



The game plan

Serving you the main points

Malta Budget '19

23 October 2018

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Disclaimer: This publication reflects high level announcements made in the Budget Speech on 22 October 2018, 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.

Economic overview

Government's fiscal priorities

**The prime fiscal objective is to
operate within a fiscal surplus**

**Redistribution via a number
of initiatives and incentives
to alleviate poverty and social
injustice**

**Environment, water and waste
management policies aimed
to mainstream a greener
economy**

**Anti-money laundering policies
together with digital innovation
to harness new niches in online
gaming, blockchain, fintech and
regtech shape Government's
economic vision**

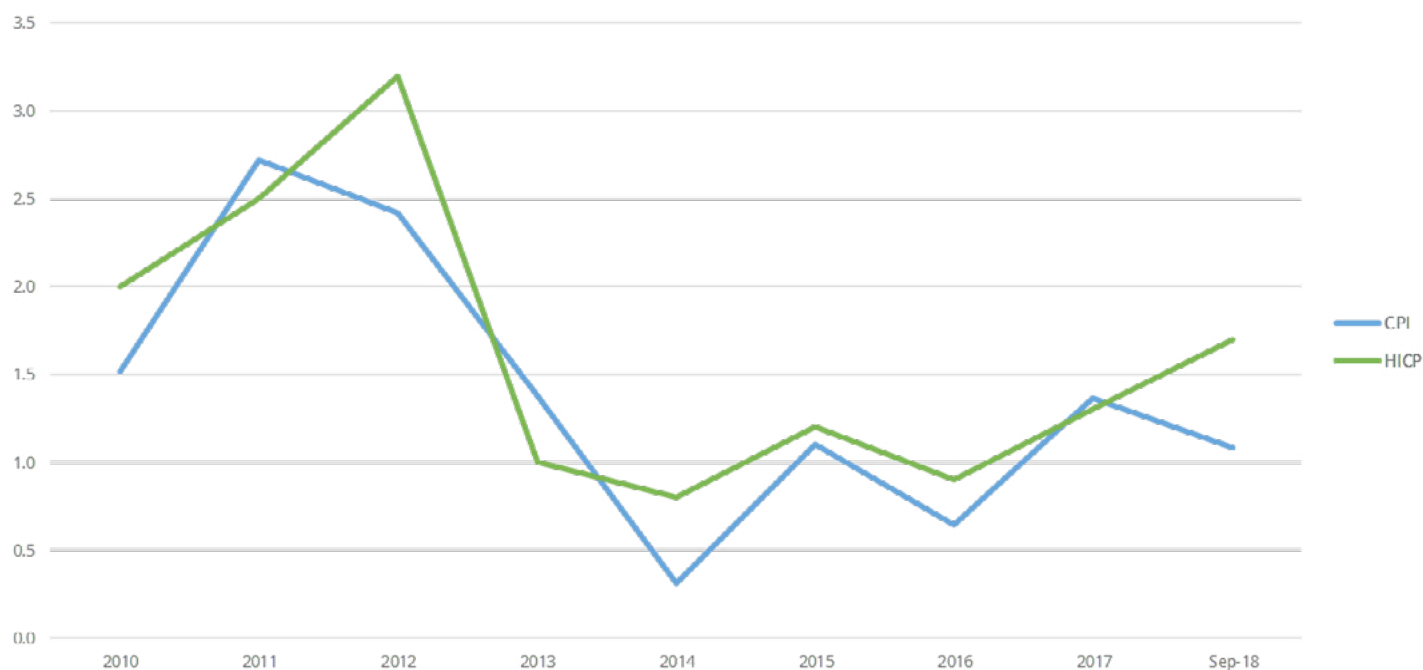
Headline inflation

Cost of living

General consumption prices are gradually picking up but no apparent imminent risks on price stability are visible.

- The national yardstick employed for the calculation of COLA (CPI), is expected to hover around 1.1% during the course of 2018.
- Meanwhile, the EU Harmonised Measure Index of Consumer Prices (HICP), is expected to read 1.7% this year and 1.9% by the end of 2019.
- Within this context, no apparent serious concerns on price stability are evident and against this background the cost of living adjustment agreed with the social partners will be €2.33 per week.

**Price Dynamics :
HICP and CPI over time**

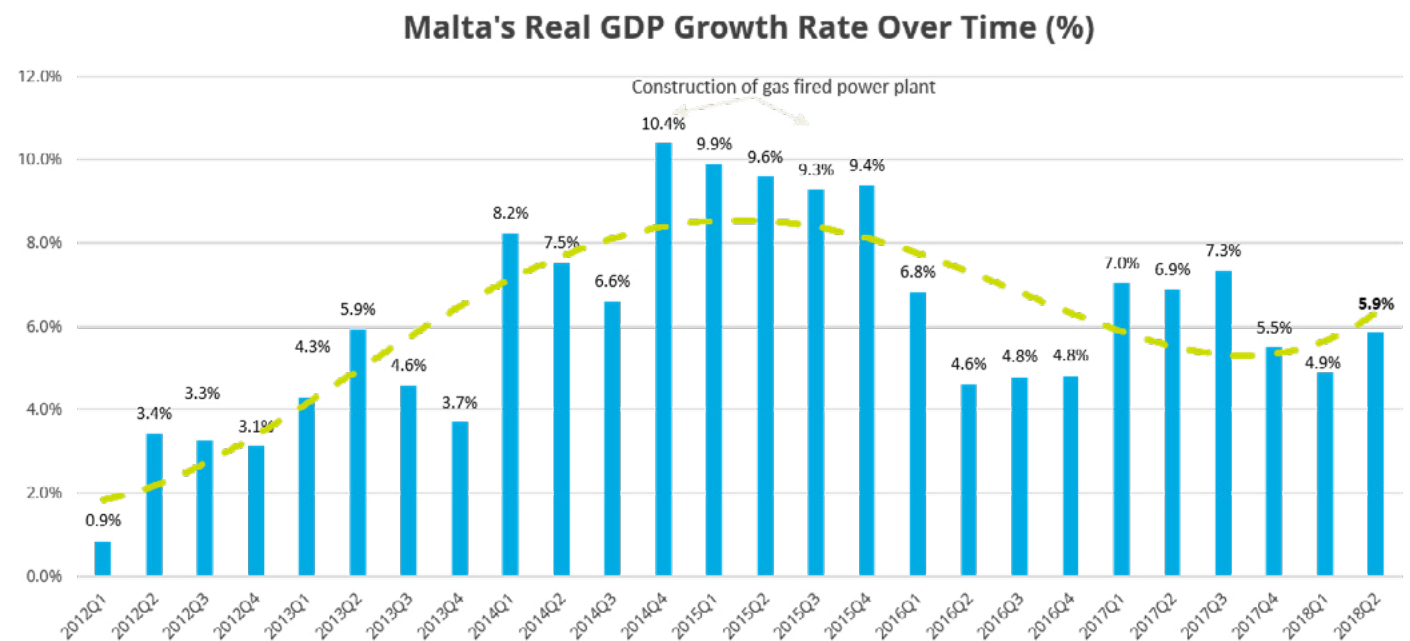


Latest macroeconomic highlights

Macroeconomic developments

Output

Real economic activity in Malta continued to report robust growth rates. During the first half of 2018 real growth was reported at 5.4%.



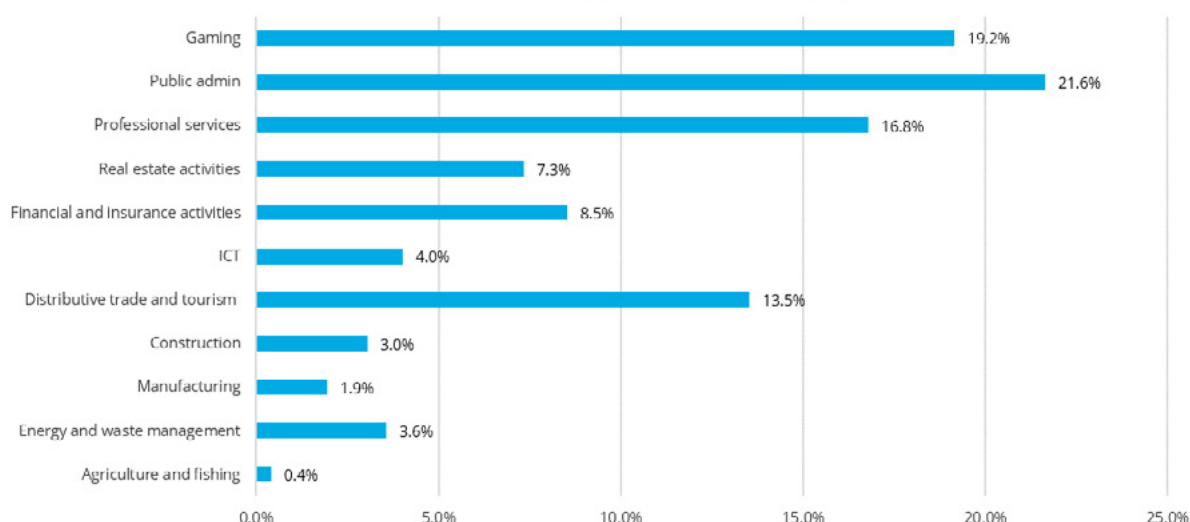
Source: NSO

Macroeconomic developments (Cont.)

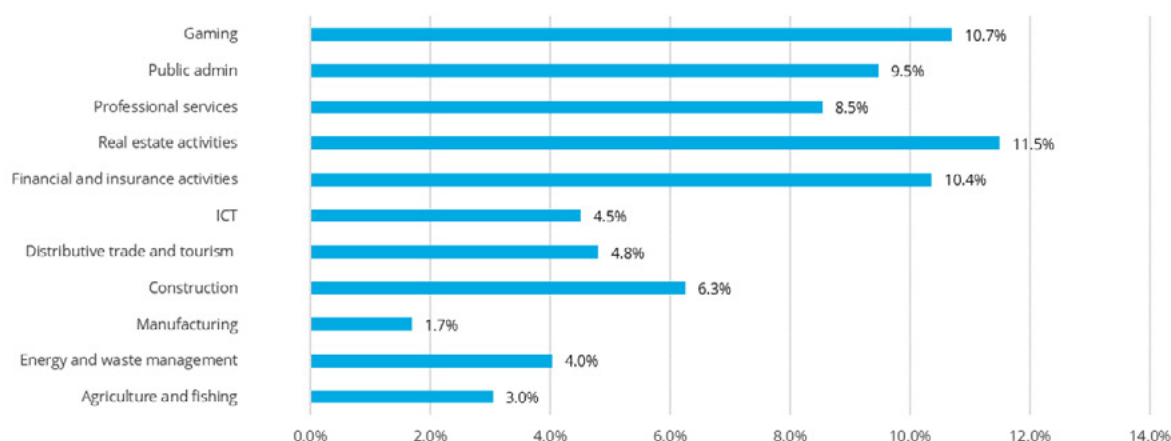
Contribution to growth and annual growth: By sector

Public administration, professional services, distributive trades and tourism related activities, together with gaming and betting activities remain the highest contributors to growth.

Sectoral contribution to growth in GVA (%), H1 2018



Sectoral annual growth (%), H1 2018

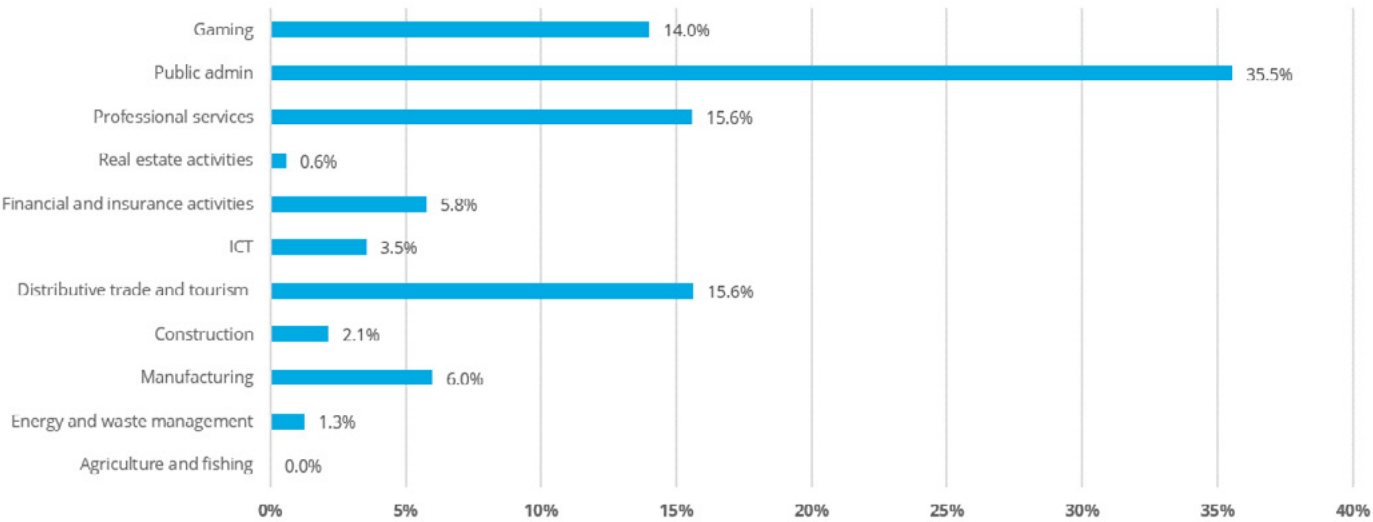


Macroeconomic developments (Cont.)

Salaries increased by 8.2% in H1 2018
across all sectors

Public administration, gaming, professional services, distributive trade and tourism related activities contributed to 81% of the aggregate salary income annual growth earned during the first six months of 2018.

Sectoral contribution to annual salary growth (%), H1, 2018



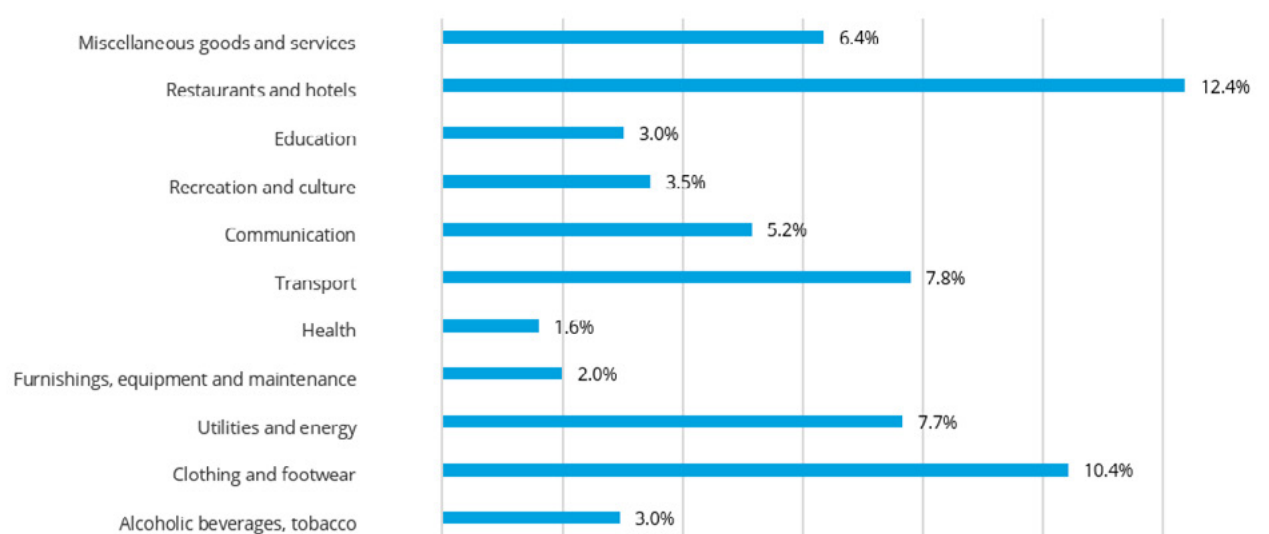
Source: NSO, DT Estimates

Macroeconomic developments (Cont.)

Household consumption expenditure up by 6.6%

During the first half of 2018, total private consumption increased by 6.6% (including spend by foreigners). Restaurants and hotels and fashion retail are the prime drivers of expenditure growth.

Private Consumption Annual Growth (%), H1 2018



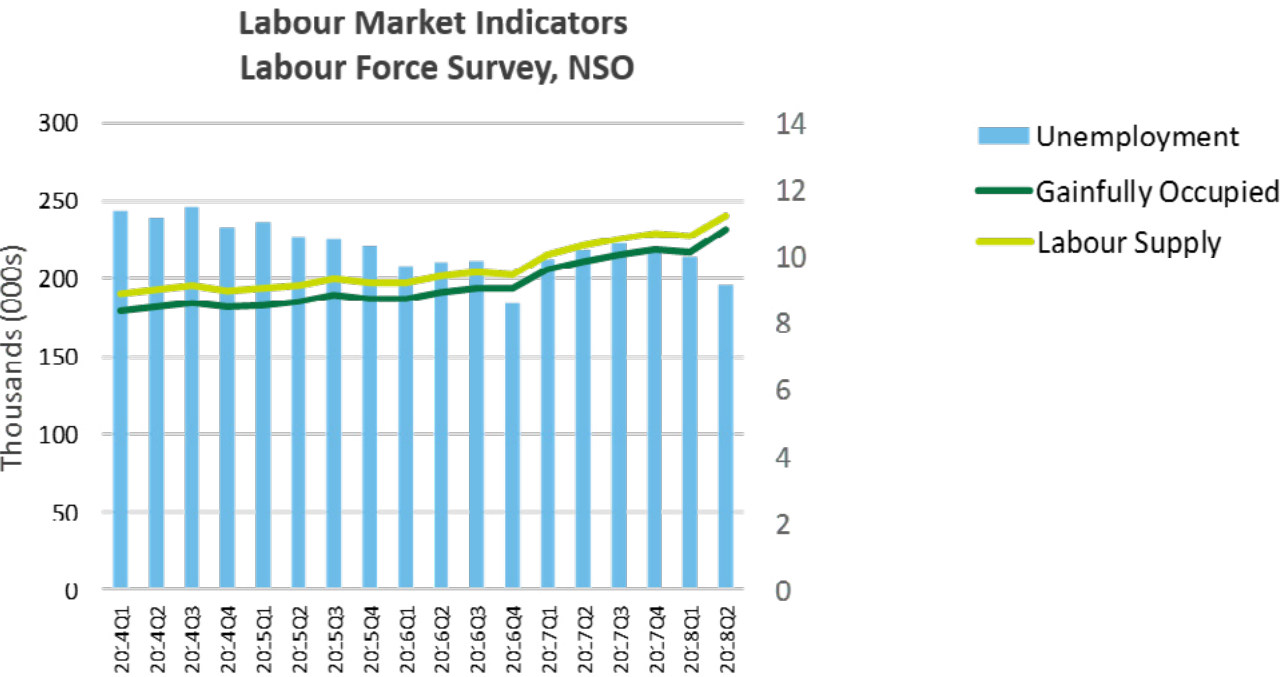
Source: NSO

*Includes expenditure by foreigners

Macroeconomic developments (Cont.)

Labour market

Favourable labour market conditions continue. The gainfully occupied continued to increase and labour market is operating at an unemployment rate of less than 4.0%.

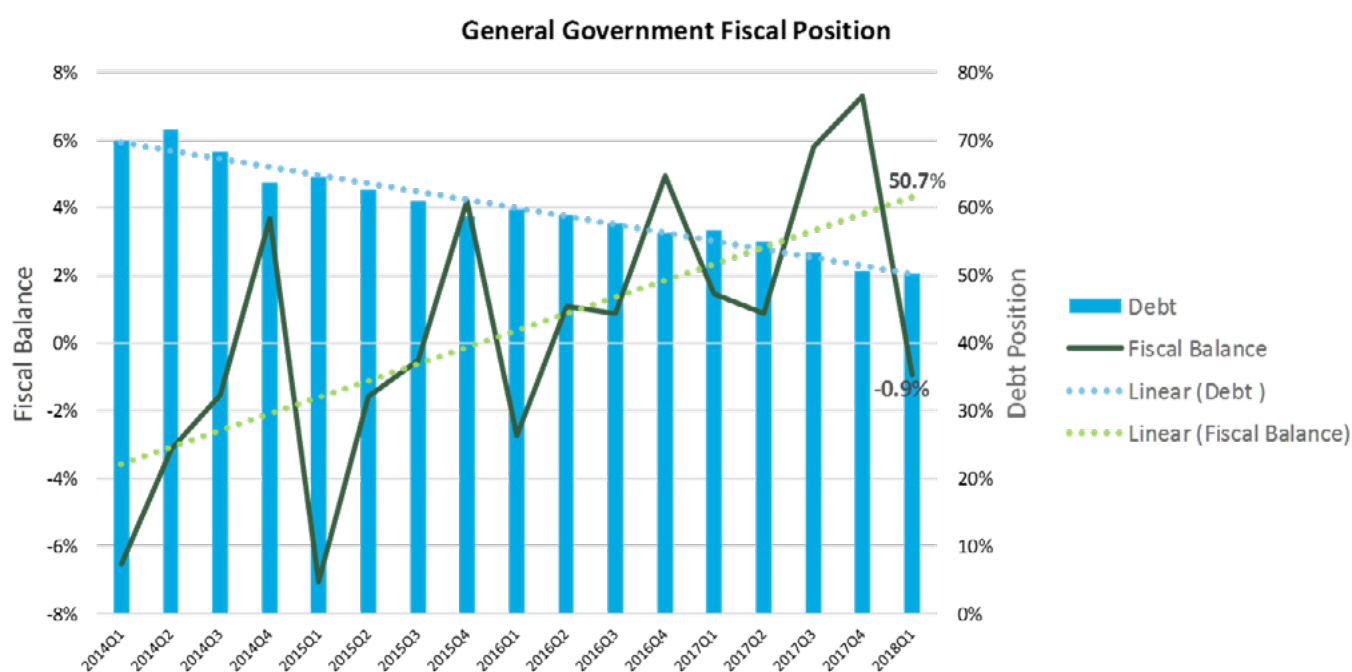


Source: NSO

Macroeconomic developments (Cont.)

Public finances

Fiscal surplus and declining debt levels are generally becoming a characteristic of Maltese public finances. Increased tax revenues generated through increase in economic activity and proceeds from the IIP scheme are primary contributors.



Source: NSO

Medium term outlook

Positive economic trends are expected to continue in 2019

Real GDP figures

GDP figures show that the economy is set to continue reporting robust economic activity, although economic growth rates are set to ease in the forthcoming years.

In 2019 real GDP growth is projected at 5.3%, supported by both demand and supply factors.

Annual inflation

Inflation is expected to rise from 1.3% in 2017 to 1.7% in 2018.

Inflation is expected to rise to 1.9% in 2019, reflecting a pickup in domestic cost pressures.

Labour market

As a result of fast economic growth, the labour market is projected to remain tight, with the unemployment rate projected to be stable at 4.3% in 2018 up to 2020.

Investment levels

Real investment levels are expected to grow by 8.4% in 2019, reflecting continued, strong momentum in residential investment, as well as the commencement of major construction projects in education, roads and health. Private consumption is set to rise by 4.1%.

The bearing of private non-residential investment is also expected to be positive, and should result in increased absorption of EU funds.

General government balance

Further revenue from the Individual Investor Programme and sustained economic performance are expected to allow Government to sustain current surplus positions.

Fiscal surplus is expected to reach 1.3% of GDP in 2019. Public debt as a percentage of GDP is projected at 43.8%.

Fiscal Resources and Uses in 2019



Revenue 2019: €5.145B

Income Tax €1.869B
 GG Adj. including EBU: €0.132B
 Social Security €1.034B
 VAT €0.944B
 Customs, Excise & Licences,
 Tax and fines €0.725B
 Grants €0.2B
 Other non-tax revenue €0.241B

Expenditure 2019: €4.98B

Interest on Public Debt € 0.199B
 Capital Expenditure €0.662B
 Health €0.637B
 Education €0.591B
 Social Security Benefits €1.029B
 Justice, Law & Order €0.163B
 Public Services & Other Recurrent
 Expenditure €1.699B

Capital projects

- €100 million investment in Malta's road network infrastructure during 2019; part of the 7 year plan launched in last year's budget
- Policy plans for new parking zones in urban areas managed by private investors
- New Material Recovery Facility plant to help in waste management
- Electricity distribution centre upgrades in Paceville, Marsaskala and Kappara
- New Reverse Osmosis in Hondoq ir-Rummien, Gozo
- New water distribution tunnel between Pembroke Reverse Osmosis and water reservoir in Ta' Qali
- €10 million project to upgrade Paceville area
- Modernisation of Rinella filming and tank facilities
- Major capital projects earmarked for Gozo include SME village, a new home for the elderly, Imgarr park and ride, new law courts, new health center in Victoria, rebuilding of Marsalforn breakwater and the first Gozo aquatic center
- Upgrade of existing mental health facilities and a new mental health hospital planned close to Mater Dei
- New outpatients block and 500 underground car park at Mater Dei



Tax matters

Fiscal measures

Employee tax benefit

Tax refunds granted during 2018 to employees earning less than €60,000 shall also be granted in 2019. 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

Tax relief for single part-time workers

Individuals registered as single taxpayers, whose income consists of part-time income ranging between €9,100 and the minimum wage threshold, will not be subject to tax.

Private pensions

Measures shall be introduced to enhance the Third Pillar Pension Scheme and the Voluntary Occupation Pension Scheme. These include an increase of the tax credit from 15% to 25% of the qualifying contribution.

Tax deductions for parents with children attending private schools

The maximum amount of tax-deductible private school fees shall increase by €300.

Reduced duty rate on intra-family transfers

The reduced duty rate of 1.5% currently applicable for qualifying business transfers effected by parents to their children shall be extended by another year.

Voluntary sector

Compliant voluntary organisations duly registered and recognised by the Commissioner for Voluntary Organisations having annual income not exceeding €10,000 shall benefit from a tax exemption.

Income tax for pensioners

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

2019 (€)	
Single rate or parent rate	13,434
Married rate	13,434 (+ €1,000 derived from other sources)

Property related tax measures

Duty exemption for first-time buyers

The duty exemption currently available for first-time home buyers on the first €150,000 shall continue to apply during 2019.

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 duty of up to €3,000 (or €5,000 in the case of persons with special needs) provided that they do not own any other property at that time. This measure is being extended to qualifying acquisitions made during 2019.

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

Acquisitions of property located in a UCA are subject to a reduced duty rate of 2.5% instead of 5%. This reduced rate shall continue to apply during 2019.

Duty on acquisition of property in Gozo

Individuals who acquire their residential property in Gozo are currently subject to a reduced duty rate of 2% instead of 5%. This reduced rate shall continue to apply during 2019.



Value added tax and other indirect tax measures

Reduced VAT rate on electronic publications

In line with the EU Council's decision earlier this month, the Minister has announced that e-books and other digital publications, including electronic newspapers and magazines, shall benefit from the reduced VAT rate of 5%. This aligns the VAT rate on digital publications with that applicable to printed publications. However, the 5% VAT rate shall not apply to publications wholly or predominantly devoted to advertising, or wholly or predominantly consisting of audible music or video content.

Grant on domestic water purification apparatus

The Minister has announced the award of a grant equivalent to the VAT element payable upon the purchase and installation of domestic reverse osmosis systems and similar domestic water purification apparatus. This grant is capped at €70.

Wedding grants

As from next year, wedding grants will be subject to an increase of €250 up to a maximum of €2,000.

Grant on musical instruments

A grant available in relation to the purchase of musical instruments, which is equivalent to the VAT element payable thereon, is being extended so as to be applicable not merely to domestic purchases in Malta but also where musical instruments are purchased from overseas.

Grant on purchase of bicycles and electric bikes, motorcycles and scooters

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

Furthermore, Government shall also extend the grant of up to €400 available upon the purchase of motorcycles, scooters and electric bikes for 2019.

Refund of VAT paid on vehicle registration tax

The Minister has announced the final tranche of refunds of VAT paid on vehicle registration tax in respect of new vehicles registered during 2008.

Customs and free zones

In order to promote further investment into Malta's international logistics services infrastructure, new legislation is expected to provide for the setting up of additional free trade zones, similar to the Malta Freeport. Government has also announced further investment into Malta Customs with a view to enhancing security, combating illicit activity and limiting evasion of taxes and duties.

Industry incentives

Measures

Malta Development Bank

The Bank intends to offer new schemes and facilities in order to contribute to further investment, both by SMEs as well as in infrastructure projects.

Malta Stock Exchange

The Malta Stock Exchange shall be assisting local fintech enterprises. In this regard, the Exchange has launched the Fintech Accelerator programme, which aims to assist start-ups within this sector.

The Malta Stock Exchange will also continue to focus on its vision to partner with companies operating within the blockchain and cryptocurrencies sector.

Furthermore, it is planned that as from next year, the necessary processes will be put in place to enable Real Estate

Investment Trusts (REITs) to be traded on the Exchange.

Incentive for job creation in Gozo

Employers are entitled to refunds of up to 30% of salary or €6,000 for every new job created by the private sector, as long as the employer offers a three-year term contract to the employee. This initiative, which is aimed at incentivising job creation in Gozo by the private sector, shall be extended for another year.

Pharma

[Act X of 2018](#) on the Production of Cannabis for Medicinal Use came into effect on 17 April 2018. The Malta Medicines Authority shall continue to develop regulations with respect to the production of cannabis for medical use.



Other measures

Social measures

Free tal-Linja card

The scheme granting free bus passes to people aged between 16 and 20 years is being extended for another year. Furthermore, the scheme is also being opened up to 14 and 15 year olds and to full-time students aged 20 and over. It is also envisaged to include certain categories of people with disability within the scheme.

Treatment of waste

Preparations shall commence on the construction of a new material recovery facility as well as temporary infrastructure in order to limit the amount of exported recyclable waste. Furthermore, the design of a waste-to-energy facility shall continue, along with new proposals for the sustainable regulation of commercial waste.

Scheme for the collection of beverage bottles

Government shall seek to reach agreement over the manner in which a system of deposits on beverage containers will be implemented.

Additional one day leave

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

Minimum pay adjustments

Employees earning minimum wage during 2017 will, during the course of next year, benefit from another €3 weekly increase. Employees earning more than the minimum wage shall benefit from a proportionate increase.

Increase in children's allowance

Families with annual gross income of less than €20,000 will benefit from a maximum €96 increase in the children's allowance for every child under 16 years of age.



Self-employed individuals

Self-employed individuals who refrain from their self-employment activity and seek employment shall be eligible to unemployment benefits depending on the social security contributions paid.

Payment in relation to chronic illness

Benefits to married couples where both individuals suffer from chronic illness will increase by €5.14 weekly. As a result, both individuals shall receive the same amount.

Pension increases

Pensioners shall benefit from a weekly increase of €2.17 as from 2019. This increase is in addition to the COLA, resulting in a total weekly increase for pensioners of €4.50.

Service pension

The Minister announced certain changes to the disregarded service pension income for the purposes of determining the social security pension.

Senior citizens grant

The €300 annual grant for persons over the age of 75 who reside in their personal home shall continue to apply during 2019.

Bonus for non-pensioners

The Minister announced an increase of €50 in the bonus awarded to people who had made social security contributions for more than one year but who nonetheless do not qualify for a pension.

Government savings bonds

People aged 62 and over will be able to subscribe to Government savings bonds yielding a more favourable return than fixed term bank loans.

Assistance for disabled persons

During 2019, new measures will be introduced for the benefit of disabled persons including a weekly increase from €140 to €150 in the assistance for severely disabled persons who are unable to work.

Allowance for disabled children

As from 2019, the allowance granted to parents with children having a physical or mental disability shall be increased by €5 to €25 per week.

Allowance for carers

With effect from 2019, an exemption from the means test currently applicable to people who take care of the elderly will be introduced with the aim of having a positive impact on the number of carers.

Property rental subsidies

As from 2019, the means test for property rental subsidies will be replaced with two criteria in order to establish eligibility,

based on gross income and rental costs respectively. The maximum subsidy is expected to reach between €3,000 and €5,000.

Incentive for landlords

Government is considering the introduction of a measure whereby landlords who rent out a property at an affordable rate for a period of at least seven years would qualify for a reduced rate of tax upon eventual sale of that property.

Equity sharing scheme

Pursuant to this scheme, a financial institution would grant a loan to a person aged over 40 for the purpose of financing

the acquisition of a residential home, whereby Government would pay the interest component.

Home equity release

Measures relating to home equity release facilities will be announced with a view to allow pensioners to improve their quality of life and to continue residing in their property while receiving either a one-time payment or monthly instalments from a financial institution, in exchange for the assignment of the right over the property or a portion thereof to the financial institution in question.

Financial aid to Gozitan government employees

Gozitans employed by Government who cross the border on a daily basis and organise collective transport to and from their place of employment shall be granted a partial compensation of €1.50 per day.

Gozitan works subsidy

The Gozitan Works Subsidy, entitling Gozitans employed in the public sector working in Malta to a refund of the ferry ticket cost, will - as from 1 January 2019 - be extended to Gozitans working within the private sector in Malta.



Other tax measures

Anti-tax avoidance measures

Implementation of the EU Anti-Tax Avoidance Directive I (ATAD 1)

The rules transposing ATAD 1 shall be implemented into Maltese law as from 1 January 2019 and shall provide for the introduction of the following anti-tax avoidance measures:

- An interest limitation rule, which shall apply when borrowing costs of a company exceed interest receivable. Excess interest deductions shall be capped at 30% of EBITDA. This rule shall not be applicable where the exceeding borrowing costs do not exceed €3M and shall not apply to financial undertakings.
- An exit tax rule, which shall apply when a company changes its tax residence or transfers its assets/business to another jurisdiction. The company will be subject to tax on its accrued gains as if it would have disposed of all of its assets at the time of exit. This rule shall not be applicable with respect to certain financial transactions.
- A controlled foreign company rule, which shall subject to tax in Malta profits which are derived by a direct/indirect subsidiary of a Maltese company, where the tax paid on such profits outside of Malta is less than half of the tax that would have been paid had the income been subject to tax in Malta. This rule shall be subject to certain minimum thresholds to be established by law.
- A general anti-abuse rule, which shall extend the general anti-abuse provision already existing in Maltese tax law.

Implementation of the EU Anti-Tax Avoidance Directive II (ATAD 2)

ATAD 2 shall replace ATAD 1 with respect to its anti-hybrid provisions. The rules transposing ATAD 2 are expected to be



implemented into Maltese tax law within the deadlines stipulated in the Directive, these being 1 January 2020 and 1 January 2022.

Ratification of the OECD Multilateral Instrument

By way of [Legal Notice 142 of 2018](#), Malta ratified the OECD Multilateral Instrument which implements key recommendations of the OECD Base Erosion and Profit Shifting project.

Other measures

Implementation of the EU Tax Intermediaries Directive (DAC 6)

On 25 May 2018, the Council of the EU adopted a directive amending Directive 2011/16/EU as regards mandatory automatic exchange of information in the field of taxation in relation to reportable cross-border arrangements, laying down mandatory disclosure rules for tax intermediaries. The rules transposing DAC 6 are expected to be implemented into Maltese tax law within the deadline stipulated in the Directive, this being 1 January 2020.

The Digital Economy

Malta is actively engaged in discussions concerning the digitalisation of the economy and shall contribute to the

establishment of a system of international taxation that is appropriate to meet the challenges and opportunities of highly digitalised business models.

Implementation of the EU Dispute Resolution Mechanism Directive (DRM)

On 10 October 2017, the Council of the EU adopted a directive on tax dispute resolution mechanisms in the EU with respect to disputes that arise from the interpretation and application of double taxation agreements. The rules transposing DRM are expected to be implemented into Maltese tax law within the deadline stipulated in the Directive, this being end of June 2019.

Introduction of a Patent Box Regime

A patent box regime that is in line with the

EU Code of Conduct on Business Taxation and the standard adopted by the OECD Base Erosion and Profit Shifting project (the Modified Nexus Approach) shall be introduced.

Anti-money laundering initiatives

Government has put in place a strategy with the aim of continuing to strengthen regulatory institutions in their efforts to combat money laundering.

Citizenship

Identity Malta shall set up a specialised unit which shall ensure compliance with all regulations in terms of Malta's various immigration schemes. Identity Malta shall also be introducing further online facilities and extended services in Gozo.



Technology Strategies

Blockchain strategy

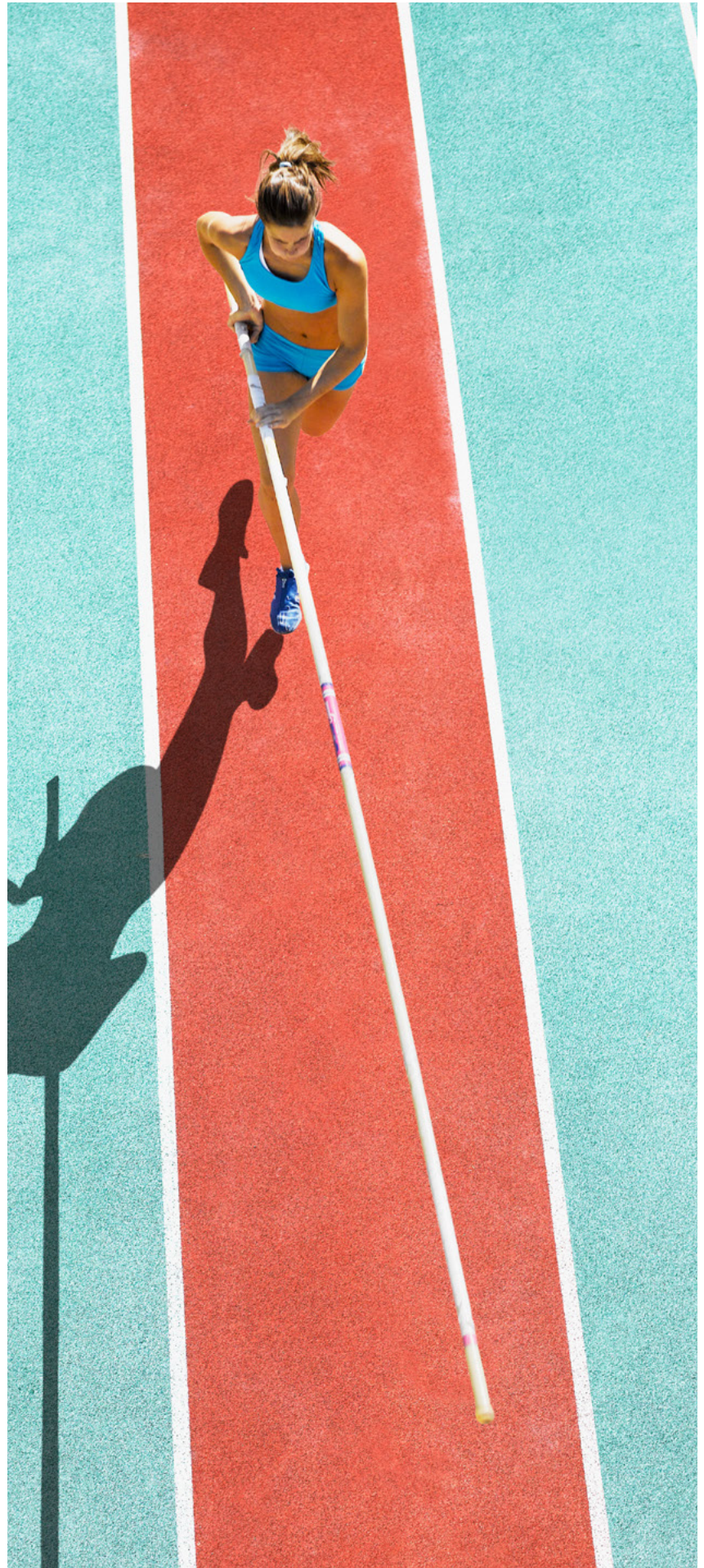
Following the introduction of legislation concerning blockchain technology, Government has set up the Malta Digital Innovation Authority as well as a specialised unit within the Malta Financial Services Authority for fintech.

Government will also be creating a legal framework for disruptive technologies such as artificial intelligence and Internet of Things.

In addition, the Malta Communications Authority shall be conducting a feasibility study in relation to 5G technology.

Tech.mt

Government shall be consolidating its marketing efforts related to disruptive technologies under a common framework – Tech.mt – in order to enhance its marketing efforts overseas.



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