

Malta Budget 2017
How will it impact you?
Malta Budget 2017 summary

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Disclaimer: This publication reflects high level announcements made in the Budget Speech on 17 October 2016, 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.



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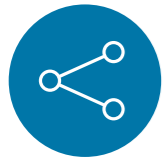


Economic overview

The Government's fiscal priorities: Main targets



Fiscal consolidation in meeting the Maastricht Criteria and achieving long-term sustainability.



To equitably redistribute wealth created between all economic agents, with a particular emphasis on low income brackets and pensioners.



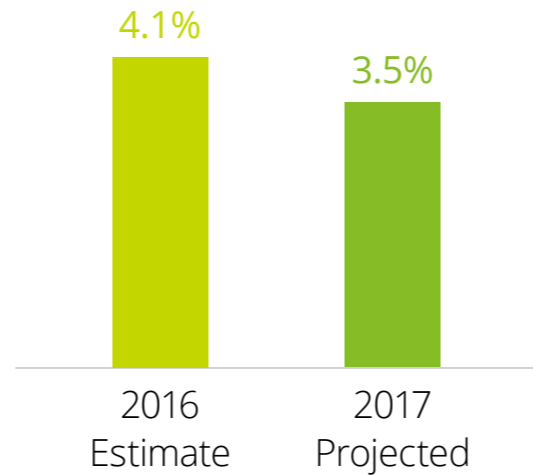
To ease access to financing, in particular for local SMEs.



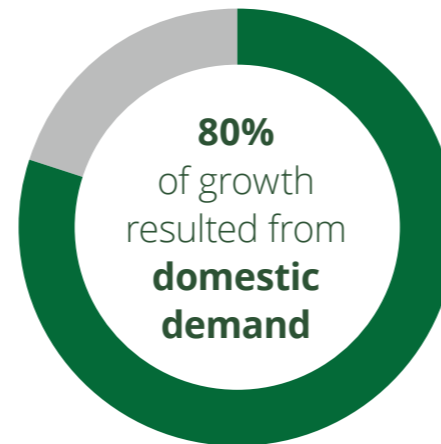
To continue instilling **confidence and optimism in the economy** to register further growth.

Macroeconomic highlights: Key variables

Real GDP growth



Economic activity is still considered relatively robust, although recent developments are characterised by declining growth rates.



Domestic demand continued to be the main driver, contributing to circa 80% of growth. Net exports are expected to contribute moderately to growth in 2016, explained by a recovery in foreign demand.



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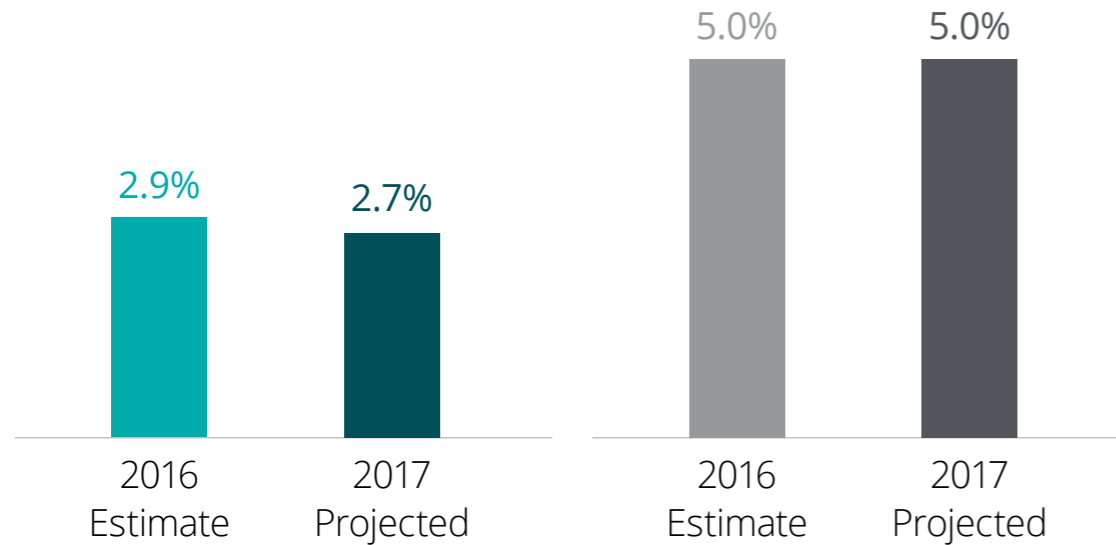
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Macroeconomic highlights: Key variables

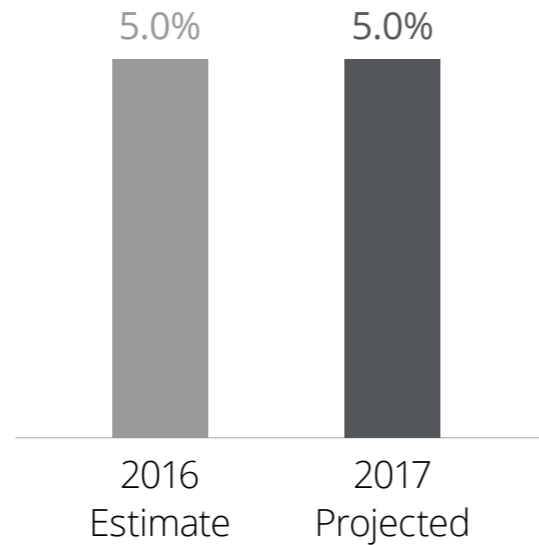
Employment growth



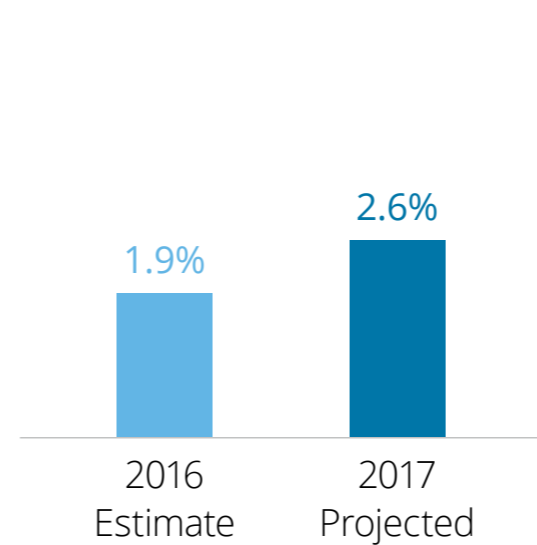
Employment growth is expected to hover at around 2.9% in 2016 and is projected at 2.7% for 2017. The highest growth rates are reported within the **entertainment and recreation** sector, **professional services** and **support service activities**.

Unemployment rates for both the current year and the next (2017) are forecast at 5.0%, close to the natural unemployment rate of 4.0%.

Unemployment rate



Nominal compensation per employee



Modest increases in nominal compensation per employee are observed, expected at 1.9% during 2016 and projected at 2.6% for 2017.

The supply of foreign workers and subdued international energy prices are considered to be the main reasons restraining wage growth.



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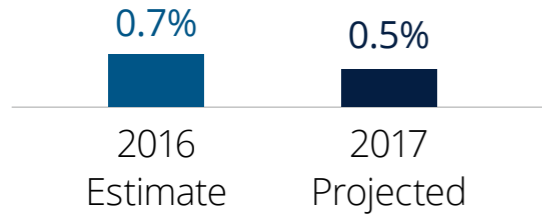
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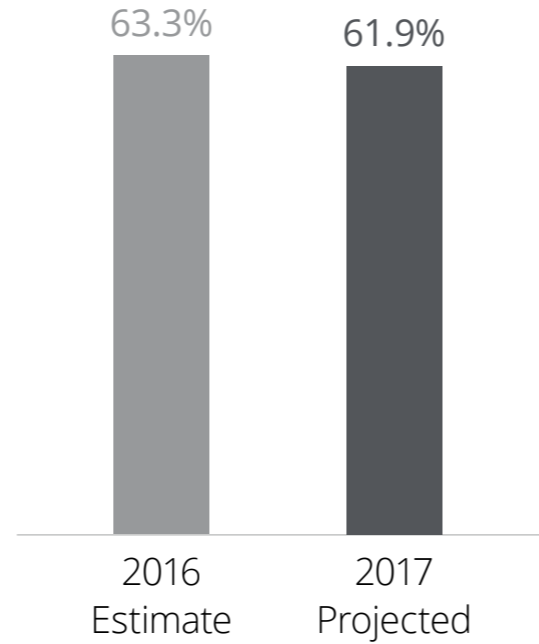
General Government Deficit as a percentage of GDP



Fiscal consolidation is reported to progress in line with Government's projections to the extent that **original targets were exceeded.**

The general Government Deficit is expected to fall to 0.7% of GDP in 2016, and projected at 0.5% for 2017, primarily on the back of **strong nominal GDP growth.**

General Government Debt



Under a no policy change assumption, General Government Debt is expected to decline to 63.3% of GDP in 2016, and projections for 2017 place debt at 61.9% of GDP.



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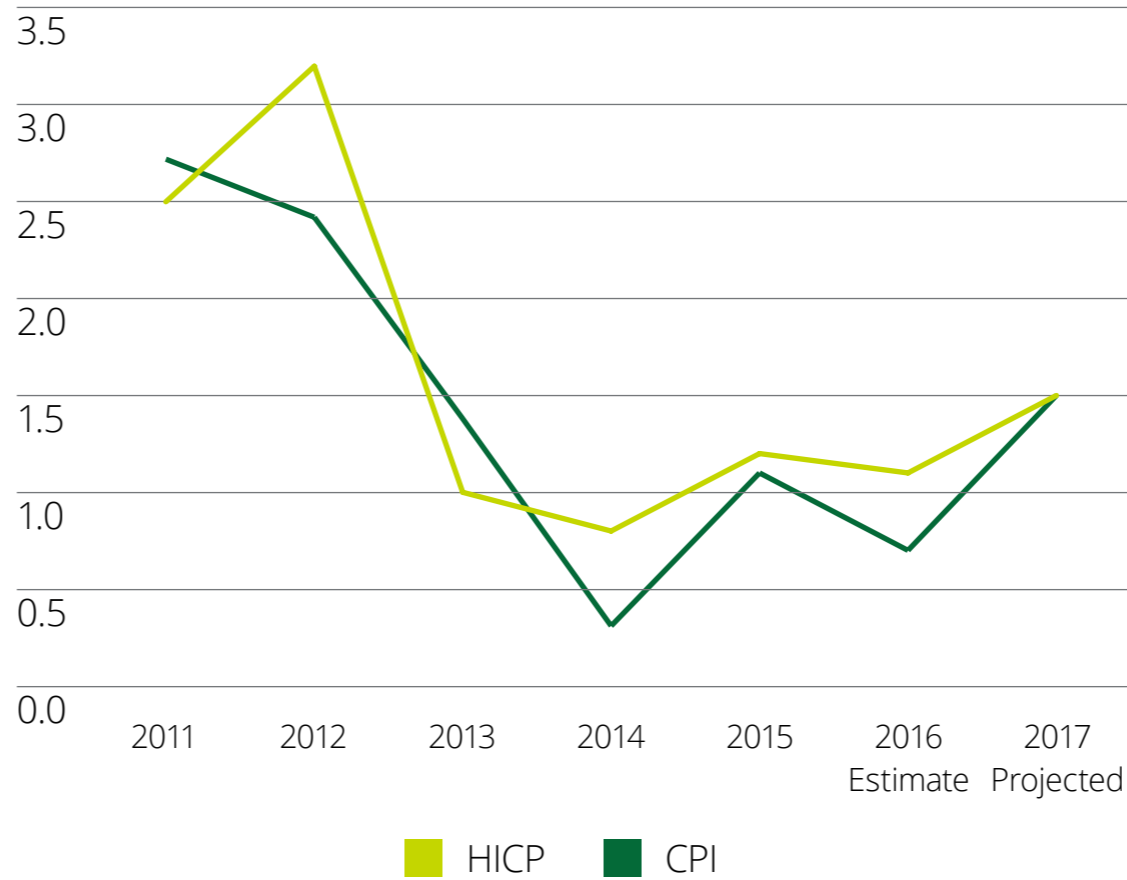
Headline inflation: Cost of Living Adjustment (COLA)

The **Consumer Price Index (CPI)**, which is the national yardstick employed for the calculation of COLA, is expected to hover at around 0.7% during the course of 2016. A turnaround of the overall decline in prices is expected in 2017, with the CPI measure projecting a headline rate of inflation of approximately 1.5%.

The **EU Harmonised Measure Index of Consumer Prices (HICP)**, which includes expenditure by tourists during their stay in Malta, is estimated at 1.1% for 2016. This measure is also projecting an inflation rate of approximately 1.5% next year.

Within this context, the COLA agreed with the social partners will be **€1.75 per week**.

HICP and CPI overtime: Projected price dynamics (%)



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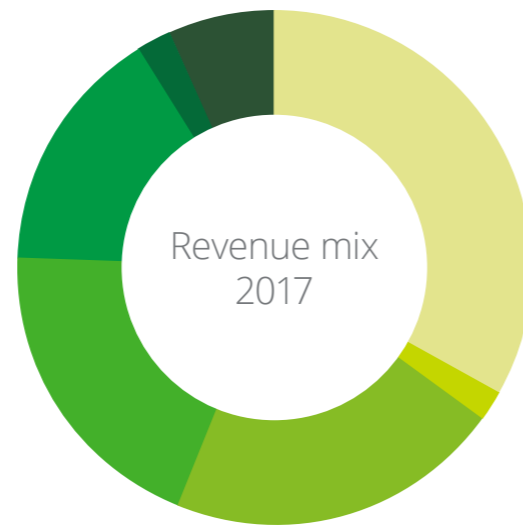
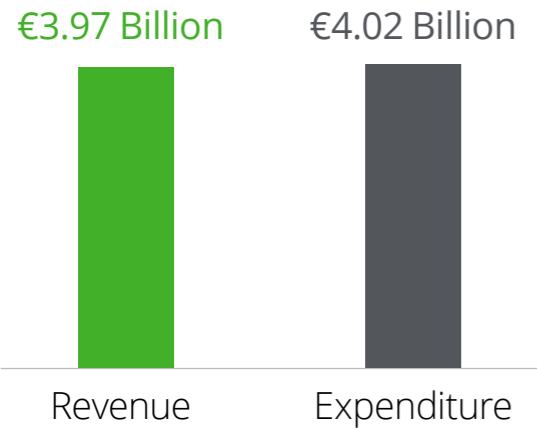
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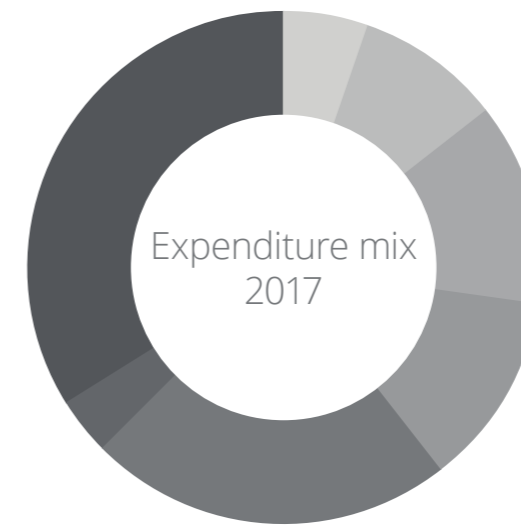


Fiscal resources and uses: Public finance revenue and expenses

Revenue and expenditure 2017



Revenue mix 2017	€ Billion
Income tax and corporate tax	1.316
General government adjustment	0.078
Social security	0.841
VAT	0.775
Customs, excise, licences, tax and fines	0.610
Grants	0.091
Other non-tax revenue	0.259



Expenditure mix 2017	€ Billion
Interest of public debt	0.219
Capital expenditure	0.362
Health	0.517
Education	0.494
Social security benefits	0.928
Justice, law and order	0.141
Public services and other recurrent expenditure	1.359



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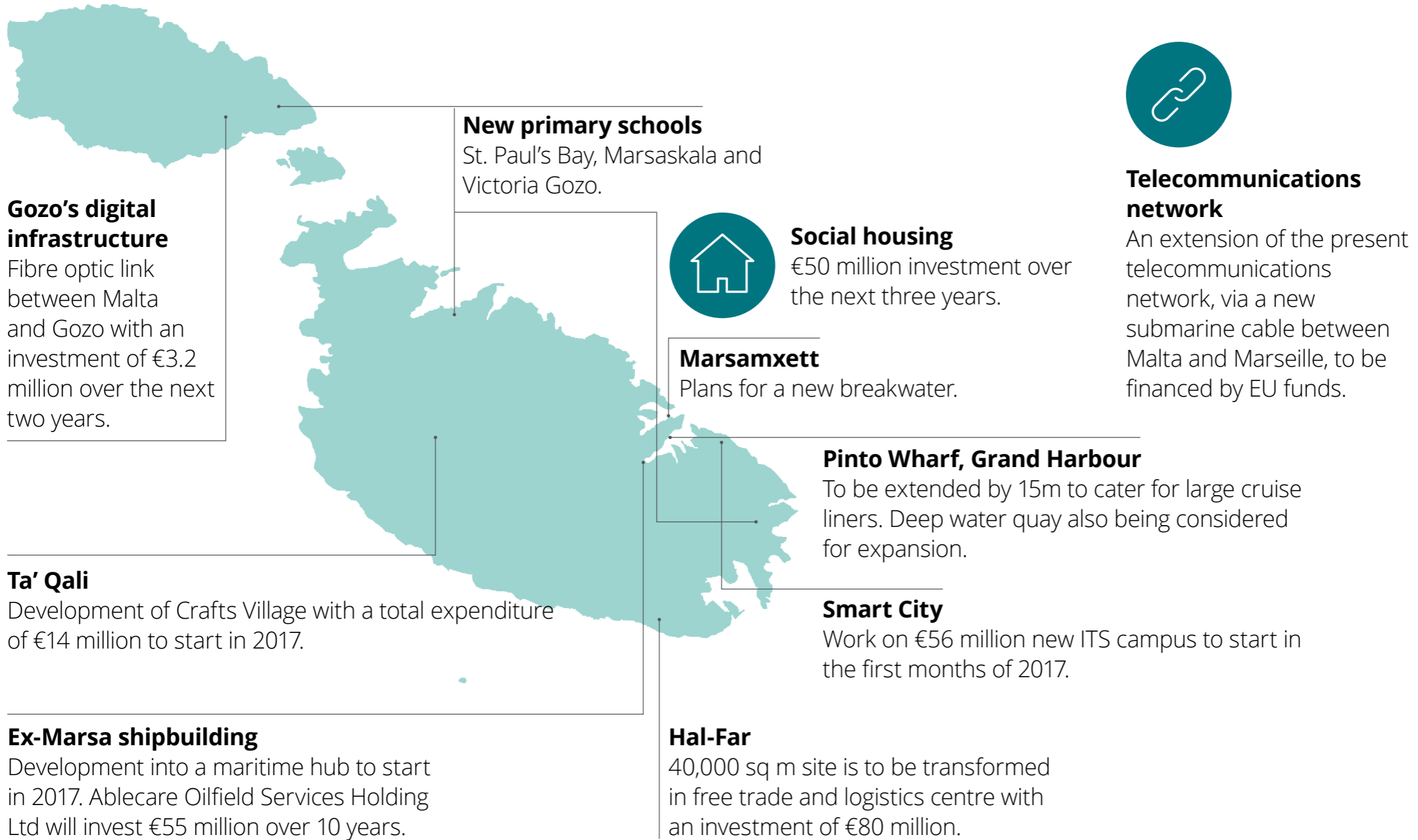
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Telecommunications network

An extension of the present telecommunications network, via a new submarine cable between Malta and Marseille, to be financed by EU funds.



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Fiscal incentives

Malta Stock Exchange

Individuals are exempt from tax on dividend income in excess of prescribed thresholds. As a result, the tax on the underlying company profits being distributed is not available as a credit/refund at individual shareholder level. However with effect from 2017, shareholders who do own not more than 0.5% of the nominal share capital and dividend rights of a company listed on the Malta Stock Exchange will be entitled to declare the relevant dividends and claim a credit/refund of the underlying tax paid by the distributing company on profits generated on or after 1 January 2017.

The Government also intends promoting investment by the public on the Malta Stock Exchange whilst encouraging entrepreneurs to raise finance through stock exchange listings. As part of this initiative the Minister has announced a number of fiscal incentives that include:

Shareholders who do not own more than 0.5% of the nominal share capital and dividend rights of a company listed on the Malta Stock Exchange will be entitled to declare the relevant dividends and claim a credit/refund of the underlying tax paid by the distributing company on profits generated on or after 1 January 2017

- An **annual tax credit of up to €250,000 in terms of a Risk Investment Scheme** that shall be afforded to persons who invest in Small or Medium Enterprises ('SMEs') that are registered on an alternative trading platform such as 'Prospects' or in funds that invest in a number of SMEs that are so registered; and
- The **re-introduction of the tax exemption on capital gains realised upon the sale of shares to the public through a listing on the Malta Stock Exchange**. Under current regulations,

such a gain would presently be taxable at the rate of 15%. A similar exemption shall also be introduced in respect of the sale of shares to the public through a listing on an alternative trading platform. The benefit afforded in this case may however be dependent on the percentage shareholding offered to the public.

The Minister also announced that the above measures are intended to complement a number of initiatives that the Malta Stock Exchange shall be introducing.



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Private pensions

In order to encourage contributions to private pensions by employers, such contributions will be considered as a tax deductible expense. In addition, **the employer will also be entitled to a further tax credit amounting to €150 for each €1,000 contributed.**

Employers' associations will be permitted to administer these collective pension schemes on their members' employees' behalf, thus facilitating the take up of these fiscal incentives by small businesses and the self-employed.

The contribution to a pension scheme by an employer on his employees' behalf would not constitute a taxable fringe benefit for the employee. In addition **the employee will be allowed a tax deduction of up to a maximum of €150 against his income when investing in this same scheme.**



Malta Enterprise

A number of schemes will be introduced by Malta Enterprise, including:

- a. **Financial assistance of up to €25,000** to help **disadvantaged individuals** to set up a business;
- b. **A tax credit amounting to between 25% and 45%** of the expenses incurred on a **research** project;
- c. **A tax credit amounting to a maximum of 30%** of the expenses incurred in the **development of digital games with a cultural theme**; and
- d. **A scheme consisting of a tax credit in relation to costs incurred on renovation works undertaken on hotels and restaurants**, capped at €200,000 and €50,000 respectively.



Transport for employees

Companies that provide free transport to their employees will be entitled to a **deduction representing 150% of the expense** incurred for the provision of the service up to a maximum of €35,000 for companies providing this service on their own and up to €50,000 for companies offering this service in conjunction with another company.

Stamp duty on business transfers

During 2017, the rate of duty applicable to a qualifying transfer of a business by parents to their children will be **reduced from 5% to 1.5%.**



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Property related taxes



Stamp duty exemption for first time buyers

Individuals buying their first residential property currently benefit from a stamp duty exemption on the first €150,000 paid. This exemption will be **extended to acquisitions made in 2017**.

Stamp duty reduction on Gozo properties

Persons who acquire a residential property in Gozo by the end of 2018 will benefit from a **reduction in the stamp duty rate from 5% to 2%** provided that the promise of sale agreement is registered with the Inland Revenue Department by the end of 2017.

Restoration grants for first time buyers

New schemes will be launched whereby first time buyers of immovable property situated within an Urban Conservation Area or certain scheduled properties will benefit from a **grant of up to €100,000 on expenses** incurred on the restoration of the said property.

Tax on transfers of inherited property

Transfers of inherited property made by means of a judicial sale by auction are currently chargeable to tax as follows:

- 7% final tax charged on the transfer value if the property being transferred was inherited before the 25 November 1992; or
- The applicable marginal rates on the gain derived (subject to 7% provisional tax) if the property being transferred was inherited after the 24 November 1992.

As a measure to simplify the tax collection process and to achieve parity of treatment between heirs, **all transfers of inherited property by means of a judicial sale by auction will now be subject to a final tax at the rate of 7% on the transfer value**.

Registration of rental contracts

Following the introduction of the favourable 15% tax regime on the rental of residential and commercial property, an anti-abuse measure is being introduced whereby **all property rental contracts (including renewals) for a duration of at least three months, are required to be registered with the Inland Revenue Department either by the lessor or by the lessee**. In the absence of registration, the lessor will be subjected to the penalties contemplated by law.



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Administrative measures



Tax consolidation

The minister has reiterated the Government's commitment towards supporting Malta's competitive tax framework whilst respecting the principles of transparency and exchange of information. The Minister has announced plans to introduce new measures that include tax consolidation which shall allow group companies to calculate their taxable profits/ losses on a group basis.

Fight against tax evasion

To reduce tax evasion and unjust competition in business, a Joint Enforcement Task Force is being set up between the Inland Revenue, VAT and Customs departments, assisted by the Tax Compliance Unit. The Task Force will prioritise controls and spot checks on irregular employees, undeclared property rentals as well as unjust competition resulting from illegal importation of goods.



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Eco-contribution and excise duty



By the end of 2016, eco-contribution will no longer be levied on plastic containers and kitchen utensils, batteries, mattresses, detergents, toiletries and oil and fuel filters. It will be replaced by the introduction or increase in excise duty on the following products:

Product	Change	With effect from:
Cigarettes and tobacco	Increase in rate of duty by 3.76% - 5.5%	17 October 2016
Non-alcoholic beverages	Increase in rate of duty from €0.02 to €0.04 per litre	17 October 2016
Plastic sacks and bags	Increase of €0.012 per sack/bag that is not bio-degradable	17 October 2016
Toiletries and washing preparations	Introduction of excise duty at various rates ranging from €0.03/litre to €2.20/litre on products such as perfumes and aftershave, shampoos, beauty or make-up preparations, shower gels and deodorants.	1 January 2017
Pre-fabricated structural components for building or civil engineering	Introduction of excise duty at the rate of €0.0256/kg	1 January 2017
Ceramic tiles	Introduction of excise duty at the rate of €0.0075/kg	1 January 2017
Float glass	Introduction of excise duty at the rate of €0.016/kg	1 January 2017
Iron and steel bars and rods used in the construction industry	Introduction of excise duty at various rates ranging from €0.005/kg to €0.05/kg	1 January 2017



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Industry-specific initiatives



Financial Services

The Minister announced that **legislative measures shall be introduced in the areas of insurance, collective investment schemes and securitisation** in order to ensure that Malta's financial services sector shall continue to develop.



Gaming

In 2017, **the Gaming Authority will be launching a reform of its regulatory framework**, intended to address the industry's needs and provide it with the tools to achieve its objectives. A **European Gaming Institute of Malta** will be set up to ensure that persons working in the gaming industry possess the required specialised expertise.

Strategic initiatives



Malta Development Bank

The Government announced that the Malta Development Bank shall become **operational in 2017**. The bank shall have an authorised capital of €200 million, of which €30 million shall be paid up. The intended purpose of the bank shall be to support entrepreneurship and social economic development in Malta by stimulating investment and growth and making access to finance easier.



European Fund for Strategic Investments

The Government has announced that it is drawing up **plans for the Malta Development Bank to access funding** from the European Fund for Strategic Investments. The European Fund for Strategic Investments is an initiative launched jointly by the EIB Group that consists of the European Investment Bank and the European Investment Fund together with the European Commission that has the aim of mobilising private financing for strategic investments.

The Minister announced that the breakwater project of Marsamxett harbour has been identified as being eligible for funding through the European Fund for Strategic Investments.



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Malta National Development and Social Fund

The Malta National Development and Social Fund that administers a substantial portion of the funds raised through the Individual Investor Program, is expected to become operational. Access to these funds shall become available for projects of national interest as well as for pilot projects by local councils.



Solar Bonds

The Government has announced that Malita plc in partnership with Malta Government Investments Limited shall, in the coming months, **be issuing Solar Bonds to the public.**

The funds raised from these bonds shall be applied towards financing the rental of photovoltaic systems to be installed by commercial establishments as well as to finance photovoltaic systems to be installed in public places.



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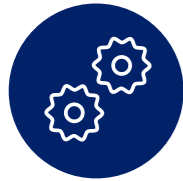
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Social measures



In-work benefit

The current 'in-work benefit' for parents who are both gainfully occupied and whose combined annual income is between €10,000 and €20,399, **will increase from €1,000 to €1,200 per child per annum.** However if the combined annual income is more than €20,400 but does not exceed €24,000, then the 'in-work benefit' is just €170 per child per annum.

The current 'in-work benefit' for single parents whose annual income is between €6,600 and €14,999 will **increase by €50 per child per annum to a maximum of €1,250.** However if annual income is more than €15,000 and but does not exceed €16,500 they will be entitled to an 'in-work benefit' of just €50 per child per annum.

The current 'in-work benefit' for parents where only one parent is employed will **increase from the current level of €150 per child per annum to a maximum of €350 per child per annum** depending on the family's total annual income which must not exceed €16,500.



Supplementary benefits

The annual income threshold entitling married persons who are gainfully occupied and who have children over 16 to receive Supplementary Benefits will **increase from €11,089 to €13,000 per annum** (€9,012 in the case of single persons in gainful occupation).



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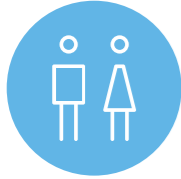
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Income tax for pensioners

Pensioners over the age of 61 in receipt of pension income will be **exempt from income tax on pensions of up to €13,000 per annum**. This applies to social security, treasury as well as other local or foreign pensions. This exemption will be introduced over a period of two years as follows:

Basis of tax computation	Exempted income in 2017	Exempted income in 2018
Single rate	€10,500	€13,000
Married rate	€13,000	€13,000
Parent rate	€11,500	€13,000

Married couples in receipt of a pension will benefit from **an additional exemption of €1,000 per annum** on their total income, introduced over two years as follows:

Basis of tax computation	Additional exempted income in 2017	Additional exempted income in 2018
Married rate	€500	€1,000



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Senior citizens grant

Senior citizens over the age of 75 will be entitled to an **annual grant of €300**.



Contributory retirement grant

The annual grant applicable to pensioners who have not yet reached the age of 75 and who have not paid sufficient social security contributions to qualify for a Contributory Pension will **increase by €50 to a maximum of €250 per annum**, depending on the number of years of contributions.



Rental subsidies

The **rental subsidy will double** from the current maximum of €83.33 to €166.66 per month depending on the size of the family and household income.



Rent adjustments

Increases in the annual minimum rentals as established by law every three years in 2010, 2013 and 2016 will **no longer apply to residences rented from the Government or the Housing Authority**. Any increases applied in 2013 will be refunded to tenants.



Carer at Home subsidy

Elderly persons who reside at home and who are on the waiting list for entry to a residential home are entitled to a **Carer at Home subsidy which will be increased** in 2017 to a maximum of €5,200 per annum.



Savings Bond for pensioners

The decrease in the rate of interest paid on bank deposits has resulted in a substantial loss of income for pensioners. To address this situation, **special Savings Bonds with attractive interest rates will be issued by the Treasury** targeted specifically at pensioners.



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Deloitte Tax Bundle 2016 and Deloitte Tax Bundle *Plus*

Following the success of the previous editions, Deloitte Malta recently launched the 2016 edition of the **Deloitte Tax Bundle** – a user-friendly and practical tool which enables professionals, academics and students to have the law at their fingertips. This year, Deloitte Malta has also launched an additional publication - **Deloitte Tax Bundle *Plus***, a desk companion which brings together Malta's tax treaties as well as relevant EU and international instruments. Together, the two publications provide a comprehensive collection of tax legislation relevant to Malta.

Both publications are available online at **taxbundle.deloittemt.com** as an easily searchable PDF version. Hard copies may be ordered by completing the online form at **www.deloitte.com/mt/tax-bundle-request**.



To discuss what impact the Malta Budget 2017 may have on your business you may contact...



Marc Alden

malden@deloitte.com.mt

+356 2343 2712

Nick Captur

ncaptur@deloitte.com.mt

+356 2343 2714

Chris Curmi

ccurmi@deloitte.com.mt

+356 2343 2708

Craig Schembri

craigschembri@deloitte.com.mt

+356 2343 2751

Malcolm Booker

mbooker@deloitte.com.mt

+356 2343 2000

Conrad Cassar Torregiani

ctorregiani@deloitte.com.mt

+356 2343 2716

Mark Grech

mgrech@deloitte.com.mt

+356 2343 2704

Raphael Aloisio

raloisio@deloitte.com.mt

+356 2343 2000

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