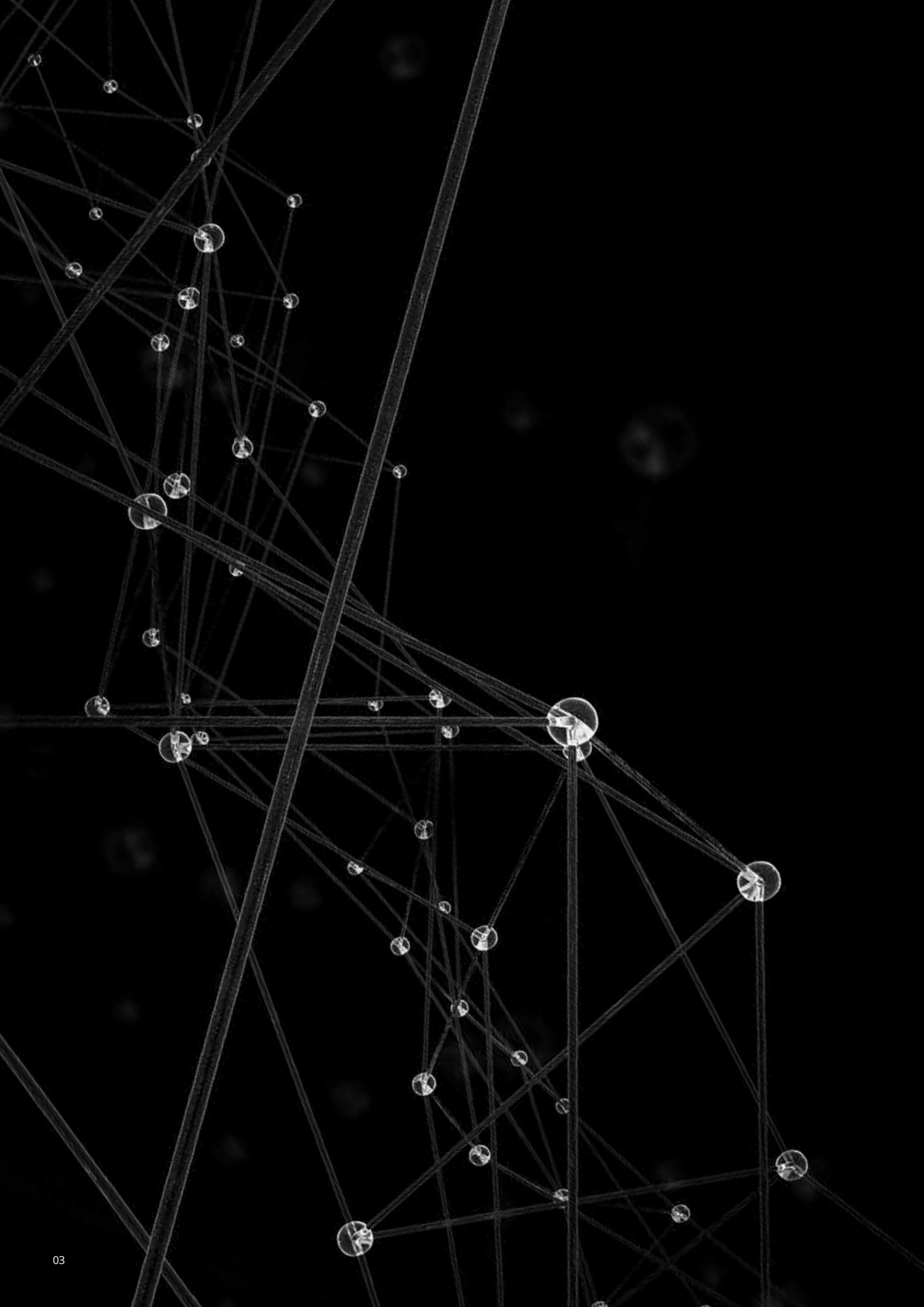


Malta Budget 2020

Connecting the dots

October 2019



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Economic overview

Government's fiscal priorities

Main targets for 2020:



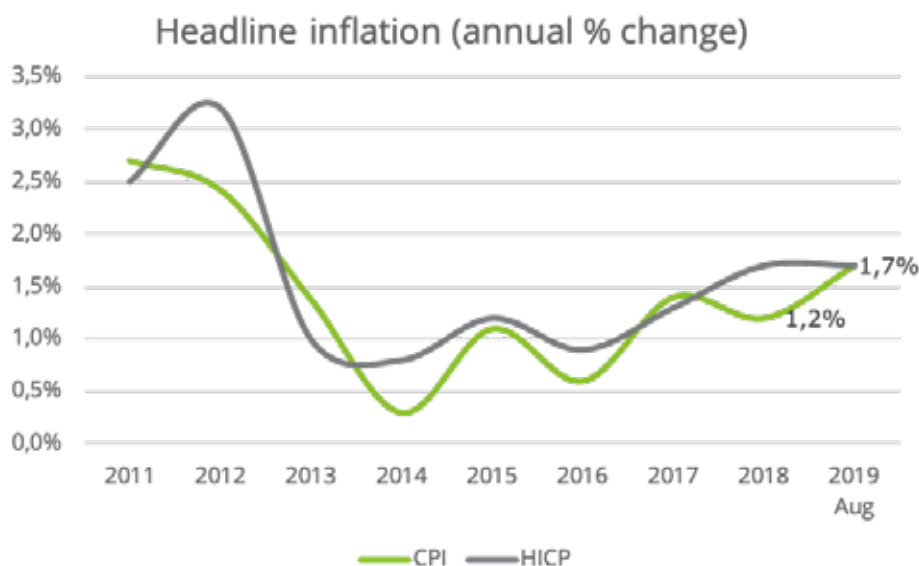
Headline inflation

Price dynamics indicate a steady increase in headline inflation, albeit this is not expected to exceed the 2% benchmark

Cost of living

The national of inflation (Consumer Price Index) is expected to hover around 1.7% during the course of 2019.

- Meanwhile, the EU Harmonised Index of Consumer Prices (HICP) is measuring identical increases (1.7%)
- Within this context, although steady increases in prices are being observed, no serious concerns on price stability are apparent
- Against this background, the cost of living adjustment agreed with the social partners shall be €3.49 per week



Latest macroeconomic highlights

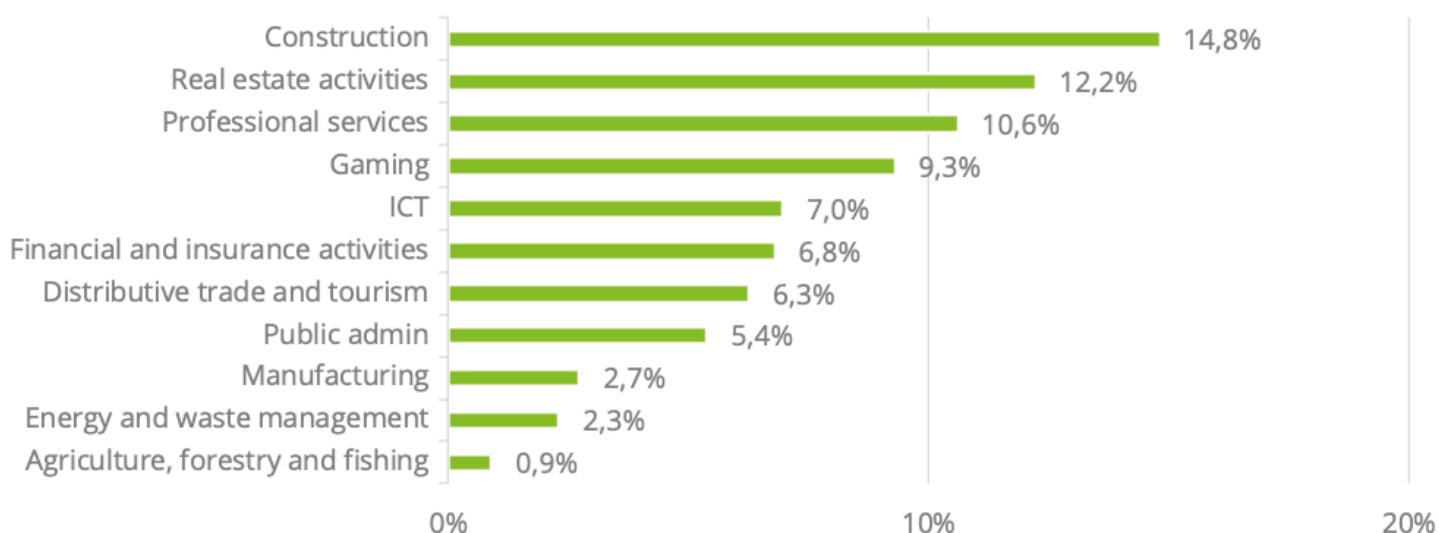
Real economic growth averaged 7% between 2013 and Q2 2019, with the latest growth figure reported at 4%

Macroeconomic developments

Output

Real economic activity in Malta continued to report robust growth rates. During the first half of 2019 real growth was reported at 4.7%.

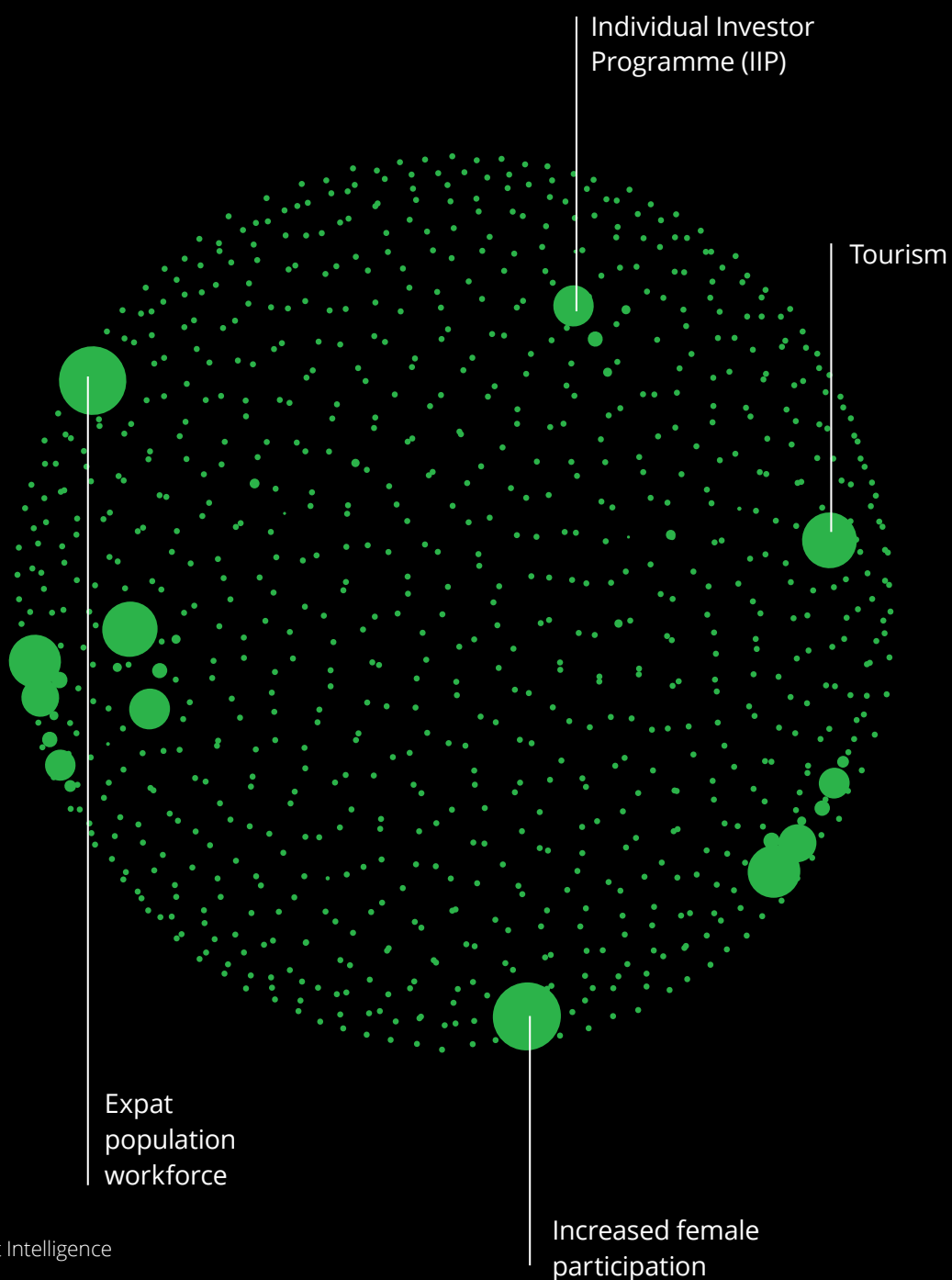
Sectoral annual growth (%) H1 19



Source: NSO

Economic drivers

Four key economic contributors to elevated growth rates since 2013:



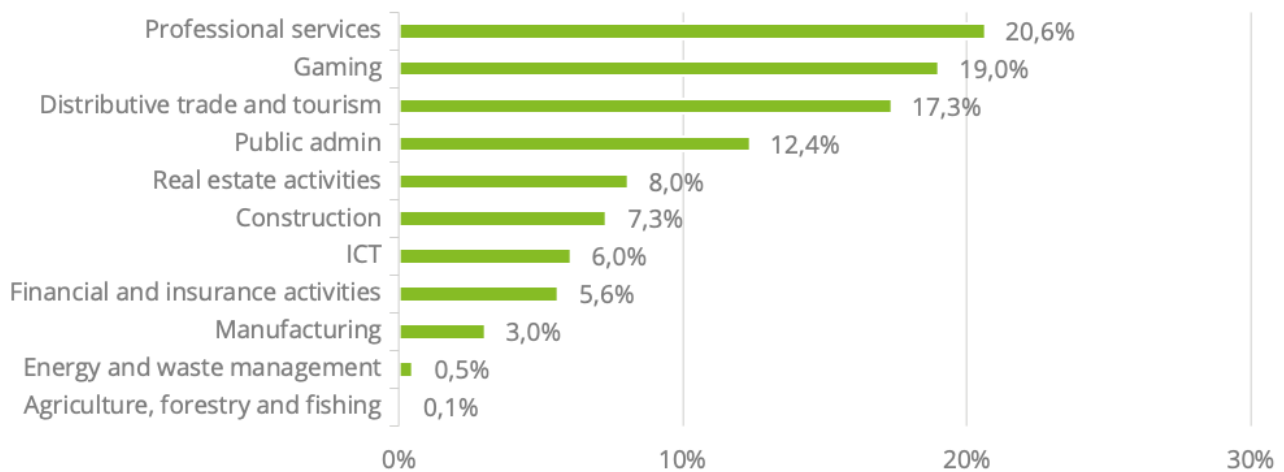
Source: DT Market Intelligence



Contribution to growth and annual growth: by sector

Professional services, gaming, distributive trade and tourism activities, and public administration remain the highest contributors to growth.

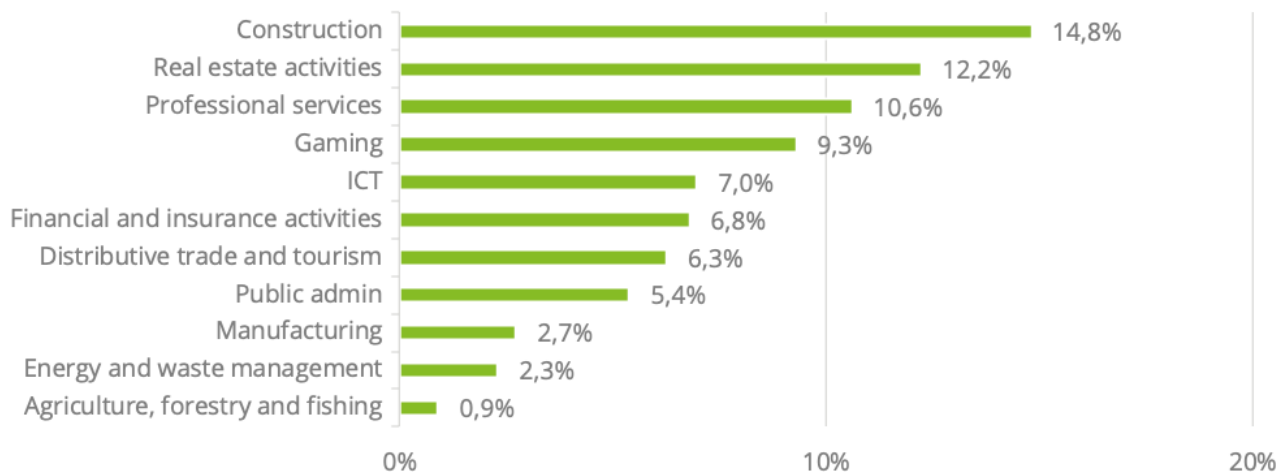
Sectoral contribution to growth in GVA (%) H1 19



Annual growth: by sector

Construction and real estate activities reported the highest annual growth during H1 2019.

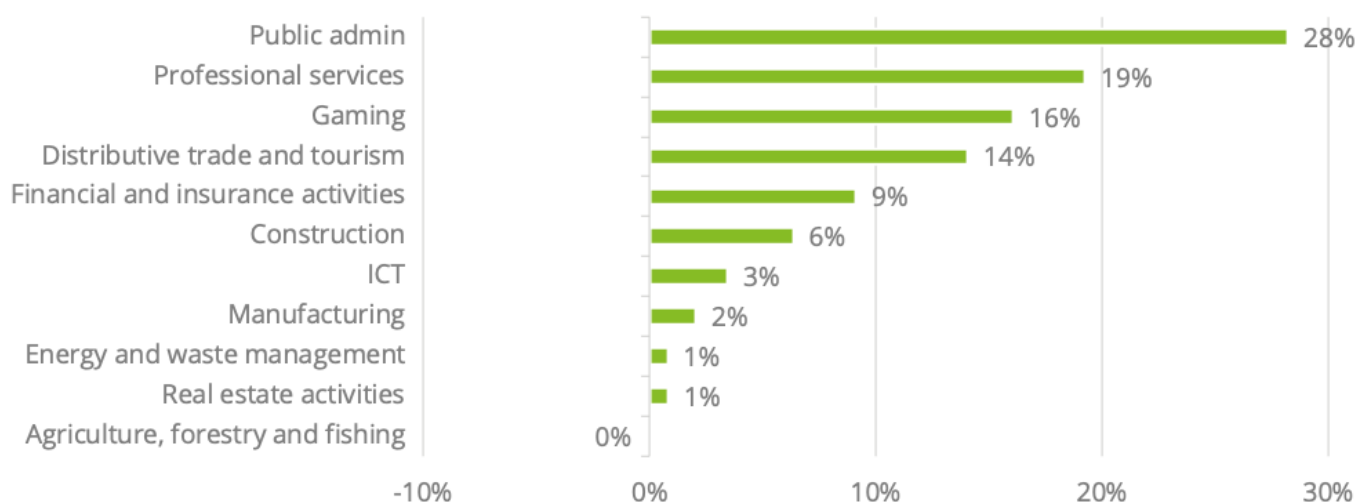
Sectoral annual growth (%) H1 19



Total salary payroll increased by 5.7% in H1 2019

Public administration was the main contributor to payroll growth. The top 4 salary payroll growth sectors accounted to 77% of the total salary income growth during the first six months of 2019.

Sectoral contribution to annual salaries growth (%) H1 19

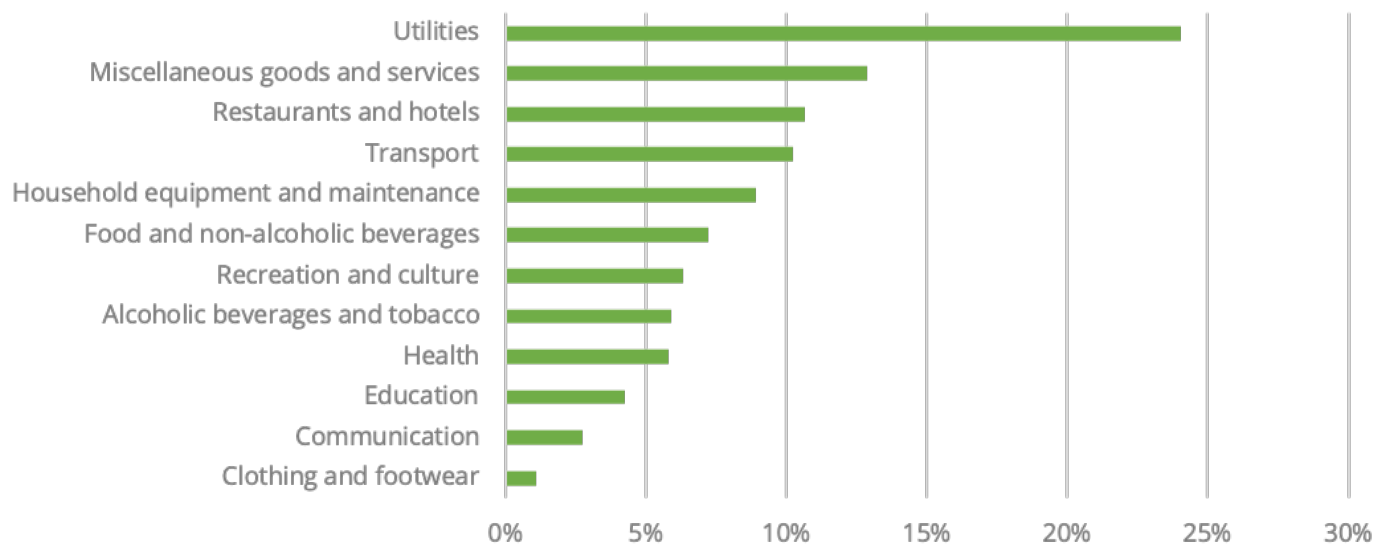


Source: NSO, DT Estimates

Private consumption expenditure up by 6.1%

During the first half of 2019, spend on utilities contributed to one fourth of total private consumption expenditure.

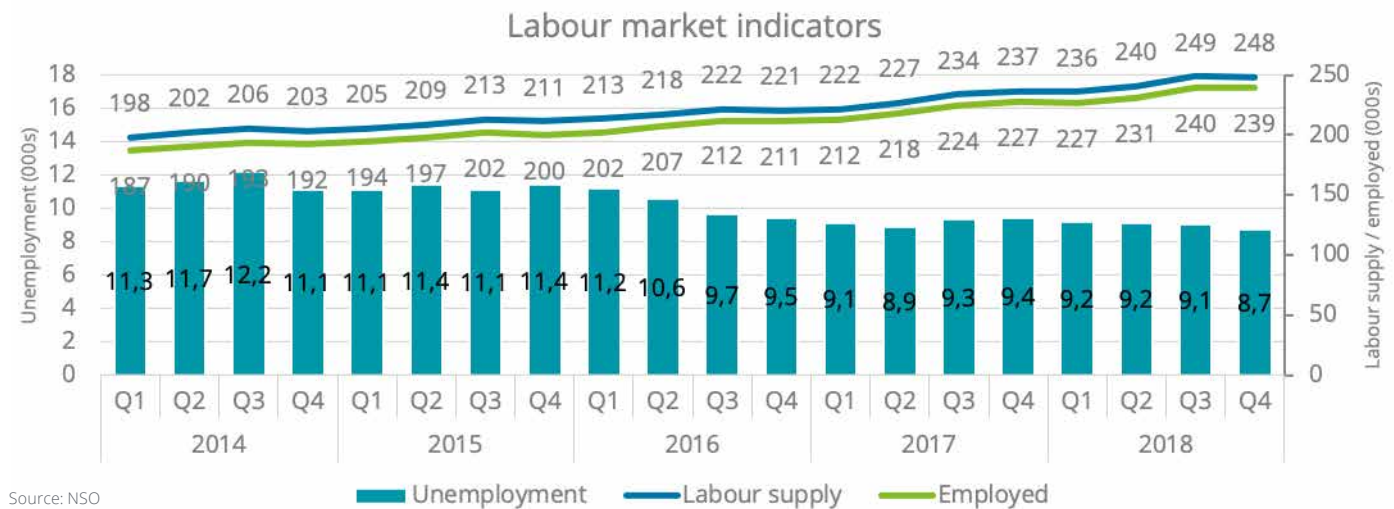
Contributors to total private expenditure H1 2019



Source: NSO *Includes expenditure by foreigners

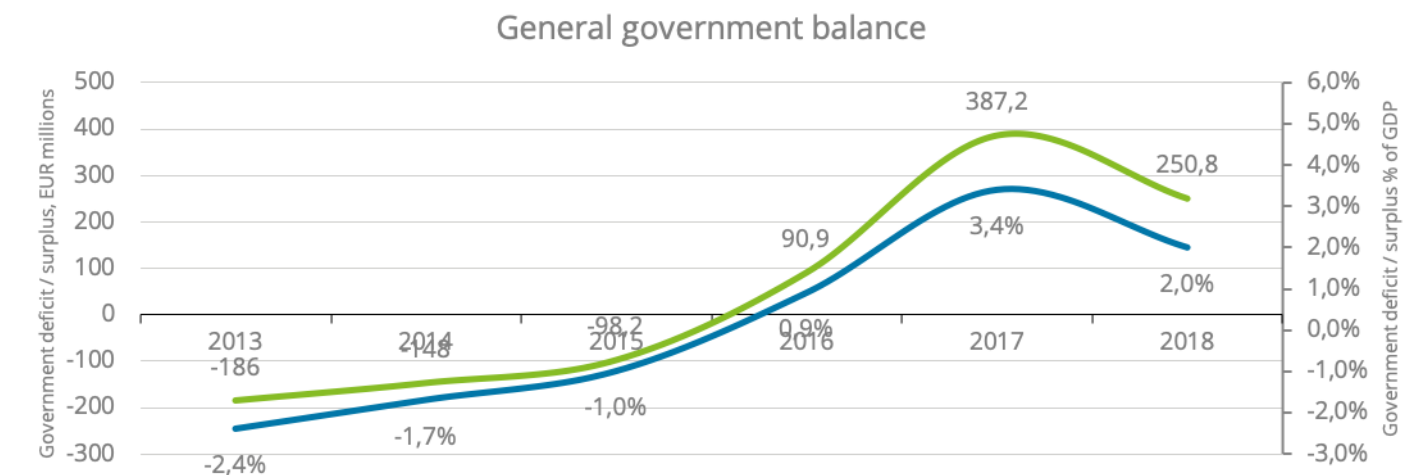
Labour market

The gainfully occupied continued to increase, and the labour market is operating at an unemployment rate of less than 4%, reflecting favourable labour market conditions.



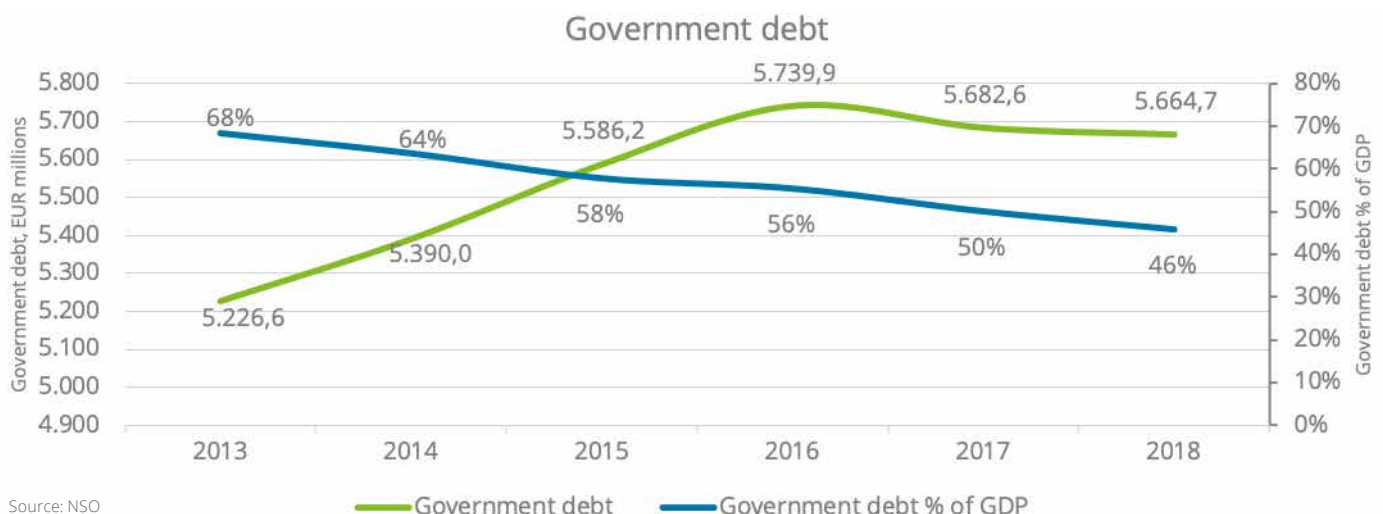
Public finances

General Government balance remains in a surplus although it is on a declining trend.



Public finances

Elevated economic growth reduced general government debt as a % of GDP.



Medium term outlook

Positive economic trends are expected to continue, yet elevated activity is set to ease during 2020.



Real GDP figures

Real economic activity is expected to remain high, yet elevated growth is expected to ease. In 2020 real GDP growth is projected at 4.3%, with domestic demand being the main driver.



Annual inflation

Inflation (RPI) is expected to accelerate gradually in the region of 1.9% in 2020, reflecting a pickup in domestic cost pressures.



Labour market

As economic growth eases over the coming year, employment growth is expected to slow down to 3.5% in 2020. The unemployment rate is expected to remain below 4%.



Investment levels

Investment in 2020 is expected to maintain high growth (+9.6%) when compared to the levels reported in the present year, explained by large-scale outlays on infrastructure and health-related projects.



Public finances

Tax revenue and IIP proceeds are expected to decline, while expenditure is set to remain broadly at current levels. This profile is expected to shape a budget surplus of 1% of GDP in 2020 and a public debt of 40.6% of GDP.

Fiscal resources and uses in 2020

A fiscal surplus of €0.193B is projected for 2020

Revenue 2020 €5.531B

Income tax	€ 1.936B
Social security contributions	€ 1.149B
VAT	€ 1.099B
Customs and excise duties, licences, tax and fines	€ 0.770B
Grants	€ 0.208B
Other non-tax revenue	€ 0.290B
GG adjustment including EBU's	€ 0.079B

Expenditure 2020 €5.338B

Public services and other recurrent expenditure	€ 1.724B
Social security benefits	€ 1.062B
Health	€ 0.702B
Education	€ 0.648B
Capital expenditure	€ 0.735B
Interest on public debt	€ 0.183B
Justice, law and order	€ 0.284B

Source: Financial Estimates, DT Estimates



Tax matters

Fiscal measures

Employee tax benefit

Tax refunds granted during 2019 to employees earning less than €60,000 shall also be granted in 2020. These refunds range between €40 and €68, depending on the level of income as indicated below:

Single		Married		Parent	
Income (€)	Benefit (€)	Income (€)	Benefit (€)	Income (€)	Benefit (€)
0 – 15,000	60	0 – 20,000	68	0 – 15,000	64
15,001 – 30,000	50	20,001 – 40,000	56	15,001 – 30,000	52
30,001 – 59,999	40	40,001 – 59,999	44	30,001 – 59,999	40

Reduction in tax on overtime

During 2020, the first 100 hours of overtime work carried out by an employee not being in a managerial position and earning not more than €20,000 in a calendar year shall be taxed at the rate of 15%.

Reduced duty rate on intra-family transfers

The reduced stamp duty rate of 1.5% currently in place for qualifying business transfers effected by parents to their children shall be extended.

Tax administration

Measures shall be introduced in order to facilitate tax reporting obligations. Such measures shall include online registration

and de-registration of VAT and PE numbers, and the set-off of provisional tax for pensioners.

Income tax for pensioners

The amount of exempt annual pension income shall be increased as follows:

2019	
Single rate or parent rate	€13,798
Married rate	€13,798 (plus €2,000 derived from other sources)

Property related measures

Duty exemption for first-time buyers

The duty exemption currently available for first-time home buyers on the first €150,000 shall immediately increase to €175,000 - resulting in additional savings of up to €1,250 - and shall continue to apply during 2020.

Reduction in duty for second-time buyers

Individuals who sell their first residential property to acquire another residential property are currently eligible to a refund of stamp duty of up to €3,000 (or €5,000 in the case of disabled persons) provided that such persons do not concurrently own any other property. This measure is being extended to qualifying acquisitions made during 2020.

Duty on acquisition of property in an Urban Conservation Area (UCA)

Presently, acquisitions of property situated in an UCA are subject to a reduced rate of stamp duty of 2.5%, as opposed to the standard rate of 5%. The reduced rate shall extend into 2020.

Duty on acquisition of property in Gozo

Individuals who acquire residential property in Gozo are presently subject to a reduced rate of stamp duty of 2%, as opposed to the standard rate of 5%. The reduced rate shall extend into 2020.

Duty on inheritance of residence

Individuals who inherit real estate in which they currently reside currently pay stamp duty at a rate of 3.5%, up to a maximum property value of €150,000. In this respect, the maximum property value eligible for the 3.5% rate shall increase to €175,000.

Acquisition of ordinary residence

Individuals buying their residential property, even if such individuals are not first-time buyers, shall benefit from a reduction in the duty payable.

Assistance in real estate down payments

Loans of up to €17,500 shall be granted to assist qualifying buyers with initial down payments. Interest accruing on such loans shall be borne by the government. The loan shall be repaid over 15 years.

Property rental subsidies

The eligibility criteria for property rental subsidies introduced during 2019 shall be extended such that individuals earning annual income of not more than €19,000 (up from €14,500) and couples with two children earning annual income of not more than €32,000 (up from €28,600) can avail themselves of this subsidy, subject to other conditions being satisfied.

Additional social housing units

A €60 million investment is earmarked for the development of an additional 1,700 new units of social housing. The foregoing shall be in addition to another project consisting of more than 700 new units of social housing.

Maintenance of housing estates

The Housing Authority shall continue its maintenance programme, which shall directly impact an additional 50 social housing blocks spread across multiple localities.

Housing sector

A dedicated authority shall be created to further supplement regulatory reforms to the construction sector.

Local Councils shall be encouraged to implement various projects in their respective localities with the aim of improving the quality of life of residents.

Restoration of property

The scheme for the restoration of one's home shall extend into 2020.

Final tax on the transfer of a promise of sale

With effect from 1 January 2020, the first €100,000 of profit derived on the transfer of any right acquired through a promise of sale agreement shall be subject to a final tax at a reduced rate of 15%.



Value added tax and other indirect tax measures

Extension of VAT exemption on educational services

As of next year, the VAT exemption on educational services shall be extended to cover the provision of education or educational research, including distance learning, relating to vocational training or re-training by a school or institution recognised for this purpose.

Grant on the purchase of renewable energy battery storage

With effect from next year, a grant of 25% on the purchase of renewable energy battery storage shall be introduced in order to promote the use of renewable energy resources. This grant, capped at €1,000, is available to individuals who have already installed solar panels and who are no longer benefiting from the feed-in tariff scheme.

Grant on purchase of bicycles, electric bikes and motorcycles

In order to promote alternative means of transport and a healthy lifestyle, the existing grant of up to €400 on the purchase of motorcycles, scooters and electric bikes shall be extended for another year.

The grant scheme on the purchase price of bicycles and electric bicycles (pedelec bicycles), equivalent to a full VAT refund, shall also be extended for another year.

Grant on purchase of specialised apparatus bought for persons with disabilities

In order to support persons with disabilities with purchasing any required specialised equipment, the available grant shall be increased to a maximum of €1,000 as from next year.

Customs and free zones

Government announced further investment into Malta Customs, including security and scanning processes, with a view to enhancing security, combating illicit activity and limiting evasion of taxes and duties.





Malta's green footprint

Malta's green footprint and long-term environmental sustainability are key themes of the 2020 Budget. Government unveiled plans for a national strategy geared towards achieving carbon neutrality by the year 2050. The strategy shall prioritise combating climate change while preserving Malta's competitiveness.

To this end, Government announced various measures, including:

- A commitment to phase out the importation and, eventually, the widespread use of vehicles propelled by pollutive engines
- Incentivising the purchase and use of electric cars by committing to installing more charging points around the Maltese Islands, as well as incentivising domestic charging points through reduced electricity tariffs
- The abolition of single-use plastics. The importation and manufacture of plastic plates, straws, cutlery and bags shall be banned from 1 January 2021, while trade in such products shall be prohibited outright starting from 1 January 2022. Investment in a modern waste treatment plant to eventually replace the ageing Sant' Antnin facility
- Roll-out of a recycling scheme for beverage containers
- Building upon existing afforestation initiatives, in particular the construction of a 'green lung' in Santa Venera
- A €2M investment in the Ta' Qali National Park
- Strengthening regulatory oversight in the construction sector
- The introduction of a heavy machinery scrappage scheme. Operators within the construction sector will be offered an incentive of up to €200,000 to scrap ageing machinery in favour of greener technology



Social measures

Additional day of leave

An additional day of vacation leave shall be added to the current leave entitlement of employees.

Pension increases

Pensioners shall benefit from a weekly increase of €3.51 per week with effect from 2020. This increase is additional to the COLA, resulting in a total weekly increase of €7 for pensioners.

Weekly allowance paid to widowers

Widowed pensioners with children under 18 years of age shall have their weekly allowance increased to €10, irrespective as to whether they are employed or otherwise.

Regularisation fund

During 2020, up to €13M shall be allocated to the fund previously set up to cater for past irregularities suffered with respect to pensions paid to qualifying employees and their heirs.

Fiscal incentives for private pensions

Fiscal measures previously introduced with respect to contributions made to the Third Pillar Pension Scheme and/or the Voluntary Occupation Pension Scheme by individuals and companies shall be extended.

Government savings bonds to pensioners

During 2020, people aged 62 years and over will once again be able to subscribe to Government savings bonds yielding a more favourable return than fixed term bank loans, following their successful uptake during the previous three years.

Free Tal-Linja card

The scheme granting free public transport shall be extended to persons aged 75 years or older.



Bonus following adoption or birth of a child

A one-time bonus of €300 for each child born or adopted in 2020 shall be given to eligible families.

Disability pension reform

With effect from 2020, the weekly allowance payable to persons suffering from severe disabilities shall be increased to €161.40, bringing it on par with the net national minimum wage.

Invalidity pensions

With effect from 2020, the invalidity pension paid to qualifying pensioners shall also be increased to the net national minimum wage.

Social security contributions to parents to sick children

Parents of qualifying children suffering from rare ailments who have opted to cease work so as to take care of their ill children, shall be accredited with a notional

social security contribution equivalent to the contributions they would have paid had they not ceased to work. This notional social security contribution shall apply for a maximum of 8 years.

Artificial Intelligence (AI), cyber security and Internet of Things (IoT)

It is expected that an educational campaign on AI shall be introduced, along with study grants to students seeking to specialise in AI, the establishment of an AI Innovation Hub, the commencement of a pilot project for the use of AI technology in public services as well as formulating a roadmap for the proper infrastructure for this technology.

Further investment towards a pilot project utilising the IoT shall be made, along with the allocation of funds to MITA to support its work towards cyber security.

National space strategy

In order to continue diversifying Malta's economic potential, a public consultation document shall be published which shall serve as a basis for a national strategy towards research and innovation within the space industry and setting out the necessary legislative framework to attract investment within this industry.

Video game development and Esports

Measures shall be introduced to assist operators within the video game development and Esports industry. Educational incentives are also expected to be announced in order to aid students specialising in areas relevant to these industries.

Employment of disabled staff

During 2020, Malta Enterprise shall introduce schemes targeting employers who hire persons with disabilities through the provision of grants.



Investment and growth

Capital investment

- Government is expected to continue implementing its investment programme on road infrastructure with an annual budget of €100M to span over 7 years
- Marsa junction project, Santa Lucija tunnel, Central Link project, Msida flyovers and St Julian's connections project will continue or are earmarked to commence next year
- Improving accessibility for farmers by upgrading rural and secondary roads
- Embellishing and improving maritime infrastructure for the benefit of cruise liner tourists, domestic commuters and fishermen
- Extensive infrastructural investment is planned for the health sector as a whole, including a new outpatients building at Mater Dei hospital, a new psychiatric hospital, and regional primary health care centres
- An investment of over €7M to improve the student facilities offered by the University of Malta, MCAST and ITS
- Improvement in educational facilities, and investment in new schools in Marsaskala, Qawra and Zejtun
- Construction of the new ITS campus in SmartCity, which will include a hotel run by students
- Restoration of national heritage sites, including the Cottonera and Victoria Lines, Fort Ricasoli, and the National Library
- The extension of the Life Sciences Park
- Gas pipeline project between Malta and Sicily, set to cost around €400m
- A total investment of more than €130m on water management, co-financed by the EU and the Water Services Corporation

Growth incentives and competitiveness

- Malta Development Bank will facilitate financing to SMEs by providing more guarantees and co-financing opportunities
- Introduction and promotion of financial instruments directed at financing green projects
- Micro-invest, Business Start and Start-up Finance schemes, and support and services from Start-Up Malta Foundation, will continue to be available next year



Other measures



Red-tape reduction measures

Government shall continue to invest in cutting red tape. In this regard, an Interactive Business Portal shall be launched with a view to achieving efficiencies in the public and private sector.

Gozo specific measures:

- Continued work in reducing regional pay-gaps
- Rolling out a Gozo Business Scheme to stimulate further activity within the private sector
- Fiscal incentives encouraging the physical relocation of businesses to Gozo

- Fiscal incentives targeting the creation of new employment opportunities in the teleworking and back office sectors
- Infrastructural investment to further enhance physical and digital connectivity between the Maltese Islands
- Further upgrades to Gozitan road networks
- Inauguration of a Research and Innovation Hub in Xewkija

Other schemes

The existing vehicle scrappage scheme shall be extended for another year and capped at €1,500. The grant available

for persons who convert their vehicle to operate on gas instead of petrol shall also be extended and stands at €200.

Fighting money laundering and tax evasion

Government announced the setting up of a Financial Organised Crimes Agency to combat money laundering and tax evasion.

Cash transaction limit

A cash limit of €10,000 shall be imposed on the purchase of real estate, vehicles, boats, precious stones and works of art.

Contacts



Conrad Cassar Torregiani
Cross-Border Tax Leader

Tel: +356 2343 2716

Email: ctorregiani@deloitte.com.mt



Craig Schembri
Tax Director

Tel: +356 2343 2751

Email: craigschembri@deloitte.com.mt



Chris Borg
Indirect Tax Leader

Tel: +356 2343 2706

Email: cborg@deloitte.com.mt





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