Budget 2017: Highlights and Opportunities

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KPMG Comment

Malta has continued to outperform its Eurozone partners with a real GDP growth of more than double the Eurozone average of 1.9% for the first half of 2016. The economy has also witnessed an increase of some 7,400 jobs of which 7,000 are in the private sector while inflation has remained stable.

The Government has chosen, in the current environment of strong economic performance, to focus primarily on the themes of social justice and investment in the 2017 Budget. The measures focused on social justice include the introduction and/or extension of a number of measures such as:

- Extension of the in-work benefit
- Increase in the supplementary allowance
- Increase in the minimum pension
- Exemption on pension income of up to EUR13,000
- Reform of the Disability Pension
- Significant increase in the rental subsidy
- Pilot project - Preferential tax rates for landlords entering into long-term residential leases to low-income families
- Extension of the Carer at Home Project
- Various initiatives in the educational space, including significant investment into the University, MCAST and ITS as well as a formal mechanism through the Skills Council, working with industry to pro-actively identify and address anticipated skill shortages
- Introduction of tax credits for employers who voluntarily offer private pensions to their employees

It is also worth mentioning that the Government is considering extending the sick leave benefit for parents to circumstances where their child is sick.

While this fourth budget of the current legislature is certainly focused, in no small part, on addressing social inequality and pro-actively targeting those in/at risk of poverty, the Government has also presented a comprehensive package of measures aimed at raising the quality of product Malta. Such measures include:

- The setting up of the Malta Development Bank to focus on infrastructural investment
- The Setting up of the Malta Export Credit Agency
- The commencement of activity by the National Economic and Social Development Fund
- The set-up in Malta of an international accelerator for start-ups
- Various incentives to encourage the raising and granting of finance through the Malta stock exchange
- Various measures to reduce the bureaucratic burden faced by entrepreneurs, including a potential 2 year exemption from the statutory audit requirement for certain qualifying start-ups
- A review of the incentives offered to sectors such as the film industry
- The extension of Pinto Wharf to accommodate new generation cruise-liners (300m+)
- Various initiatives for the embellishment of localities, including tax incentives for companies which undertake such projects
- Incentives for the creation of public parking spaces
- Incentives for companies providing organized transport for employees
- The grant of 1 year free public transport to persons turning 18
- Continued investment into the transport infrastructure and road network

The Hon. Minister Scicluna expressed his unreserved support for the financial services sector and the integrity of Malta's tax system while announcing the imminent introduction of various features to the Maltese tax system including Group Tax Consolidation and a notional interest deduction. The Government stressed their firm commitment to the sector and underlined the government's commitment to the dynamic, innovative development of the legislative framework to ensure Malta remains competitive, yet compliant within the rapidly evolving international landscape. A sentiment which runs deep throughout a budget in which the Government has sought to achieve near-term social justice, whilst also looking ahead with a view to maintaining the current positive trends into the medium-term.

Fiscal Measures

- Full abolition of eco-contribution on batteries, mattresses, detergents, toiletries, vehicle filters, and plastic objects & containers for use in kitchens
- Shareholders, holding not more than 0.5% of the nominal share capital of companies listed on the Malta Stock Exchange, may, upon receipt of dividends from profits made on or after 1st January 2017, from a qualifying holding, claim a refund of the tax suffered at source
- Contracts of lease for a term of three months or more and renewals thereof will need to be registered, either by the lessor or by the lessee, at the Inland Revenue Department
- Excise tax on tobacco, certain non-alcoholic drinks and black plastic bags will be increased
- New excise tax on certain toiletries and certain materials used for construction will be introduced
- Tax deduction of 150% of expenses incurred shall be granted to companies that provide free organised transport to their employees, up to a maximum of EUR 35,000 or up to EUR50,000, if provided jointly with another company
- Tax deduction of 120% such that the additional 20% will be limited to EUR 15,000, shall be available, to businesses that fund projects which embellish the locality for the benefit of the community - subject to the approval of the local council
- The Planning Authority is expected to issue proposals for fiscal incentives in relation to the development of public parking areas and open spaces
- A Joint Enforcement Task Force will be set up to ensure further cooperation between the Inland Revenue Department, the VAT Department and the Customs Department, with the active participation of the Tax Compliance Unit
- Government plans to introduce a system that eliminates the discrimination between debt and equity financing
- Detailed Tax Consolidation regulations will be issued to allow companies that form part of a group to calculate their profits and losses collectively
- Tax credits will be granted to companies investing in private pension schemes on behalf of their employees

Economy

- GDP growth of 6.4% in 2015 and 4.1% recorded in the first six months of 2016
- Budget deficit of 0.7% expected for 2016, 0.4% less than budgetary estimate
- COLA set to €1.75 per week
- Inflation rate stood at 1% as at August 2016 and is expected to increase to 1.5% in 2017
- A net increase of approximately 7,400 jobs reducing the unemployment rate to 4.9% in the first half of 2016
- Public debt as a percentage of GDP is expected to drop to 63.3% for 2016

% Highlights

- Reduction in duty from 5% to 1.5% on the transfer of business property, from parents to their children
- The duty exemption for first-time buyers will be extended for contracts of sale concluded by the 31st December 2017
- Reduction in duty on the acquisition of property in Gozo from 5% to 2% applicable to promises of sale registered during 2017, provided that the contract of sale is concluded by 31st December 2018
- A final withholding tax of 7% on the transfer value applies to inherited property irrespective of when the property would have been originally acquired
- Pensioners in receipt of pensions not exceeding €13,000 will be exempt from income tax through a tax exemption to be introduced gradually over the next two years
- A limited pilot project introducing a favourable 5% final withholding tax on rental income derived from the long-term rental of residential property to low income earners
- The introduction of a Risk Investment Scheme through which an investor into an SME or a diversified fund investing into multiple SME's, which in either case are registered on an alternative trading platform, would be eligible to claim a tax credit of up to a maximum of €250,000
- The introduction of an income tax exemption from capital gains derived by the shareholders from the sale of shares newly listed on the Malta Stock Exchange
- A reduction on the tax on capital gains on a transfer of shares upon the listing of shares on an alternative trading platform, which reduction increases as the percentage of shares offered by the shareholders to the public increases
- A tax credit between 25% and 45% on research and development expenditure incurred by disadvantaged persons up to a maximum of €25,000
- A tax credit of 30% on expenditure incurred on the development of cultural digital games
- Start ups with turnover not exceeding €80,000 per annum and founded by post-secondary graduates who have qualified in the last 3 years, may exempt their company from audits in the first two years or avail themselves from a 120% tax deduction of the cost of the audit fee up to a maximum of €700 per annum

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