



## The key points

Summary of the  
Malta 2018 Budget

09 October 2017

# Contents

<b>01</b>	<b>Economic overview</b>	<b>03</b>	<b>02</b>	<b>Tax matters</b>	<b>15</b>
	The Government’s fiscal priorities	04		Income tax measures	16
	Headline inflation	05		Property related tax measures	18
	Latest macroeconomic highlights	06		Value added tax and excise	19
	Value added	07		duty measures	
	Income approach	08			
	Labour market	09	<b>03</b>	<b>Other measures</b>	<b>21</b>
	Public finances	10		Incentives to industry	22
	Key variables of the	11		Property related measures	23
	macroeconomic outlook			Social measures	25
	Fiscal resources and uses:	12		Administrative and other measures	28
	Public finance revenue and		<b>04</b>	<b>Other recent tax legislative</b>	<b>29</b>
	expenses			<b>amendments</b>	
	Capital infrastructure: Policy	13		Notional Interest Deduction (NID)	30
	measures to alleviate congestion		<b>05</b>	<b>Contacts</b>	<b>31</b>
	and external costs				



Image: © James Scidluna

Disclaimer: This publication reflects high level announcements made in the Budget Speech on 09 October 2017, which are typically implemented through detailed legislative amendments and tax guidelines that have yet to be published. Clients are advised to seek appropriate professional advice following the publication of such detailed amendments or guidelines and prior to implementing any actions based on the information given in this publication.



01

# Economic overview



01

02

03

04

05

# The Government's fiscal priorities



Investment in infrastructure, to alleviate congestion and external costs.



Use of increased income to continue reducing national debt.



Addressing social housing issues and waste management



Increased distribution of wealth targeting pensioners and low-income groups.



01

02

03

04

05



# Headline inflation

## Cost of Living Adjustment (COLA)

The national yardstick employed for the calculation of COLA (CPI) is expected to hover around 1.5% during the course of 2017. As the economy is expected to continue reporting robust growth, the headline rate of inflation in 2018 is expected to reach 1.6%.

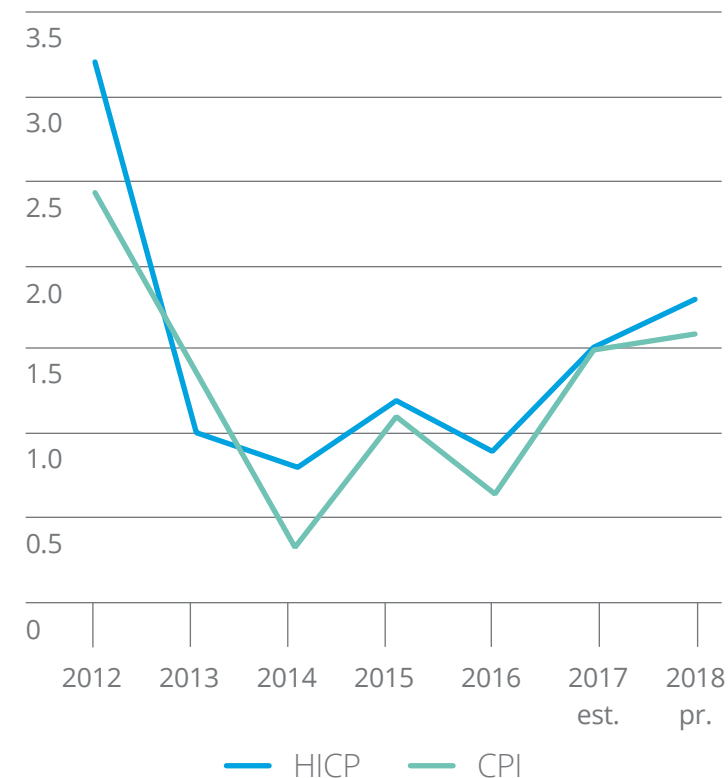
Meanwhile, the EU Harmonised Measure Index of Consumer Prices (HICP) is expected to reach 1.5% by the end of 2017, and further increase to 1.8% in 2018.

The cost of living adjustment agreed with social partners will be €1.75 per week.

Employees earning minimum wage during their second year of employment will have their weekly salary revised upwards by €3. As from the third year in employment, they will further benefit from an additional increase of €3 per week.

Contributory and non-contributory pensions are set to increase by €2 per week.

## HICP and CPI Overtime Price dynamics



Source: National Statistics Office (NSO), budget speech and CBM projections



01

02

03

04

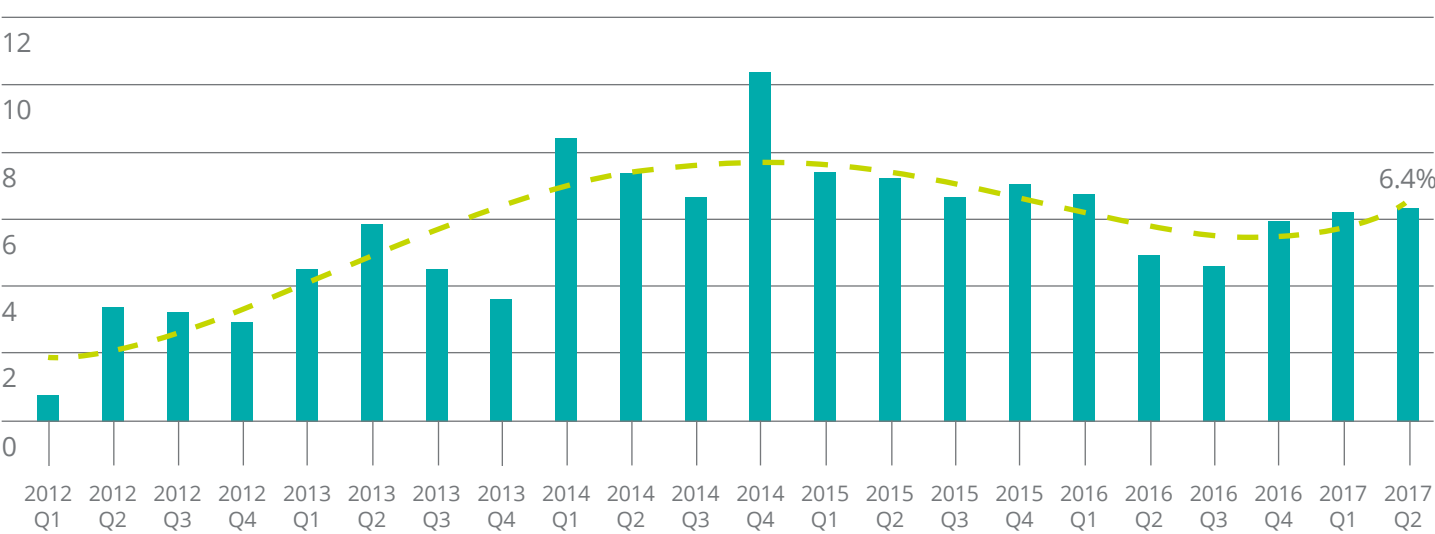
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# Latest macroeconomic highlights

Output

Strong real economic growth, at an accelerated rate.

Malta's real Gross Domestic Product (GDP) growth rate over time (%)

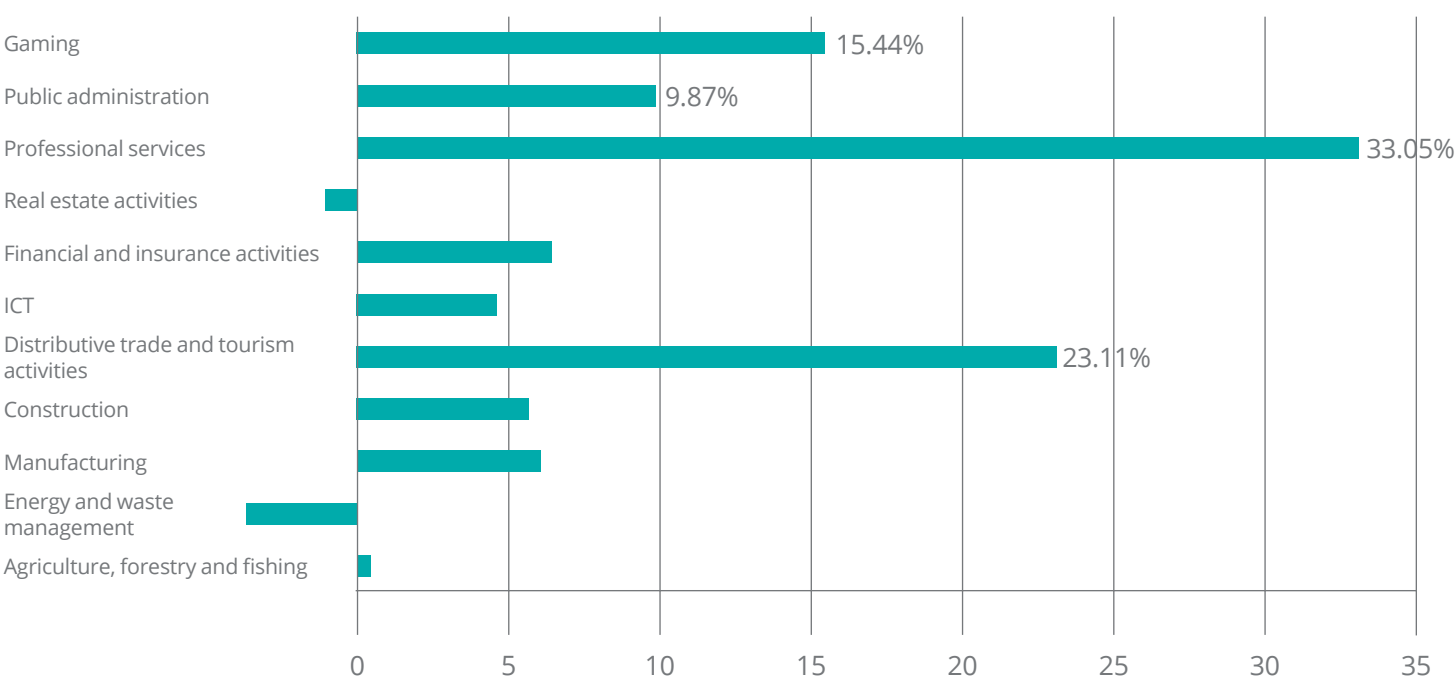


# Value added

Sectoral performance

Professional services, tourism related activities, the gaming industry, together with public administration remain the highest contributors to growth.

Sectoral contribution to GDP growth (%), 2017 Q2



Source: NSO, DT estimates

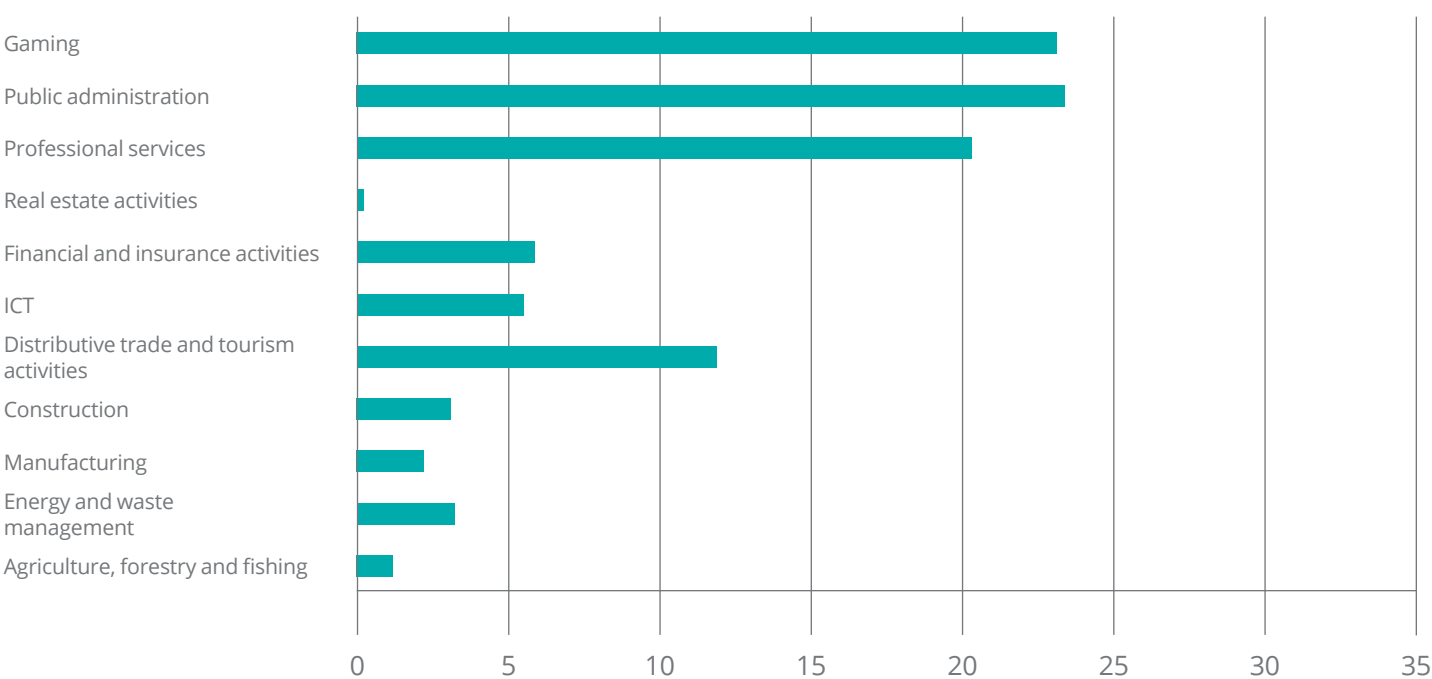


# Income approach

Salary outlays

Public administration, gaming, professional services and tourism related activities contributed to 79% of the aggregate salary income growth in the economy during 2017 Q2.

Sectoral contribution to income growth (%), 2017 Q2



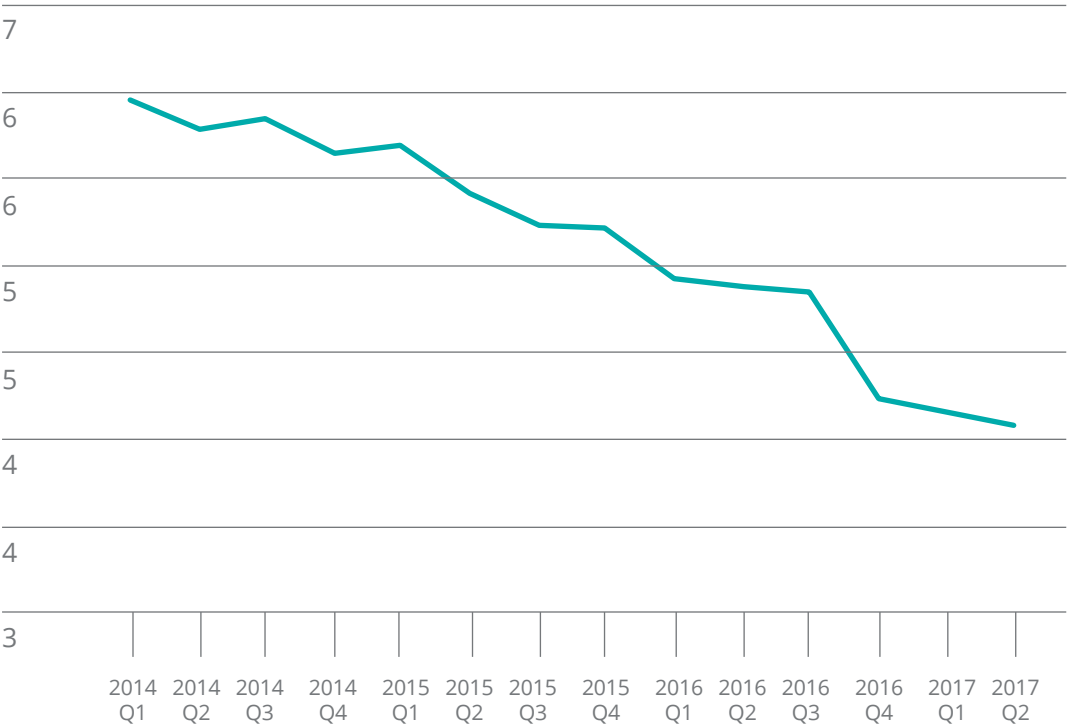
Source: NSO, Deloitte estimates



# Labour market

Favourable labour market conditions continue. Unemployment rate continues to be around 4% or close to the natural rate of unemployment.

Unemployment rate in Malta (%)  
Labour Force Survey



Source: NSO, CBM



# Public finances

A fiscal surplus of 1.8% of GDP was reported in Q1 2017, as a result of strong revenue growth which outpaced expenditure increases. General Government debt is being consolidated below the 60% benchmark. The latest figures from the consolidated fund reported a fiscal surplus of €31.1 million during the first eight months of 2017. Debt servicing costs continued to decrease as a result of the current interest rate environment. Central Government debt reported a €9.1 million drop in outstanding debt, compared to August 2016.



01

02

03

04

05

# Key variables of the macroeconomic outlook



Real GDP growth is expected to maintain a robust momentum. In 2018, real growth is expected to reach 5.6%.

The projected growth rates are more than three times those reported by Malta's counterparts in the Euro area.



Employment growth is expected to hover around 3.2% in 2017 and projected at 2.9% in 2018. Unemployment rates for both the current year and the next (2018) are forecasted at 4.6% and 4.7% respectively.



No apparent risks in relation to price stability are expected, though buoyant activity in the labour market is expected to mount price pressures to reach an annual inflation rate of 1.5% in 2017 and 1.8% in 2018.



Fiscal consolidation is reported to progress in line with Government's plans, especially to continue reducing the debt to GDP ratio.

General Government deficit is expected to fall to 0.5% of GDP in 2017, and projected to maintain the same relativity to GDP in 2018.

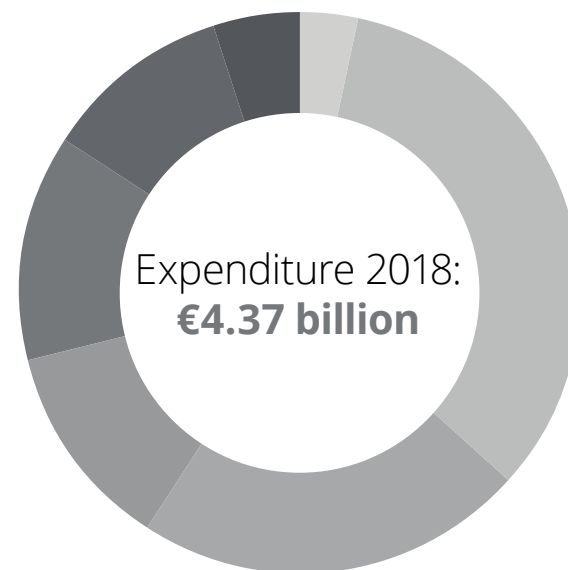
General Government debt is expected to decline to 54.9% of GDP in 2017, and projections for 2018 place debt at 50.8% of GDP.



# Fiscal resources and uses: Public finance revenue and expenses



- Income tax and corporate tax (€1.564 billion)
- Social security (€0.920 billion)
- Customs, excise and licences, tax and fines (€0.646 billion)
- Grants (€0.128 billion)
- Other non-tax revenue (€0.251 billion)
- VAT (€0.836 billion)
- General Government and extra budgetary units (€0.075 billion)



- Justice, law and order (€0.148 billion)
- Public services and other recurrent expenditure (€1.459 billion)
- Social security benefit (€0.982 billion)
- Education (€0.522 billion)
- Health (€0.575 billion)
- Capital expenditure (€0.472 billion)
- Interest on public debt (€0.212 billion)



# Capital infrastructure: Policy measures to alleviate congestion and external costs



## €700 million investment

over the next seven years to improve Malta's road network infrastructure

## €150 million investment

to build waste plant that will be used to generate energy and reduce the strain on the engineered landfills

Government to start discussions with the private sector to gradually introduce a scheme whereby consumers returning glass and plastic bottles are given a refund

New energy distribution centre at Ricasoli

Undertaking of environmental, technical and maritime studies for the implementation of the

gas pipeline between Malta and Italy

Commissioning of

two new solar farms

on reservoir sites managed by the Water Services Corporation

€50 million budgeted expenditure to build 700 new social housing units

Investment in the Paola health centre and a

new health centre in Kirkop



01

02

03

04

05



## 01 Economic overview



### Additional wards

at St. Vincent De Paule

Public Private Partnership to build

new outpatient blocks and  
new underground parking at  
Mater Dei

### Four new schools

to be built over the coming years in Marsaskala,  
Qawra, Msida and Rabat

Laying of

### second fibre optic cable

between Malta and Gozo

Investment of

### Blockchain lab

in MITA

### Research and ICT hub

at the ex-Malta Dairy Product Plant in Gozo to  
create additional office space in the Xewkija  
Industrial Area



01

02

03

04

05

02

# Tax matters



01

02

03

04

05

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# Income tax measures



## Fight against tax evasion

As part of its ongoing efforts to curb tax evasion and unfair competition, Government will be increasing penalties for agreements settled both through court judgement as well as out of court. The Joint Enforcement Task Force will be reinforcing its fight against tax evasion.



01

02

03

04

05



**Post-graduate courses**

As from academic year 2017/2018 persons under the age of 40 taking up qualifying full-time post-graduate courses at Masters or Ph.D. level will be entitled to a tax exemption on their income (up to €60,000) through the granting of tax credits which may be utilised over one year or two years respectively. This tax credit will be granted on a pro-rata basis to those taking up the qualifying course on a part-time basis.

This scheme is limited to individuals who have not previously availed themselves of other study-related schemes.

**Income tax benefit applicable to employees**

Part-time and full-time employees earning less than €60,000 per annum will receive a one-time refund, ranging 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

**Income tax for pensioners**

The amount of annual pension income not subject to tax will be increased to the amounts indicated below.

2018 (€)	
Single rate	13,200
Parent rate	13,200
Married rate	13,200 (+€1,000 income derived from other sources)



01

02

03

04

05

# Property related tax measures

### Duty exemption for first time buyers

Individuals buying their first residential property currently benefit from a duty exemption on the first €150,000 paid. Such exemption will be further extended to first time acquisitions made in 2018.

### Reduction in duty for second time buyers

Individuals who have sold their first residential property in order to acquire another residential property shall be eligible to a refund of duty of up to €3,000, provided that they do not own any other property at such time. Such maximum refund is increased to €5,000 for persons with special needs. Parents of a person with special needs may also benefit under this scheme. This measure will come into force as from 10 October 2017.

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

Acquisitions of property located in a UCA which took place between 1 January 2016 and 1 October 2017 were subject to duty at the reduced rate of 2.5% instead of 5%. This scheme shall be extended by one year.

### Duty on acquisition of property in Gozo

Individuals acquiring their residential property in Gozo currently benefit from a reduction in the duty rate from 5% to 2%. This scheme shall be extended by one year.



Image: © James Scicluna



01

02

03

04

05



# Value added tax and excise duty measures



### Reduction in VAT threshold for small enterprises

The Minister has announced that the amount of turnover per annum below which small undertakings may opt to register as a VAT exempt person (referred to as an article 11 type of VAT registration) will increase from the current €14,000 to €20,000.

### Sustainability in the gaming and financial sectors

As a way of promoting growth in the gaming and financial sectors, Government is proposing the introduction of new VAT grouping regulations whereby two or more legally independent persons established in Malta who are bound by financial links, economic links and organisational links will have the option to register as a single taxable person. As a result of this, supplies between group members will not trigger a VAT



01

02

03

04

05

## 02 Tax matters



charge, thus allowing members to outsource functions internally within the group without incurring an irrecoverable VAT cost.

### **Alignment of excise duty on steel rod and bars**

It is being proposed that existing anomalies in excise duty applicable to steel rods and bars be eliminated through the alignment of excise duty applicable on the importation of similar products.

### **Grants on the purchase of bicycles and electric bikes (pedelec bicycles), motorcycles and scooters**

In order to promote alternative ways of transport and a healthy lifestyle, the grant of 15.25% on the purchase price of bicycles and electric bikes (pedelec bicycles) shall be extended by another year. Companies providing bicycles and electric bikes (pedelec bicycles) for hire will also benefit from this grant.

Furthermore, the Government will also provide a grant of up to €400 on the purchase of motorcycles, scooters and electric bikes.

### **Reduced VAT rate on hiring of bicycles**

A reduced VAT rate of 7% shall be introduced on the hiring of bicycles.



01

02

03

04

05



03

# Other measures



01

02

03

04

05



# Incentives to industry



## Malta Enterprise schemes

Changes will be implemented to the MicroInvest and BusinessStart schemes. MicroInvest is being extended to undertakings which employ not more than 50 full-time employees. In addition, the maximum eligible tax credit for a single undertaking has been increased as follows:

	Current maximum eligible tax credit (€)	New maximum eligible tax credit in (€)
Undertaking based in Malta	30,000	50,000
Undertaking based in Gozo	50,000	70,000
Undertaking with women holding the majority of shares or self-employed women	50,000	70,000

## Further investment in Gozo

In order to further incentivise job creation in Gozo by the private sector, a refund of 30% (capped at €6,000) of the average wage of each employee will be granted for employment contracts of at least three years.



# Property related measures



Image: © James Scicluna

## Rental subsidies

The thresholds for persons to qualify for a rental subsidy will be further widened such that more persons are eligible. Furthermore, special thresholds shall apply for elderly persons aged 65 years or more. Conditions for such measures shall be published by the Housing Authority.

## Social housing incentives

The scheme *Nikru Biex Nassistu* introduced to increase social housing, will be extended to next year. Under this scheme, landlords rent their property to the housing authority for a 10 year period.

The Housing Authority will launch a scheme to offer financial assistance of up to €25,000 for restoration of properties to be used as social housing.



01

02

03

04

05



### 03 Other measures

#### Social loans to acquire a residence

The Government has come into an agreement with APS Bank for the granting of social loans to 100 prospective property buyers. This initiative will be extended through an agreement with Bank of Valletta plc for another 300 social loans.

#### Property rental sector

A white paper shall be issued to create a legal framework for the property rental sector which is fair to both the owner and the lessee. This shall cover a number of considerations such as the requirement to register rental contracts.

#### Equity release facilities

A working group shall be set up with the aim of introducing a regulatory framework for equity release facilities to allow property owners to continue residing in that property while receiving either a one-time payment or else monthly instalments from a financial institution, in exchange for the assignment of the right over the property or a portion thereof. Upon the demise of the person living in the property, the financial institution will be entitled to recover the amount originally paid to the property owner, together with any accrued interest.



01

02

03

04

05

# Social measures

**Additional one day leave**

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

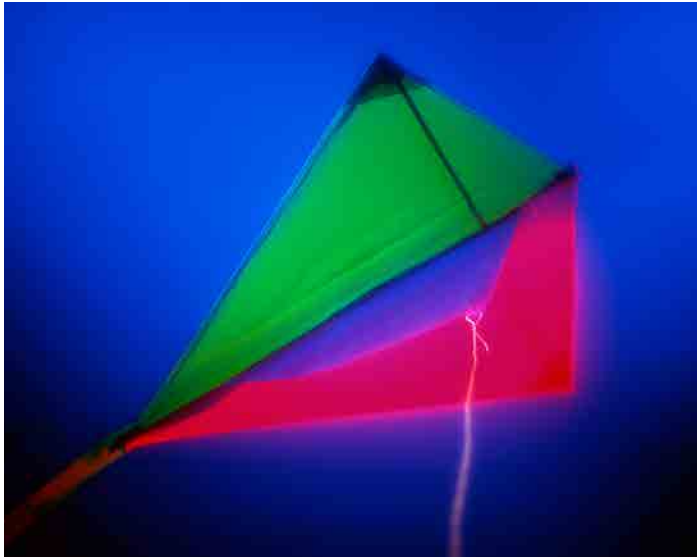
**In-work benefit**

The current ‘in-work benefit’ applicable to parents where only one parent is employed, will increase from €350 to a maximum of €450 per child per year, depending on the annual income of the family. This benefit is applicable to families with an annual income of between €6,600 and €16,500 as follows:

Annual income (€)	In-work benefit in 2017 (€)	In-work benefit in 2018 (€)
6,600 – 9,499	€350	€450
9,500 – 11,999	€300	€400
12,000 – 12,999	€250	€350
13,000 – 13,999	€150	€200
14,000 – 14,999	€100	€140
15,000 – 16,500	€52	€75



### 03 Other measures



#### Service pension

Service pensions shall increase by €200 per year.

#### Senior Citizens Grant

The €300 annual grant for persons over the age of 75 who still reside in their personal home, will continue to apply next year.

#### Pensioners

Currently, individuals who continue working beyond pensionable age are required to continue paying social security contributions until the age of 65. As of 2018, pensioners missing social security contributions, and not earning a full pension will be subject to a new pension assessment upon reaching the age of 65, which will take into consideration any social security contributions made between pensionable age and the age of 65.

Furthermore, self-employed pensioners who have not reached the age of 65 may opt to pay social security contributions at the rate of 15% on their net income rather than the full social security contributions as is currently applicable.

#### Government Savings Bond for Pensioners 62+

Government Savings Bonds 62+ for pensioners will be issued again with attractive interest rates.



01

02

03

04

05

### 03 Other measures



#### Public transport

The Government will be implementing various measures to improve and strengthen the means of public transport.

#### Free Tal-Linja card

In 2018, persons aged between 16 and 20 will be entitled to free public transport.

#### School transport

The Ministry of Education will be working with school transport providers to set-up a plan whereby students attending Independent and Church schools will benefit from free school transport with effect from the 2018/2019 scholastic year.

#### Environmentally friendly vehicles

As a measure to incentivise the use of environmentally friendly vehicles, an exemption from registration tax for electric/hybrid vehicles will be introduced. No road licences will be levied on such vehicles during the first five years from registration.



01

02

03

04

05



### 03 Other measures

# Administrative and other measures

## Offset of payments

In order to improve cash flow for companies that offer services to Government, a system will be introduced which will allow the offset of payments due to/from Government.

## Online submission services

The facility to submit social security forms online is being extended to companies employing 10 or more employees.

## Citizenship scheme

The Malta Individual Investor Program (Citizenship by Investment) is being extended to attract further investment.



01

02

03

04

05

04

# Other recent tax legislative amendments



01

02

03

04

05

# Notional Interest Deduction (NID)

ACT No. XVI of 2017, the 2017 Budget Measures Implementation Act, enacted an enabling provision for the introduction of rules on deductions of notional interest on risk capital. The concept of NID is aimed at approximating neutrality between debt and equity financing. These rules came into force with effect from year of assessment 2018 through Legal Notice 262 of 2017, the Notional Interest Deduction Rules, 2017 (NIDR) published on 5 October 2017.

The NIDR are designed to align the tax treatment of cost of equity with cost of debt (the latter being a tax deductible expense) and bring equity financing on a par with debt financing, by granting entities the option to claim a deduction against their chargeable income, of notional interest deemed to be incurred on their equity.

### Salient features of the NIDR

- Companies (including Malta permanent establishments of foreign companies) and partnerships have the option to claim a deduction of notional interest deemed to be incurred on their risk capital, against their chargeable income;
- The NID is quantified by multiplying
  - i. The notional interest rate - being the risk free rate set by reference to the current yield to maturity on Malta Government Stocks with a remaining term of approximately 20 years, plus a 5% premium; by
  - ii. The entity's total risk capital as at financial year end – being the share capital including any share premium, interest free debt, positive retained earnings, and any item reported as equity including contribution reserves, in the entity's financial statements;
- The NID claimed in any year is capped at 90% of the chargeable income, with any excess being carried forward to be deducted against chargeable income derived in future years;
- When a company or partnership claims a NID, the shareholder or partner is deemed (for tax purposes) to have received the corresponding notional interest income from the company or partnership;
- Dividend distributions made out of profits relieved from tax through a NID claim would not be chargeable to further tax at the level of the shareholder;
- The NIDR contain specific anti-avoidance rules to curb abusive application of the NIDR.



01

02

03

04

05

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