ECONOMIC HIGHLIGHTS

The Hon. Minister of Finance Prof. Edward Scicluna last night stated in his budget speech, that for the first time in a post-election budget, no new taxes or increases to taxes (both direct or indirect) feature in the Budget of 2018. Instead additional revenue will be raised by other means.

During 2016, the Maltese economy grew by 5.5% which was higher than the 2.2% increase registered in the EU. In the first six months of 2017, there was an increase of 4.4% in private consumption coupled with an increase of €246 million in salaries and increased company profits by €468 million. Employment in 2016 increased by 3.3% and unemployment reached a record low level of 4.7%. A surplus of €100 million was attained during 2016 with another surplus of 0.5% of GDP expected during 2017.

The inflation rate in 2016 was 1% based on the Harmonised Index of Consumer Prices and 1.06% based on the Retail Price Index. Export of goods and services increased by 3.5% during 2016 with further increases of 2.6% registered in the first six months of 2017.

The national debt during 2016 fell to 57.6% of GDP, higher than the estimated 60% which was expected to be achieved by 2018. In fact during 2018, the national debt is expected to decrease even further to 50.8% of GDP.

During 2018 the Maltese economy is envisaged to grow further by 5.6% in real terms and 7.6% in nominal terms as compared to the level of growth estimated within the EU of 1.8%. Investment is also expected to increase to 7.8% coupled with a decrease in the level of unemployment to 4.2%. Inflation during 2018 is expected to stabilise at the rate of 1.5%.

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PERSONAL BENEFITS & INCENTIVES

Cost of Living, employment and other personal benefits

A cost-of-living increase of €1.75 per week is being granted for 2018. Students will also get a pro-rata increase to their stipend.

An agreement was reached last year whereby workers on the minimum wage were to benefit from a €3 weekly increase in their second and third year of employment. The agreement also lays down a supplement linked with the COLA.

All workers earning up to €60,000 per annum will receive a one-time benefit of between €40 and €68 depending on the tax paid. Workers who do not pay tax will also benefit. This is being achieved without any change in the tax brackets.

In-work benefit and other allowances

The in-work benefit for couples where only one parent works will go up from €350 to €450 for every child. In addition, workers in the commuted work scheme (administered by the General Workers' Union) will see their income rise to €200 a month. The carers' allowance for those who stay at home to look after relatives will be increased by €8.15 a week. The foster care allowance will also increase from €70 a week to €100 a week.

Incentives meant at pensioners

Married pensioners on a minimum pension, whether contributory or non-contributory, will benefit from a €2 weekly increase. Pensioners entitled to a service pension will receive an increase of €200. Pensioners over 75 years of age living in their home will continue receiving an annual €300 grant.

As from 2018, pensioners will be exempt from tax on their pension income up to €13,200. Therefore, no income tax will be charged on the first €13,200 of any income arising from pensions as from calendar year 2018. Pensioners will still be taxed on any other income.

The government will issue yet another €10m tranche of government stocks available for those aged 62 and over.
FINANCIAL SERVICES INDUSTRY

Individual Investor Programme
The Individual Investor Programme, commonly referred as the Citizenship scheme will be extended, although no further details (as to whether the current conditions and thresholds will be changed) were forthcoming.

The Gaming Industry
2018 will see the introduction of a new simplified regulatory regime, which is expected to strengthen the gaming sector. This will further incentivise the sector whilst at the same time safeguarding responsible gaming.

Coupled with the regulatory regime changes, the VAT legislation will be amended to provide for VAT grouping, a concept which as at today is alien to our VAT legislation. VAT group will allow legally independent entities (having a fixed establishment in Malta) which have close financial, economic and organisation ties, to register as a singular taxable person for VAT purposes, thereby allowing all supplies and acquisitions between the members of the VAT grouping to be considered outside the scope of VAT.
TRANSPORT RELATED MEASURES

The government has embarked on a seven year plan to rebuild Maltese roads, starting with around 160 residential roads to be started during 2018. There are plans providing for significant improvements, over the next two years, to key road infrastructure points such as the Santa Venera tunnels network, as well as the entrance to Kirkop and the Regional Road.

During 2017, the Government introduced a scheme whereby all eighteen year olds were to be granted a full year of free public transport with the goal of reducing traffic congestion. This scheme will be extended to all students aged between 16 and 20 and will include free transport on Malta’s ferries.

Moreover the government will be implementing a measure whereby school transport will become free also for private and church school pupils, with the intention of reducing traffic during peak hours.

Incentives will be granted to those who purchase bikes and electric bikes. VAT refunds will be available on such purchases. The acquisition of motorbikes, scooters and pedelec bicycles will be assisted through a €400 grant. Additionally the acquisition of pedelec bicycles will remain exempt from VAT. Moreover rentals of bicycles will see a reduction of the applicable VAT rate from 18% to 7%.

As from 2018 acquisitions of electric cars will be exempt from registration tax, which will also be exonerated from paying any road licence fees for the first five years.

Next year the government plans to continue the ex-gratia payment to drivers who bought and registered new cars in 2007.
BUSINESS INCENTIVES

During 2018 the government will continue strengthening the Microinvest and BusinessStart initiatives. The Microinvest scheme grant available for micro enterprises and self-employed, offered by Malta Enterprise, will increase from €30,000 to €50,000 for businesses based in Malta and up to €70,000 for businesses based in Gozo. The increase of up to €70,000 will also be offered to those enterprises having more than 50% female shareholding. Moreover, from 2018 the Mircoinvest incentive will be available to enterprises having up to 50 full-time employees.

The government is also planning to set up a blockchain hub in order to support start-up enterprises working within the field.

The Budget speech also provides that private businesses in Gozo will be further incentivized through a reimbursement of 30% of the salary costs for every employee with a three-year contract, up to a maximum of €6,000.

INCENTIVES APPLICABLE TO THE HOUSING MARKET

During the Budget speech, the Minister for Finance announced the launch of a white paper that will require all property rent agreements to be registered, specifically indicating the lease terms and the rent due through the whole term. This questionable measure aims to encourage landlords to place more properties on the rental market by providing that property owners who fail to register their rental agreements as applicable, will no longer be protected by the rent law. On the other hand, landlords who register the rental agreements will be facilitated in evicting tenants who do not pay their rental dues, and it is planned that the court process to return their properties will go down from 2 years to 6 months.

The Skema Kiri will be renewed so as to encourage landlords to lease their properties to the government for social cases allocation purposes.
First-time property buyers, (individuals who have never owned an immovable property), will continue benefiting from the duty on documents exemption on the first €150,000 property value.

In addition, during 2018 a second-time buyers' scheme will be introduced, resulting in a €3,000 duty on documents reduction, which will increase to €5,000 where the buyer is differently abled. This scheme will be available to individuals who either need to move a bigger home due to family outgrow, or to a smaller home due to different circumstances. Separating couples will also be entitled to an equivalent reduction on a pro rata basis.

Moreover, the duty on documents payable on property acquisitions in Gozo will remain at two per cent instead of five per cent for another year.

A €25,000 grant is being given to property owners who renovate old or abandoned properties, subject to the property owners entering into a 10-year rental agreement with the Housing Authority at preferential rental rates. This scheme is available to the first 100 applicants. Moreover the government aims to increase the social housing and it is planning to build around 700 new units. More social loans will be provided during 2018 so that more individuals can become property owners.

Pensioners who hold a government tenement but reside at an elderly government homes will be allowed to keep more of their pension income if they return their residence to the government. The ones who decide to return their homes to the government will be able to retain 40% of their pension compared to 20% of the pension income at the moment.

▶ OTHER MEASURES

Persons under 40 years of age who continue their post-graduate studies equivalent to MQF7 and 8 (Masters and Ph.D) will not pay income tax for one and two years respectively (up to a maximum taxable income of €60,000) after they finish their course as long as they start or continue to work in Malta. Some further conditions apply.
All workers are to get an extra day added to their vacation leave as from next year.

Reimbursement of up to €10,000 to couples who go abroad for adoption purposes.

As from next year, fees for SEC and MATSEC exams will be halved, with the government absorbing the expenses. Both exam bodies’ fees are to be removed with effect from 2019.

Up to 2017, small service providers which have an annual turnover not exceeding €14,000 per annum, are permitted to register under Article 11 of the VAT Act, a simplified VAT registration whereby they neither charge VAT nor are they entitled to any credit for input VAT. With effect from 2018, the threshold below which small (service) undertakings may opt not to register for VAT purposes, will be increased to €20,000 per annum.
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