

MALTA BUDGET 2017

On 17 October 2016 the Budget for the 2017 legislature was presented to the Parliament of Malta. The main theme of the Budget, from a commercial perspective is the incentivisation of the markets, the creation of business and the attraction of foreign direct investment. Emphasis is also placed on social measures. Measures have been put forward in order to further develop and strengthen infrastructure and the education system. At the core of the Budget document are a number of interesting tax measures and incentives.

CORPORATE TAX

Refund on certain dividends

- As of next year, shareholders holding not more than 0.5% of the nominal share capital of companies listed on the Malta Stock Exchange may claim a refund of tax suffered at source upon receipt of dividends from such qualifying holding. This will be applicable with respect to distributions made out of profits derived after 1 January 2017.

Fiscal Consolidation

- The introduction of a fiscal consolidation concept in income tax legislation will allow companies forming part of a group to be treated as a single taxpayer, thus, computing their taxable income on a consolidated basis.

FINANCIAL MARKETS

- The introduction of fiscal incentives for the sale of shares on the Malta Stock Exchange. There is currently an exemption from income tax on gains or profits arising on the transfer of shares listed on the Malta Stock Exchange, not being securities in a collective investment scheme. The exemption will now also apply where the transfer is made by a person who held the shares immediately prior to listing. This is a departure from the 15% tax on such gains. This incentive is also applicable to listings on alternative trading platforms.
- The issue of Solar Bonds to the general public as an alternative means of financing for businesses wishing to invest in solar panels.
- Amendments to existing legislation are expected in order to strengthen insurance, collective investment scheme and securitisation products.
- Updates to domestic legislation are also expected granting the same tax benefits, currently provided to debt, to equity investments.
- Incentivizing investment on the Malta Stock Exchange by the establishment of the Risk Investment Scheme targeting investment in SMEs and Prospects, with the possibility of benefitting from a tax credit of up to €250,000.

IMMOVABLE PROPERTY

Extension of First-time Buyer & New Schemes

- The first time property buyer programme is to be extended. The exemption from duty on the first €150,000 of the value of immovable property is to be extended until 31st December 2017.
- Two new schemes to be released relating to the recovery of restoration costs for first time buyers – of up to €100,000 – for properties situated in an Urban Conservation Area and for those Grade 1 or Grade 2 scheduled properties.

- A pilot project to be released whereby lessors who lease to families with low income will be encouraged to enter into a lease of 7 years and pay 5% income tax on the rental income. This does not apply to immovable property in Special Designated Areas.
- Scheme to be issued to subsidise the cost-outlay for the restoration of the façade of historical buildings.

Rental Agreement Registry

- New and renewed rental agreements (if longer than 3 months) where the rental income is taxed at the final withholding tax of 15% need to be registered with the Inland Revenue Department. The onus of registration lies with either the lessor or lessee. Otherwise, the lessor will be subject to penalties.

Gozo

- Duty on the acquisition of residential immovable property in Gozo to be reduced to 2% from 5%. The promise of sale must be entered into during 2017, be registered with the Department of Inland Revenue by 31/12/2017 and the contract of sale executed by 31/12/2018.

Other

- All inherited immovable property (regardless of date of devolution *causa mortis*) that is transferred by means of a judicial is to be taxed at a final withholding rate of 7%.
- New legislation to be introduced that is to cater for the transfer of agricultural land between farmers, especially between members of the same family.
- Legal provisions to provide for the transfer of Government owned land to young farmers, with a low rent for the first 5 years.
- Persons who have temporary emphyteutical grants from Government that have expired or are about to expire are to be extended under the same terms, other than those which are revisable.
- Establishment of Property Malta that is to encourage investment by foreigners in the Maltese property market.

DOMESTIC BUSINESS AND TAX CREDITS

- 12-month concession whereby stamp duty will to be reduced from 5% to 1.5% when there is a transfer of business from a parent to his descendants.
- Tax credit of 150%, up to a maximum of €35,000 (if organised alone) or €50,000 (if organized in connection with other companies) for expenses incurred by employers for the free transport of employees.
- Businesses that embellish the environment and/or community to benefit from deductions from their income equivalent to 120% of the work carried out. The project must be approved by the respective Local Council. The additional 20% deduction will be capped at €15,000.
- Malta Enterprise grant of up to €25,000 for the establishment of business by disadvantaged individuals.
- Maltese Enterprise research scheme whereby researchers can claim a tax credit of between 25% - 45% on their research costs.
- Malta Enterprise gaming scheme where developers of games may benefit from a tax credit of up to 30% on development costs.
- Start-ups run by individuals who graduated from post-secondary institutions over the past three years to be exempted from auditing of financial statements for 2 years or to be granted a tax deduction of 120% of audit fees up to a maximum of €700 where their turnover is below the €80,000 threshold.

- Tax credits for employers that invest in private pension plans for their employees.

EXCISE DUTY

- Continuation of the process of the abolishment of eco-contribution tax.
- Removal of eco-contribution tax on batteries, detergents, toiletries, vehicle filters and mattresses. As a result, a reduction in the price of a number of these products is expected.
- Excise duty to be imposed on toiletries from 1 January 2017.
- Excise duty on 'black-plastic bags' that are not bio-degradable is set to increase. Biodegradable bags will continue to be exempt from excise duty.
- Cigarette prices to increase by roughly 3.75%, while hand-rolling tobacco is to increase by 5.5%.
- Excise duty on non-alcoholic drinks to increase by 2c per litre.
- Excise duty to be introduced on certain materials used in the construction sector.
- Importation of cement to be taxed at a comparable rate to local products.

OTHER MEASURES

Tax & Citizenship measures

- Establishment of the Joint Enforcement Task Force in the fight against unfair competition, income tax and VAT evasion.
- Department of Customs to launch an electronic import system and an online payments system.
- VAT refund on registration of cars registered between 01/06/04-31/12/08 will continue to be refunded.
- Full-time students below the age of 24 who carry out self-employed work will be levied a lower level of social security contribution, at the rate of 15% on their net income.
- The 50c tourist contribution is to be used for projects to embellish the environment.
- Continuation of the Individual Investor Programme (IIP) scheme.

Social measures

- Extension of the *In-Work Benefit* scheme.
- Increase in pensions from January, up by €208 per year.
- Removal of income tax on pensions for pensioners over 61 years of age, whether the pension is local or foreign, the exempt ceilings being set as follows:

Calendar year	Single	Parent	Married
2017	10,500	11,500	13,000 (+500 deduction against other income)
2018	13,000	13,000	13,000 (+1000 deduction against other income)

- Extension of the €300 scheme payable to individuals over 75 years of age, who still live in their own households.
- From 1 January 2017, the yearly bonus for individuals who would have reached retirement age but would not have yet reached 75 years of age is to be increased. If such individuals would have paid social security contributions (i) for less than 5 years, a bonus of €150; and (ii) for more than 5 years, a bonus of €250.
- Reform in disability pensions.
- Revision of rental subsidies for the more vulnerable families to double from €66.67-€83.33 to €133.34-€166.66, upon presentation of rental agreements.
- Revision of minimum rent on property rented from Government.

- Elderly waiting to enroll in an old-people's home may choose to engage a carer on a full-time or part-time basis and benefit from a maximum subsidy of €5,200 per year.
- Government Savings Bonds for Pensioners with more attractive interest rates to be issued.
- Acquisition of vehicles from an individual who was exempt from registration tax (due to disability), the amount due is to be split equally over a 10-year period.
- Social housing project of €50m.

Education

- Construction of new primary schools.
- Increase of stipends pro rata with cost of living increase.
- Stipends for students who spend one additional year to finish their course of studies.

Infrastructure

- Malta Enterprise scheme expected to aid businesses to lower their high-energy consumption.
- Eco cheques scheme to replace certain appliances.
- Free year of public transport, up to a maximum of €312 for individuals who reach 18 years of age in 2017.

Justice reforms

- Prosecution to be led by the Attorney General's office as opposed to the Police.
- Electronic register for insolvent companies and bankrupt individuals.
- Mediation as an alternative means of dispute resolution.
- Increase of judicial acts to be presented online.

ECONOMIC PERFORMANCE

2015/2016 Key Highlights

- Malta achieved a real economic growth of 6.4% placing it amongst the frontrunners in terms of economic performance in the European Union.
- Malta continued to consolidate progress in labour market performance with an employment growth rate of 2.4%.
- The unemployment rate decreased from 5.8% in 2014 to 5.4% in 2015.
- Taxes on income and wealth were €63.9 million higher than targeted while indirect tax revenue from taxes on production and imports were €34.0 million higher. Revenue from social contributions was roughly in line with budgetary targets.
- In the first quarter of 2016, the Maltese economy expanded by 5.2% in real terms, driven primarily by domestic demand. In nominal terms, total incomes grew by 7.6% in the first quarter of 2016, driven by a positive performance in both gross operating surplus and compensation of employees.
- Standard and Poor's raising Malta's latest credit rating from BBB+ to A-.

Projections

- Real GDP is forecasted to grow by 4.2% in 2016 and by 3.1% in 2017.
- Investments expected to increase by 9.2% in 2017 as a number of projects in the investment pipeline are expected to commence in 2017.
- Government is aiming for a deficit target of 0.7% of GDP in 2016 which will decline to 0.6% of GDP in 2017 and further down to 0.2% of GDP by 2018.