



2019

2019 BUDGET: KEY HIGHLIGHTS

Overview

Economic Performance

Direct Tax

Indirect Tax

Pensioners

Immovable Property

Domestic Business and Credits

Anti Tax Avoidance

Social and Housing

Other Measures

OVERVIEW

On 22 October 2018 the Budget for the 2019 legislature was presented to the Parliament of Malta.

The main focus of the Budget from a commercial perspective is the creation of increased spending power of taxpayers in Malta, the incentivising of sustainable economic growth, the investment in the expertise of the local workforce and the continued attraction of foreign direct investment.

The 2019 Budget also focuses on the further improvement of the infrastructure of the Maltese Islands, including various incentives for workers and taxpayers to choose public means of transport.

Measures have also been put forward to tackle the affordable housing challenges the strong economic growth has given rise to.

Other measures include allowances for parents whose children participate in independent, private schools or kindergartens, incentives to encourage the use of non-fossil-fuelled means of transport and incentives encouraging the further successful education of students in Malta.

A noticeable feature of the 2019 Budget is the continuation of several fiscal incentives which are deemed to have had a positive impact on the influx of foreign investment and expertise.

Incentives social equality and affordable housing

Infrastructure and public transport

Tax incentives development expertise and knowledge

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ECONOMIC PERFORMANCE

Gross Domestic Product and Budget Surplus

GDP for 2018 is expected to amount to €12bn, which represents an increase of 7.7% in nominal terms and 5.3% in real terms.

The Minister reported an expected budget surplus of €16,6m for 2018. For 2019, the surplus is expected to be around €33m.

Inflation

For September 2018, the inflation rate has been determined at 1.7%. In 2019, inflation is expected to reach a percentage of 1.9%.

Government Debt

At the end of 2018, Government Debt is expected to be around 46.8% of the GDB. The GDP is expected to amount to €5.6bn for 2018.

Economic Growth

An economic growth of 5.4% during the first half of 2018 has been reported.

Unemployment rate

Malta registered an unemployment rate of less than 4% over 2017 and the first quarter of 2018. For 2018 up to 2020, the rate is expected to remain below the EU average at 4.1 to 4.3%.



**Inflation rate of
1.7% during 2018**

**Government debt
46.8% of GDP**

**€5.6bn actual tax
revenue for 2018**

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DIRECT TAX

- No new direct taxes or tariffs.
- As from 2019, parents of children attending independent schools can benefit from increased tax deductions of €300 per child. When a child is attending an independent kindergarten, primary school or secondary school, these deductions will be €1,600, €1,900 and €2,600 respectively.
- Extension of the scheme under which employers offering a minimum 3 year contract of work in Gozo will be given a rebate of up to 30% of the average salary of its employees up to a maximum of €6,000.
- Gozitans working in Malta shall be entitled to a subsidy.
- The tax refund of €40 to €68 for employees earning less than €60,000 will be maintained in 2019.
- Voluntary organisations with an annual income below €10,000 will be exempt from income tax, when registered with the Commissioner for Voluntary organisations.
- Employees qualifying as single taxpayers deriving an income from part time work which ranges between €9,100 and the minimum wage, will be exempt from income tax on this salary.



**No new direct
taxes or tariffs**

**Employment
incentives and
grants**

**Increased tax
Deductions**

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INDIRECT TAX

- E-books and other electronic publications will be brought under the 5% reduced VAT rate applicable to certain printed matter, subject to the condition that these electronic publications or e-books are not wholly or predominantly devoted to advertising or wholly or predominantly consist of audible music or video content.
- The VAT refund (equivalent to the VAT paid) on the purchase of musical instruments, has been extended to purchases of musical instruments outside Malta.
- Extension of the scheme whereby persons who purchase bicycles or pedelecs can apply to receive a full VAT refund.
- Extension of the grant of 15.25% of the purchase price of bicycles and electric bikes (pedelec bicycles). Companies purchasing these bicycles for rental purposes also benefit from this grant.
- The grant of up to €400 for the purchase of motorbikes, scooters and e-bikes will be further extended.
- VAT refund in 2019 of up to €70 for individuals installing a domestic reverse osmosis system for the purpose of water purification.
- The existing refund on wedding expenses will be increased with €250 to a maximum of €2,000.



**No changes in
indirect tax rates**

**VAT refund for
bicycles,
motorcycles or
pedelecs**

**Reduced VAT rate
on e-books and
instruments**

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PENSIONERS

- An Increase in pensions is granted of €2.17 per week, which is exclusive of the additional increase in the cost of living allowance of €2.33.
- The tax free bracket for pension income will be increased to 13,434. For married pensioners, this tax free bracket will be increased with €1,000 for other types of income.
- The annual grant of €300 made to individuals who reach the age of 75 years will be maintained in 2019, provided said individuals still reside in their residence.
- The existing Third Pillar Pension Schemes and Voluntary Occupation Pensions Scheme shall receive further incentives, such as an increase of tax credits from 15% to 25% of a qualifying contribution.
- Tax exemptions for third pillar pensions will be increased to €2,000.
- Increased pension allowances for those who postpone pension when reaching the age of 65 in private sector will be extended to employees working in the public sector.
- Government savings bonds similar to the *Savings Bonds* 62+ will be re-issued for a further year.



↑ tax-free bracket
pensions

Allowances for
postponing
pension

Pensioner
Government
Savings Bond

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IMMOVABLE PROPERTY

- The First Time Buyers' scheme and the Second Time Buyers' scheme, under which individuals can benefit either from an exemption of stamp duty on the first €150,000 of the value of the property or a reduced stamp duty by means of a refund shall both be extended by another year.
- The reduction of stamp duty on the purchase of immovable property situated in an Urban Conservation Area to from 5% to 2.5% will be extended to 2019.
- Stamp duty on immovable property purchases in Gozo will once again be reduced from 5% to 2% for 2019.

**1st and 2nd Time
Buyers' Schemes**

**Extension of
stamp duty
schemes**

**Equity sharing
scheme & home
equity release**



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DOMESTIC BUSINESS AND CREDITS

- The Maltese Government shall focus on the establishment of the Malta Digital Innovation Authority and the introduction of a legal framework aimed at block chain and disruptive technologies such as Internet of Things and Artificial Intelligence.
- Malta is aiming to significantly contribute to the establishment of a tax system that is suitable and appropriate to meet the challenges and characteristics of a digitalised economy.
- In the context of Brexit, Malta Enterprise shall issue measures to support small and medium sized enterprises needing advisory services for their business in the United Kingdom.
- Malta wishes to update the Individual Investor Programme and the Malta Residency and Visa Programme to guarantee the competitiveness of these schemes on the European Market.
- A patent box in line with the EU Code of Conduct on Business taxation and the principles as set out by the OECD in their BEPS initiatives is to be introduced.
- Extension of reduced Duty from 5% to 1.5% on transfer of family business from parent to child for 2019.



**Digital Economy
and Fintech**

**Individual
Investor
Programme**

**Introduction
Patent Box**

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ANTI TAX AVOIDANCE MEASURES

- A number of tax related anti-abuse measures, based on the Anti-Tax Avoidance Directive (ATAD) are being introduced.
- Interest limitation rules will limit the deductibility of borrowing costs to a certain level. The ATAD caps deductibility of interest expenses at 30% of a taxpayer's earnings before interest, tax, depreciation and amortisation (EBITDA). The limitation is not applicable where borrowing costs do not exceed €3M and will also not apply to financial undertakings.
- An exit tax rule will also be introduced in 2019 and shall apply when a company either changes its place of residence or decides to transfer its assets/business to a different tax jurisdiction. In such cases, the taxpayer shall become liable to be taxed at an amount equal to the market value of the transferred asset.
- The general anti avoidance provisions will serve as an extension to the GAAR already present in Maltese tax legislation. It aims to target artificial arrangements put in place for the main purpose of obtaining a tax advantage in conflict with the spirit of the law
- A CFC rule shall include in the tax base of a Maltese based company diverse types of income not distributed by a foreign based subsidiary or PE of this company and shall subject these profits to tax in Malta.

**Interest
Deduction
Limitation**

**Introduction of
Exit Taxes**

**Extension of
Current GAAR**

**Introduction of
CFC Rules**

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SOCIAL AND HOUSING INCENTIVES

- The Malta Development Bank will offer new schemes and options to contribute further investment by SMES and investment in infrastructure projects.
- Families with an income lower than €20,000 will receive an increase in children's allowance of €96 per child.
- Employees earning minimum wage will benefit from a salary increase of €3 per week. Employees earning more than the minimum wage will benefit from a proportionate increase in salary.
- Currently, discussions are taking place concerning the introduction of lower tax rate applicable to immovable property that has been rented out for an affordable price for the seven years prior to the transfer of such property in a sale.
- An Equity Sharing scheme is being introduced, which will allow persons aged 40 and over, who seek to purchase a residential property to obtain a bank loan to cover maximum of half of the purchase price. Interest due on such a loan will be paid by the Government.
- Home Equity Release measures will be introduced for the purpose of improving the quality of life of pensioners, while at the same time allowing them to continue to reside in their residential property. The pensioners will receive a one-time payment or monthly instalments in exchange for the assignment of (a portion of) the right over the residential property.

**Child
allowance**

**Reduced
transfer tax
incentive for
affordable rent**

**Equity Sharing
Scheme &
Home Equity
Release**



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OTHER MEASURES

- The incentive through which buyers of electric vehicles and hybrid vehicles are not required to pay registration tax on the purchase of these vehicles, shall be extended.
- Students will no longer pay a fee to sit for MATSEC or SEC examinations.
- The Cost of Living Allowance (COLA) will be increased in line with the increase of the cost of living, that is, with €2.33 per week in 2019, for employees, pensioners and individuals receiving social benefits.
- The Car Scrappage scheme to be further extended.
- The Individual Investor Programme to be extended and enhanced for 2019.
- Extension of the Malta Residency and Visa Programme.
- Implementation of the MLI of the OECD
- White paper concerning issues arising in property rental agreements.
- Introduction of a grant of €3000 to €5000 per year to assist persons whose income does not exceed the benchmark in their rental costs.
- Currently, preparations are being made for regulations for the transposition of ATAD2, to ensure timely implementation of this Directive.



**Extension of
schemes and
programmes**

**Introduction
anti-abuse
measures**