

Malta's Digital Gaming Industry



Contents

Digital Gaming in Malta

An introduction

Why Malta?

Key Insights

Some Key Facts about Malta

An Attractive Fiscal Framework

Digital Gaming Industry in Malta

Thoughts from the Industry Players

Digital Gaming Industry in Malta

Malta's History with Similar Industries

Incentives for Digital Gaming

VAT and Digital Gaming

General VAT Principles

Why KPMG?

Our International Network

How We Can Help You

Key Messages

Appendix 1: Malta as your business and lifestyle destination

Malta as a Central Hub



“Luck is what happens when preparation meets opportunity.”
Seneca (ca. 4 BC – 65 AD; Roman philosopher, dramatist and writer)

Digital Gaming in Malta

An introduction



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Malta is fast becoming a sought-after Digital Gaming hub, attracting companies seeking to relocate their business or set up their operations in Malta. Apart from being a well-regulated jurisdiction strategically located in the EU, Malta offers attractive corporate and personal tax incentives and a good ICT infrastructure. Malta also offers the lowest effective tax rate in the EU through the operation of its general tax system which is applicable to any company operating in Malta, including Digital Gaming companies. Malta operates a full imputation tax system which completely eliminates the economic double taxation of company profits. While the corporate tax rate stands at 35%, upon a distribution of dividends, the shareholders are entitled to a refund of the Malta tax charged (generally 6/7ths), which reduces the effective tax to as low as 5%.

As a jurisdiction that gives access to protection of intellectual property in the European and international markets, Malta's Digital Gaming companies may protect their artistic creations or distinguish the goods and services from those of other traders through straight-forward or hybrid solutions and in a jurisdiction that offers favourable tax treatment.

Digital Gaming companies may also benefit from various incentive packages aimed to assist this industry both at set up stage and during operations. Malta Enterprise (the national development agency responsible for promoting and facilitating international investment in the Maltese Islands) has introduced various incentives to add to Malta's appeal as a Gaming hub, by including the qualifying employment in innovation and creativity incentive, whereby a 15% flat rate tax may be availed by individuals employed in an eligible office. There is also the business development grant scheme comprising of a cash grant of up to €200,000 aimed to facilitate start up or relocation.

Tuned to the exponential growth potential of the Remote Gaming industry, Malta presents itself as a jurisdiction apt to address the dimension of the Digital Games market. The fast-pace of the Malta Digital Games industry and the government's initiatives for the industry, are translating into varied opportunities for new start-ups to conceptualise new projects while permitting existing operators to explore new niches obtaining an edge on competitors.

Why Malta?



Key Insights



300 days of sunshine & pleasant lifestyle



A trusted regulatory framework & legal structure



Good health services



Paramount anti-money laundering standards



Innovation driven economies



'A' investment grade rating by Standard's and Poor's and "A3" by Moody's



Low cost of employment



Multi-fibre links at Gigabit capacities



Strategic location; frequent & direct flights to most major European cities



Freedom of movement of both labour and capital within the EU



3rd in the overall ranking in the Quality of Life Index



Vast array of office spaces at highly competitive rates



Diversified & robust economy; conservative banking system



Cisco, IBM, Microsoft and Oracle have established their regional training centre in Malta



Highly skilled, well-educated and reliable workforce & initiatives being rolled out to further secure this



Multi-lingual country

Some Key Facts about Malta

The staff that can be recruited and developed, come at a significantly lower cost than that incurred on average in other European gaming hubs. A programmer (non-specialist) in Germany earns (on average) €30,000 as a starting wage, going up to €45,000 at the five years' experience mark. Graphic designers/artists start off around the €25,000 mark, going to €40,000 at the five year experience. Maltese wages are considerably lower with programmers starting off with an average annual gross wage of €20,000, going up to €25,000 at the five year mark. Graphic designers start at €15,000, going to €20,000 at the five year mark.

The legislative framework is in line with the main EU directives which makes it sufficiently flexible and easy to relate to different legal systems especially those within the EU.

According to Malta's Attractiveness Survey 2013, up to 93% of Banking, ICT, Insurance and Manufacturing companies in Malta are confident in Malta's ability to overcome the crisis. This is considerably higher than the 75% of European respondents who believe that Europe will overcome the crisis.

Multi-fibre links are located in Malta, connected to various international carriers at Gigabit capacities such as Cable and Wireless, Telecom Italia and Interoute.

Malta is ranked 21st in technological readiness from 144 countries around the world according to the latest Global Competitive index 2014-2015.

An Attractive Fiscal Framework



Tax for Highly Qualified Persons

This scheme allows persons occupying an 'eligible office' in a company to benefit from a flat rate of taxation of 15% on their personal income.

Effective Corporate Tax

In Malta, a non-resident shareholder is eligible for a 6/7ths tax refund upon a dividend distribution, effectively resulting in a corporate tax rate of 5%.



Double Taxation Treaties

Malta has around 70 double taxation treaties with various jurisdictions from which companies set-up in Malta can benefit.

Participation Exemption

Malta adopts a 100% participation exemption with respect to profits (namely dividends) derived from a participating holding (i.e. when a Maltese company holds at least 10% of equity) or from the transfer thereof (namely gains on transfer).



Tax Incentives

The Digital Gaming industry in Malta enjoys a widespread of incentives that address the needs of Digital Gaming companies throughout all stages of the game development process.

Digital Gaming Industry in Malta



Thoughts from the Industry Players

"Opening a studio in Malta has been a great move for us - apart from the obvious lifestyle benefits of living and working in a beautiful and inspiring country, it's proved a great location to hire talent, both from overseas and within the local market. The vitality and spirit of the island community has helped foster an environment perfectly suited to creative enterprise, and the government has proved to be both enthusiastic and helpful about supporting an exciting and rapidly growing sector."

Jon Gibson, Studio Director | Exient Malta

"Developing Games in Malta is like being paid to go surfing..."

Nicolai Porsche, Founder & MD | Dorado Games

"Within just a few years, Malta has built a strongly efficient ecosystem, where digital startups can benefit from a skilled local workforce, low administrative burden, and great networking opportunities."

Valerie Bollier, CEO | OulalaGames Ltd

"Malta is a prime location for a digital gaming company to excel for various reasons due to our highly technically skilled workforce (both local and international), low-cost rent and services, high-speed fibre optic internet connectivity and a huge depth of powerful creativity stemming from both our cultural and technical backgrounds."

Joshua O'Cock, Marketing & BD | Steampunk Wizards

"Becoming one of the most interesting digital hubs, Malta was the best choice for us to establish development operations. Imagine a beautiful island immersed in history and a fast growing modernity, an English spoken country in the middle of the Mediterranean sea, connected with the most important capitals of Europe, where talents coming from all around the globe join together to create the next generation of video games, while enjoying a beautiful life under the sun."

Giuseppe Crugliano, Director | Playmagic Ltd

"Malta provides access to a high-quality European talent pool with excellent quality of life. Happy developers make great games."

Jim Brown, Studio Director, Codemasters (Malta)

"The power and energy of cosmopolitanism: this is the opportunity offered by Malta."

Nilsen Filc, CEO | Puzzl

*"On the island we can easily find the right resources to contribute to our game development team. Why? Because people here are *fast-learning*, *enthusiastic* *gamers*. We hire attitude, not just skills."*

Nicolai Livori, CEO | Gamtico

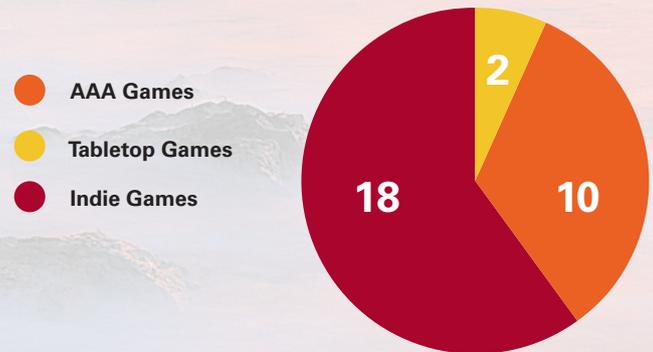
Digital Gaming Industry in Malta



A number of institutions in Malta work in collaboration with the government to educate and produce a sufficient workforce which can support the growing industry in Malta. These institutions include:

- Institute of Computer Education
- MCAST
- Saint Martin's Institute of Higher Education
- STC Training
- University of Malta

By September 2014, some 30 digital game developing companies were registered in Malta ranging from AAA game developers to Indie game developers. 10 game developers develop mainly AAA Games with the highest development budgets and levels of promotion. 18 developers create indie games through individuals or small teams generally without video game publisher financial support. Another 2 companies develop Tabletop games which is a general term used to refer to board games, card games, dice games, miniatures war-games, tile-based games and other games that are normally played on a table or other flat surface.



Malta's History with Similar Industries

As Malta already has a history with similar sectors such as ICT, film and iGaming, it makes the Maltese jurisdiction a safe bet for game developers since all of these sectors have a lot in common with game development and have historically flourished in the Maltese islands.

Transferable Skills from ICT

Malta is a prime candidate for the outsourcing of specialised ICT services, such as systems design and integration, software development, application implementations and hosting, skills training and help-desk support. Malta offers a variety of specific skills in ICT with the island being the regional training centre for Cisco, IBM, Microsoft and Oracle.



Transferable Skills from Film

There is strong potential for sharing resources across games and films in Malta, in particular around shared technical facilities such as motion capture and sound studios.

Transferable Skills from iGaming

There is a strong potential for the transfer of skilled individuals in Malta with high value statistical analysis and player analytics skills from the iGaming industry which could be directly applied to online casual games. In general, there is a shortage of experts with these analytical skills worldwide and game developers can use this expertise in Malta for their own use. The legal, monitoring and regulatory skills present in the Maltese workforce may be transferable into niche areas such as skills gaming.



Incentives for Digital Gaming



Investment Aid

Investment Tax Credits

Enterprises engaged in activities (including amongst others the development of Digital Games) can benefit from tax credits on qualifying expenditure with the possibility of reducing the effective tax suffered in Malta to 0%. The value of qualifying expenditure is calculated, at the company's option, either as the value of:

- Qualifying tangible and intangible assets acquired in relation to an initial investment project; or
- 2-years wage costs for jobs directly created by the initial investment project.

The applicable aid intensities are currently set at 15%, 25% or 35% on eligible expenditure for large, medium and small enterprises respectively. These will decrease to 10%, 20% or 30% for large, medium and small enterprises respectively with effect from 1 January 2018 up to 31 December 2020.

Investment tax credits are deducted from the tax charge and any unutilised tax credits are carried forward to be deducted from the tax payable in the future.



Research and Development

R&D and Innovation Programs

Research and development (R&D) tax credits and/or grants (calculated at a percentage which may vary from 25% to 70% depending on the size of the company and nature of the research and development project) aim to provide assistance to companies that carry out industrial research and experimental development of innovative products and solutions. Such eligible expenditure includes, *inter alia*, personnel costs, costs of instruments and equipment and building.

The combination of tax credits together with the tax refund system will generally result in effective tax of between 0% to a maximum of 5%.



Access to Finance and Enterprise Support

Business Development Grant Scheme

The scheme is intended to facilitate high-value adding projects that are likely to offer a significant contribution to the regional development of Malta. Qualifying companies may be eligible for a cash grant of up to €200,000 in a three year period generally granted to facilitate start up or relocation. Eligible expenditure includes, *inter alia*, professional and consultancy fees, relocation costs of personnel and setting up costs.



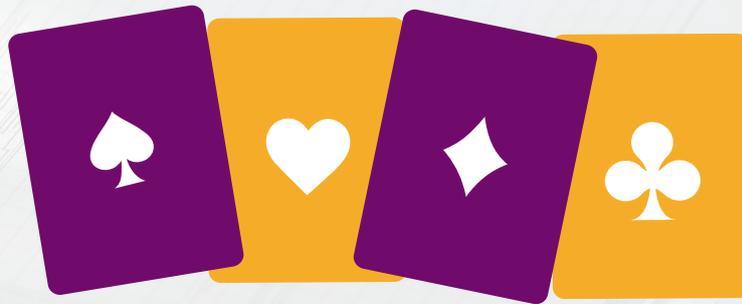
Micro Guarantee Scheme

Malta Enterprise may grant financial assistance in terms of a one-time loan guarantee of up to 80% on loans of up to €100,000 which may be used to finance projects leading to business enhancement, growth and development. The aim of this scheme is to accelerate growth by facilitating access to debt finance for smaller business undertakings employing 50 (or less) employees. This scheme may be utilised for accessing funds required for the acquisition of tangible assets and working capital linked to such acquisitions.

Personal Tax

Qualifying Employment and Innovation

This incentive is targeted solely to expatriates – EEA/Swiss nationals or Third Country nationals – who fulfil a role as employed individuals in an eligible office which refers to an employment in a role directly engaged in industrial research and experimental development; product development and product or process innovation; or in a senior management role. Successful applicants will be awarded the opportunity to have their employment income in respect of work exercised in Malta chargeable at a flat rate of 15% tax, on a minimum annual amount of €45,000, in lieu of progressive rates. The measure will be available until 31st December 2017 and in principle is applicable for a consecutive period of not more than three years.



VAT and Digital Gaming



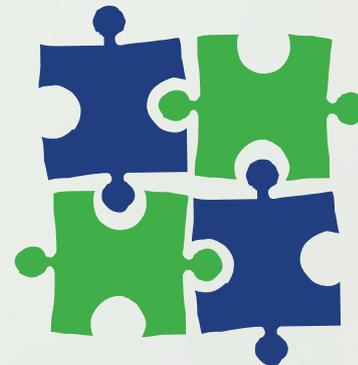
VAT and Digital Gaming

In 1967, when the European Economic Community adopted the First VAT Directive, Mr Baer, 'The Father of Video Games', played the first video game on a home console – 'The Brown Box'. By the time the Sixth EU VAT Directive was issued in 1977, the entertainment industry had moved to the era of arcade video games with successful games on the market like Atari's 'Pong' and 'Break Out'. Since then, the gaming industry went online from home consoles to smartphones, tablets and smart TVs. In the meantime, tax authorities were discussing and legislating new provisions with the aim of ensuring that supplies, including electronic supplies, are VAT-taxed in the place of destination/consumption. Malta, whilst passively being affected by such EU and global VAT developments and by the technological advancements in the sector, has actively set Digital Gaming as one of its priority sectors for growth. With this vision in mind, successive governments have designed an ambience to attract, nurture and develop a cluster of high quality game companies through fiscal, educational and regulatory support.

Indeed, Digital Gaming is budding locally and with the growing number of game developers on our shores, the VAT implications of their operations is an aspect that is worth considering.

General VAT Principles

With broadband, the traditional model of developing, publishing and delivering games has evolved into more complex online supply chains that stretch across borders and that involve new functions, like content aggregators, platforms, software libraries, online stores and game websites; new services such as suppliers of character animation technologies and new revenue streams, ranging from royalties, subscription fees, pay-per-play and premium rate service remunerations. In deciphering the VAT treatment of such transactions in a chain, the crux would be to find out **'who is doing what for how much, and when and where are they doing it'**.



General VAT Principles



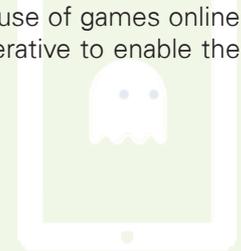
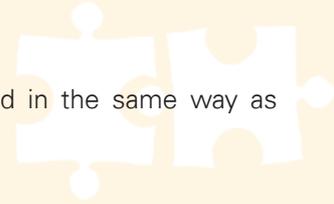
The Maltese VAT principles that may be relevant to the gaming sector are the following, in line with EU principles:



- VAT does not only apply to supplies of goods and services but also to transfers of intangibles such as software rights, brand-names and other IP.
- VAT on the purchase of goods, such as computer equipment, from outside Malta is either collected by Customs at the point of importation from a non-EU country or accounted for on a 'reverse charge' basis in Malta by the recipient if the goods are acquired from another EU State.
- The purchase of services from outside Malta, such as advertising and intangibles, is generally imposed on the recipient on a 'reverse charge' basis, unless the specific service would be covered by an exemption. Typical exempt services would be those provided by payment services providers.
- B2B supplies of services are generally subject to VAT in the country of establishment of the customer. Therefore cross-border supplies of services, including intangibles such as IP by Maltese suppliers to business customers generally fall beyond the scope of Malta's VAT net.



- Transfers of business could qualify for VAT relief if certain conditions are satisfied. This could be useful when M&A and inorganic growth strategies are considered.
- In the absence of VAT grouping provisions in Malta, intra-group transactions are treated in the same way as transactions with third parties.
- Game developers, publishers, intermediaries and distributors should be in a position to recover input VAT on their expenses and thus, VAT should not be a real cost to such entities, but instead an administrative compliance issue.
- B2C supplies of services are generally subject to VAT in the Member State of establishment of the supplier. Such place would be Malta if the supplier is established herein. However, this rule does not apply if the services qualify as TBEs ('telecommunications, broadcasting or electronically supplied services') or if the services are provided to non-EU customers. In such cases, B2C supplies of services by suppliers in Malta would generally fall outside the scope of Maltese VAT. Supplies of TBEs to private consumers could be VAT-taxable in the country of consumption or residence of the consumer. In essence, for those suppliers who 'sell' or grant the right of use of games online to final consumers, establishing the jurisdiction wherein such consumers are located is imperative to enable the suppliers to comply and correctly charge VAT in accordance with the rules of that country.



Why KPMG?



Our International Network

A genuine international network of gaming sector expertise and contacts

America

Canada
John Cho
Toronto

Silvia Montefiore
Ontario

United States
Gary Matuszak
Silicon Valley

Chrisanne Corbett
Chicago

Argentina
Vivian Monti
Buenos Aires

Curacao
Xiomara Chelius
Curacao

Europe & Africa

United Kingdom
Mark Summerfield
London

Isle of Man
Archie Watt
Douglas

Spain
Juan Manuel Pla Hernandez
Barcelona

France
Florent Steck
Paris

Italy
Massimiliano Calogero
Rome

Cyprus
Christopher Anayiotos
Nicosia

Malta
Russell Mifsud
Malta

Germany
Alexander Bischoff
Frankfurt

Gibraltar
Darren Anton
Gibraltar

Netherlands
Niels Boef
Amstelveen

Austria
Jens Kaden
Vienna

Australia & Asia

Australia
Ben Cowan
Sydney

Japan
Ikuo Mon
Tokyo

South Korea
Sung Won Park
Seoul

China
Rainbow Wang
Toronto

Taiwan
Jay Cheng
Taipei

How we can help you



Navigating the complexities of today's dynamic marketplace requires a deep understanding of the forces driving this change.

We help our clients succeed by employing customer insights, optimising existing technologies, capitalising on emerging technologies and delivering solutions using well-tested methodologies, all while keeping a sharp eye on financial reporting and tax implications, and managing risk.



We also assist and advise applicants in putting in place the commercial arrangements with third party service providers that may be required for their operations in Malta.

KPMG provides high-quality, independent statutory audits to a wide range of clients in the Digital Gaming sector.



We also assist and advise Digital Gaming operators wishing to set-up in Malta whether as a start-up, migration or diversification. Such services include assistance in ensuring that the activities are adequately structured to qualify from relevant incentive legislation in Malta. We can also assist and facilitate discussions with Malta Enterprise in this respect to accelerate the application process.



Our Deal Advisory team provides various services to clients contemplating an acquisition or disposal including providing advice and assistance in planning and structuring transactions, business valuations, vendor or buy-side due diligence and transaction negotiation and implementation support.

We provide advice relating to both direct and indirect taxation. We also assist our clients in dealing with issues relating to the employment of expatriate personnel, including direct tax and work permit applications.



We also advise and guide entities throughout the entire process of a potential IPO opportunity, wherein which we will assess the risks and benefits of a possible listing.

Key Messages



KPMG is made up of over **162,000** professionals operating in **155** countries



We look at the **bigger picture** and strive to add **value** to your business strategy



KPMG hosts Digital Gaming events where we bring together the Island's Industry stakeholders



We are the **largest** 'Big Four' provider in Europe of Microsoft Dynamics consulting and implementation services



KPMG serves a **wide range of gaming clients** in locations all around the world



Thought Leadership



Award for **'Best Advisor for Taxation Services Globally'** at Euromoney Real Estate Awards 2014



Dedicated Industry Specialists



Our advice is **objective**. We help our clients ask the right questions and select **strategies** to meet their specific objectives



**Appendix I: Malta as your
business and lifestyle
destination**

Malta as a Central Hub



Population: c. 420,000
Surface area: 316km



Capital city: Valletta



EU member state since 2004



Currency: Euro (Part of the Euro zone since 2008)



Language: English is an official language



Malta has retained its high ranking in the Global Competitiveness Report 2013-2014 placing 41st of 148 countries (2012: 47th position)

Economic Indicators

- Nominal GDP: €7,961,000,000
- GDP per capita in PPS: 86 (2013)*
- Real GDP (% change): 2.4% (2014 estimate)
- Real exports (% GDP): 92% (2014 estimate)
- Unemployment rate: 6.4% (2014 estimate)
- Inflation rate: 1.38% (2013 estimate)

*Note: *The volume index of GDP per capita in Purchasing Power Standards is expressed in relation to the EU28 average set equal to 100*

Source: NSO, Eurostat, LFS

Malta's competitive drivers include:

- Strategic location - Malta is situated within a few hours' reach from Europe's major cities.
- Language and laws - English is an official language and Malta's business language. All laws are published in English and Malta's Companies Act is modelled on the UK's framework.
- Highly productive and skilled workforce - Malta boasts a high level of education with graduates representing a cross-section of the various disciplines. There are no restrictions on the granting of work permits for EU and EEA nationals.
- Cost-competitive environment – Malta offers significant cost advantages as a gaming hub. Legal and accounting fees are also relatively lower than those prevailing in other established financial centres, as are salaries and other operational costs.
- Infrastructure – continuous investment is being allocated to optimise the business environment and develop a sophisticated technology platform.
- Stability – Malta has successfully weathered the challenges posed by the global financial crisis and by the EU's sovereign debt crisis.
- Attractive tax regime – By virtue of the refund system, and the various incentive package offered, Malta is the jurisdiction with the lowest effective tax rate in the EU.

Malta's tax system at a glance

Full imputation with corporate tax rate of 35%

Attractive incentive packages

The combination of tax credits and the tax refund system may reduce tax borne to between nil and a maximum of 5%

About 70 double tax treaties, generally based on the OECD Model

No withholding taxes on dividends, interest, royalties or other expenses

No Capital Taxes or Wealth Taxes

No Exit Taxes

Attractive expatriate taxation





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