 14 and over and to certain categories of persons with special needs.
- The scheme providing incentives for investment in bicycle racks and eco-friendly vehicles will be extended by another year.
- The exemption from any registration tax on eco-friendly vehicles (including electric and hybrid cars) will be extended by another year.
- Scrappage schemes and grants in respect of vehicles converted from petrol to gas to be extended by another year.

Environment

- Measures to improve waste management including the development of a new Material Recovery Facility, a Multi-Material Recovery Facility and Waste-to-Energy facility.
- Various measures for the safeguard of the Maltese natural environment and the control of sound pollution. Initiative to plant a tree for every child born and every new car imported into Malta.
- Measures to promote renewable energy, the use of efficient sources of energy and to assist families in reducing their water consumption.
- Investments to improve the Reverse Osmosis plants in Malta and Gozo.
- Refund of up to €70 on the purchase and installation of reverse osmosis and other household water purification systems aimed at reducing the use of plastic bottles.





Improving competitiveness

- New support measures to be offered by the Malta Development Bank to SMEs and infrastructural projects.
- The Malta Stock Exchange (MSE) is to support small businesses investing in fintech through the Fintech Accelerator programme. The MSE will also be entering into partnership with businesses operating in the blockchain and cryptocurrency space.
- A bill is to be published that will grant legal personality to certain aspects of blockchain and studies undertaken to establish a regulatory framework for disruptive technologies.
- The Malta Communications Authority is to prepare a feasibility study on the application of 5G technology.
- Establishment of Tech.mt, being a foundation to be used to promote Malta as a jurisdiction in the area of technology.
- Increased efforts in attracting eSports operators to Malta.
- The Malta Medicines Authority will continue to develop the regulatory framework for the use of cannabis for medicinal purposes.
- In the light of Brexit, Malta Enterprise shall be issuing support measures to support SMEs seeking business advisory services that are dependant for their business on the UK.
- It is anticipated that a Free Zones Act will be enacted to facilitate investment in the area of international logistics.
- Introduction of the start-up visa concept that will facilitate the process for attracting foreign start-ups to establish themselves in Malta. Moreover, an accelerator programme will be developed in partnership with an international entity through the creation of co-working space.

- Work shall continue on updating the national policies on aviation which will include a master plan for the airport and its environs and the construction of an Air Traffic Control Centre.

Culture and tourism

- Upgrading of tourism areas including the promenades of Gzira and Msida and expansion of various beaches around Malta.
- Creation of a new agency 'Agenzija Kulturali tal-Belt Valletta' to be responsible for the promotion and continuous development of Valletta following Valletta 2018.

Health

- Continued investment in more medicines and treatments for cancer patients including the introduction of a new committee with the purpose of vetting requests for medicine and treatments in the case of complex and rare illnesses.
- Investment in a mental health clinic in the north of Malta and the opening of day centres and hostels to host patients with minor mental conditions for social wellbeing.

- The introduction of a specialised clinic in the primary school of Marsa providing sensory interaction therapy for children with difficulties in integrating in the scholastic curriculum.
- The commencement of works for the expansion of the outpatients services at Mater Dei which would also include an increase to the car park to offer approx 500 additional spaces.
- Investment in Robotic Surgery and blood donation equipment.
- A new strategic plan between 2020 - 2030 in order to address areas of research, mental health and genetics which have been neglected in the past years.
- Introducing a plan against human trafficking and drug abuse through various educational campaigns which may include incentives in the case of drug abuse and for the prevention of domestic violence.

Measures relating to education and sport

- Government to waive all fees on SEC and MATSEC exams.
- Gradual removal of mid year exams and introducing a system of continuous assessment.
- The introduction, including training to teachers, of an educational campaign on nutrition and healthy eating.
- Development of a national strategy for sports and various plans for upgrading sports facilities around Malta.

Measures relating to Gozo

- Continuous works on various projects in Gozo.
- The introduction of a Park and Ride system in Mgarr Gozo, not only to reduce the parking problem but also to reduce emissions and thus improve the air quality.
- Implementation of master plans in Xlendi and Marsalforn
- New project for an aquatic centre in Gozo.
- Geological studies have been carried out with respect to the permanent link between Malta and Gozo which were recently presented during a seminar and which will be the basis for the design of the tunnel.

Citizenship

- The updating of the Malta Individual Investor Programme and the Malta Residency and Visa Programme in order to remain competitive on the market.





The notes are designed to keep readers abreast with financial and tax developments. They are not intended to be a definitive or comprehensive analysis of the subject and should not be acted upon without prior consultation with the Partners or Senior Consultants of the firm. For further details please do not hesitate to contact:

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