



# Malta Budget 2019 Highlights

October 2018





## Economic Highlights

---

Enjoying a budget surplus for the third consecutive year, Malta has maintained its economic momentum, remaining one of the best performing economies in Europe. The economy grew by 6.7% in real terms in 2017 and positive results have been achieved in various sectors, including local and foreign investment, tourism and exports. The public debt target of 60% of GDP has been surpassed and stands at around 47% and is projected to continue to reduce to 43.8% in 2019. Unemployment stands at 3.8% and 90% of the new jobs created were in the private sector. Inflation as at September 2018 stood at 1.7% and the cost of living adjustment (COLA) has been set at €2.33 per week for the coming year.

The following are the main measures arising from the budget speech:

## Employment

---

- The granting of an additional day of leave in 2019 (to 26 days) to compensate for public holidays falling on weekends
- The continued implementation of last year's measure providing for an increase to the statutory minimum wage of €3 per week for minimum wage earners in their second year of employment and a further €3 per week increase in their third year in employment
- The tax refund of between €40 and €68 will be granted again in 2019 to individuals in the labour force earning less than €60,000

## Family Measures

---

- An increase in Children's Allowance to a maximum of €96 *per annum* per child to families with annual gross income of less than €20,000

## Pensioners and the Elderly

---

- Elderly receiving social security pensions will receive a €2.17 weekly increase. This is in addition to the €2.33 weekly COLA increase
- The tax exempt pension threshold will be increased to €13,434 from the current €13,200
- Retention of the annual €300 grant to elderly persons aged 75 years or older who live in their homes
- Increase in bonus by €50 *per annum* to pensioners who have not made sufficient social security contributions to qualify for the minimum pension
- The incentives for persons in the private sector keeping their employment beyond their pension age of 65 will be extended gradually to the public sector
- €11 million will be allocated by Government to address pension anomalies created over the years by changes to pension laws or for other reasons
- New *Savings Bonds* will be issued to those aged 62 and over
- An increase in the allowance granted to the carers of the elderly who live in the community and an extension of its entitlement to married persons who live in the same abode as the elderly
- The *Home Equity Release* scheme mentioned last year, aimed at releasing the value of the immovable property owned by seniors while allowing them to continue to live in their home, will be rolled out in the coming year

## Private Pensions

---

- The annual tax credit available to employers and employees of 15% of the amount of contributions paid to voluntary occupational pension schemes or qualifying personal retirement schemes will be increased to 25% and the maximum tax credit will be increased from €150 to €500

## Persons with Disability

---

- An increase of €10 per week in the assistance to persons with severe disability who are unable to work
- An increase of €5 in the weekly allowance to parents of children with physical or mental disability to €25

## Property

---

- The duty reductions available for first and second time buyers, the purchase of vacant property in UCAs and the purchase of property in Gozo have been extended for the coming year
- The property restoration refund scheme has also been extended
- Government is proposing a reduction in tax upon an eventual sale of property for landlords who lease out property at an affordable rent for 7 years (details to follow)
- Changes in the eligibility tests for rent assistance, with assistance to range from €3,000 to € 5,000 *per annum*
- To assist individuals over the age of 40 to purchase their own property, subject to the individual paying at least 50% of the cost of the property, Government will cover the interest payments on the home loans granted by a bank

## Personal Tax

---

- Government to address a tax anomaly such that 'single' taxpayers whose income exceeds €9,100 but does not exceed the minimum wage will not be taxed
- The maximum tax deduction for school fees paid by parents to private independent schools will be increased by €300 per child

## Family Businesses

---

- The reduction in duty on the transfer of family businesses to 1.5% will be extended by a year until the end of 2019 (currently open until the end of 2018)

## Social Security

---

- Government to address discrimination between employees and self-employed who are forced to quit employment and register for work. The latter will be entitled to receive the unemployment benefit based on the contributions paid
- Benefits will be granted to members of Government's security forces in cases of fatal accidents or permanent disability leading to inability to work
- Increase in the non-contributory medical benefit by €5.14 per week to families with two adults suffering from chronic illnesses

## VAT

---

- A VAT rate reduction to 5% on electronic publications such as e-books and e-newspapers, excluding those which mostly contain advertising, music and video content. Such would align the current VAT rate on books on physical media with electronic ones and follows the EU Council agreement reached on the matter earlier on this month
- Extension of the VAT refund scheme on the purchase of a musical instrument even when the instrument is purchased from outside Malta
- The grant of VAT on wedding expenses will be increased by €250 to a maximum of €2,000
- A VAT rebate will be given for the purchase and installation of domestic reverse osmosis or similar water purifying processes, capped at €70
- The extension of the VAT rebate scheme on the purchase of bicycles and pedelec bicycles for another year
- The extension of the VAT rebate of up to €400 on motorbikes, scooters, bicycles with an electric assist motor for another year

## International Tax

---

The introduction / implementation of a number of international anti-tax avoidance measures was announced including:

- An interest limitation rule, which will apply where interest costs exceed interest receivable, with the deduction of exceeding borrowing costs being limited to 30% of the taxpayer's earnings before interest, tax, depreciation and amortisation (EBITDA). This limitation can also be calculated and applied at group level if beneficial to the taxpayer. Exceeding borrowing costs of up to €3 million will be deductible.
- Exit taxation in case of the transfer of tax residence, or transfer of assets or business by calculating the fair market value which should be accepted by the jurisdiction the residence / asset / business is transferred to (in order to avoid double taxation). Deferral of such a tax liability is possible in the case of transfer to EU / EEA Member States, reflecting case law of the Court of Justice of the EU.
- General anti-abuse rule (GAAR). In addition to the long standing existing domestic GAAR, this new rule will target any arrangement that is put into place with the main purpose or one of the main purposes of obtaining a tax advantage which defeats the object or purpose of the applicable tax law and is thus not genuine when having regard to all the relevant facts and circumstances. The new GAAR will therefore target all non-genuine transactions (to the extent that they are not put in place for valid commercial reasons which reflect economic reality) performed in a domestic or a cross-border scenario.

- Controlled foreign company (CFC) rule. If a Malta parent exercises control over a non-resident entity (within the EU or third country) or has a foreign permanent establishment (PE) and the corporate income tax (CIT) paid by the non-resident company / PE is less than 50% of CIT payable if it were resident in Malta then the non-resident entity / PE will be considered a CFC of the Malta parent. Its undistributed income could be taxable in Malta if such income is arising from non-genuine arrangements which have been put in place for the essential purpose of obtaining a tax advantage.
- Malta has also signed the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent BEPS (MLI).

The introduction of a patent box regime based on the modified nexus approach and therefore in line with the EU Code of Conduct on Business Taxation and the OECD BEPS action 5 standard was announced.

A number of other measures are in the process of being transposed for implementation by the applicable deadlines including ATAD II, EU Mandatory Disclosure and the EU Dispute Resolution Mechanism. These measures are being introduced so as to update the Maltese provisions and bring them in line with international standards and the common EU rules being introduced, but will not bring about any changes to Maltese general tax system or the tonnage tax regime.

## Transport

---

- An investment of €100m in 2019 on road works out of the €700m / 7 year planned investment
- An initiative to create and retain green areas when developing urban projects
- The setting up of an agency to investigate safety and security issues in the maritime, aviation and road transport in Malta
- Incentives to developers of new parking areas, particularly in urban zones
- Extension of the free *tal-linja* card scheme to youths between the age of 14-20, to full-time students aged 20 or over and to certain persons with disability
- Extension of the vehicle scrappage scheme
- Extension of the grant to convert vehicle fuel type from petrol to gas
- The exemption of electric and hybrid vehicles from registration tax will be extended for another year

## Fintech and Blockchain

---

- Fintech Accelerator Programme launched by the MSE to help support fintech start-ups and entrepreneurs by providing resources, infrastructure and professional business services and facilities including in-house accounting services and payroll to continue capitalising on Malta's growing prominence as a global centre for cryptocurrency and Blockchain technology
- Administrative, fiscal and regulatory processes are to be finalised in 2019 so that Real Estate Investment Trusts (REITS) commence trading on the MSE
- Establishment of the Malta Digital Innovation Authority to further regulate and certify Blockchain technology as well as the creation of a specialised unit on fintech within the Malta Financial Services Authority
- Undertaking a feasibility study on the application of 5G technology
- Setting up of Tech.mt to promote Malta as a hub for digital economy and disruptive technologies

## Start-Ups

---

- The Seed Investment Scheme is to continue to be promoted
- Assistance to foreign startups to establish themselves in Malta through a “Start-Up Visa Scheme”

## Brexit

---

- Introduction of a scheme by the Malta Enterprise to provide business advisory services to local SMEs whose business is mostly dependent on the UK
- Continued efforts in attracting further investment to Malta upon Brexit

## Education

---

- MATSEC and SEC examinations to be free of charge
- Increased importance to STEM subjects
- New courses to equip and update teachers with new methods of teaching
- Development of a plan to enable students to select training programmes that match their capabilities
- Continuation of the refurbishment project of schools

## Health

---

- 500 additional parking spaces and a new outpatients building at Mater Dei
- Introduction of state of the art robotic surgery
- Investment for the development of hostels, a day centre and a clinic to cater for mental health patients. Preparations are underway for an acute hospital to cater for psychiatric outpatients
- Development of a specialised clinic to provide Sensory Integration Therapy for children with autism

## Voluntary Organisations

---

- An exemption from income tax to voluntary organisations whose annual income does not exceed €10,000, provided that they are duly registered with the Commissioner for Voluntary Organisations

- Extension of travel reimbursement for certain Gozitan patients to accompanying adult
- Extension of the tax deduction of €1.50 per day for Gozitan private sector employees to Gozitan public sector employees
- Extension of the Gozitan Works Subsidy for Gozitan public sector employees to Gozitan private sector employees
- Extension of the 30% refund in the case of certain types of job creation in Gozo for another year




### Other comments

The Minister emphasised Malta's commitment to combating tax avoidance based on a three-pillar strategy of enhanced cooperation with other jurisdictions, further improvements in the efficiency and effectiveness in the administration of taxes and increased transparency.

Following the conclusion of this year's National Risk Assessment in respect of money laundering, the Minister noted the strategic action plan which has been launched with some 45 anti-money laundering initiatives which will be implemented over the next 3 years to further strengthen regulatory and supervisory institutions in their fight against money laundering.

Reference was also made to the recently launched white paper entitled *Renting as a Housing Alternative*. The Minister noted that whilst 78% of Maltese families who own property are seeing an increase in the value of their properties, others are renting while some may require social housing or other assistance. It was announced that a number of measures will be introduced in the coming year to regulate the Housing Market, particularly to incentivise landlords to charge affordable rents. Other initiatives in this space will include a reorganisation of the Housing Authority, the development of social housing units, and the restoration of dilapidated Government properties with a view to placing affordable social housing on the market.



A high-angle, wide shot of a coastal city at sunset. In the foreground on the right, a large, ornate stone dome with a cross on top is partially visible. The city below is densely packed with buildings, mostly in shades of brown and tan. The sea is visible in the middle ground, with a few ships and a small island in the distance. The sky is filled with large, dark clouds, and the sun is low on the horizon, creating a warm, golden glow that reflects off the water and illuminates the clouds.

[kpmg@kpmg.com.mt](mailto:kpmg@kpmg.com.mt)

Follow KPMG Malta:



© 2018 KPMG, a Maltese civil partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved. The KPMG name and logo are registered trademarks or trademarks of KPMG International Cooperative (KPMG International).