Monday 17 October 2016 marked the presentation of the fifth budget of this government’s legislature, one which focused primarily on social welfare. It also addressed the need to facilitate the transfer of family businesses across generations whilst also stimulating accessibility to finance for SMEs via the Malta Stock Exchange and alternative trading platforms such as Prospects.

The Minister announced that throughout 2016 the Maltese economy grew by 4.1%, more than double the Eurozone average, and is projected to sustain a 3.5% growth throughout 2017. This is in line with the recent announcement by ratings agency Standard & Poor’s which raised Malta’s long-term rating to ‘A-’, predicting that the economy will continue to grow by an annual average of 3 per cent until 2019.

In 2015, growth in Government final consumption expenditure increased by 5.0 per cent following a 7.2 per cent increase registered a year earlier. Real GDP is forecasted to grow by 3.5 per cent in 2016 and by 3.1 per cent in 2017. Whereas the deficit for 2016 was originally estimated at 1.1% it is now expected to decrease to 0.7%, with a further reduction for the coming two years to 0.5% for 2017 and 0.2% for 2018, projecting a balanced budget for 2019.

<table>
<thead>
<tr>
<th>Consolidated fund</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actual</td>
<td>Actual €000</td>
<td>Budget €000</td>
<td>Revised €000</td>
<td>Budget €000</td>
</tr>
<tr>
<td>GDP</td>
<td>8,788,351</td>
<td>8,983,418</td>
<td>9,293,130</td>
<td>9,835,659</td>
</tr>
<tr>
<td>Total revenue</td>
<td>3,634,798</td>
<td>3,613,244</td>
<td>3,683,888</td>
<td>3,887,603</td>
</tr>
<tr>
<td>Deficit</td>
<td>120,269</td>
<td>102,000</td>
<td>67,000</td>
<td>50,000</td>
</tr>
<tr>
<td>Deficit as a % of GDP</td>
<td>1.40%</td>
<td>1.10%</td>
<td>0.70%</td>
<td>0.50%</td>
</tr>
<tr>
<td>Public debt</td>
<td>5,621,944</td>
<td>5,858,774</td>
<td>5,883,997</td>
<td>6,092,971</td>
</tr>
</tbody>
</table>
Tax measures

Corporate

A notional interest deduction is being introduced. This new measure is intended to bring companies capitalised via equity or debt on an equal footing.

Tax consolidation: a group of companies will be able to determine its taxable base on a group basis, thereby adding liquidity within the group.

Listed companies

- as from 1st January 2017, persons who own less than 0.5% of the nominal share capital or rights to receive profits from companies which are listed on the Malta Stock Exchange will be eligible to claim the tax at source deducted through their income tax return
- gains on the sale of listed shares held prior to listing on the Malta Stock Exchange (MSE) will be exempt (a reduction from 15%). Listings on alternative trading platforms such as Prospects will benefit from a similar tax incentive which is directly commensurate to the percentage of shares offered to the public
- through the Risk Incentive Scheme, investors in an SME or a fund investing in a number of SMEs listed on an alternative trading platform such as Prospects will benefit from a tax credit of up to €250,000 per annum.

Private pensions

Optional private pensions: contributions by employers will be treated as a tax deductible expense and employers will benefit from a further tax credit of €150 per €1,000 of contributions. Employees contributing to the fund will benefit from a maximum tax reduction of €150 per annum.

The private pension rules will be extended to encompass business associations.

Excise tax

The eco-contribution tax on toiletries, detergents, mattresses, vehicle filters and batteries will be removed.

Excise tax will be imposed on toiletries, non-biodegradable utensils and garbage bags.

Tax on cigarettes and cigars will increase by 3.76%, while that on tobacco will increase by 5.5%.

Tax on non-alcoholic drinks, excluding water, will increase by 2%.

A tax will be imposed on construction material typically used in large scale projects, including metals, glass, tiles and concrete, diverting the said funds to environmental projects.

Stamp duty

Family businesses: reduction of stamp duty from 5% to 1.5% on the transfer of family businesses to the next generation throughout 2017.

First time buyers’ scheme is being extended till the end of 2017.

Gozo property: reduction on stamp duty from 5% to 2% for promise of sale agreements registered in 2017.

More incentives will be announced in connection with the restoration of properties situated in Urban Conservation Areas or on other scheduled properties whereby first time buyers may be eligible to benefits of up to €100,000 of the expenses incurred.

Sale of property by judicial auction: inherited immovable property sold by judicial auction will be subject to a final tax rate of 7%.
Tax measures

Individuals

Pension income up to €13,000 will be tax free.

Income tax ceilings for couples with children with only one parent working, and for single parents will be increased.

Tax evasion

A joint enforcement task force will be set up to combat tax evasion. Its first priority will be to enforce controls on irregular employment, undeclared rental income and unfair competition of certain imports and acquisitions.

Registration tax

Registration tax will be levied on the transfer of motor vehicles previously exempt from tax registration to a person who is not entitled to the exemption. The amount payable will be proportionately spread over a period of ten years.

Compliance measures

With effect from 1 January 2017, property let for a period of three months or longer shall be registered with the Inland Revenue Department. The lessor or the tenant can register the contract, however, if in default, the lessor will be subject to administrative penalties.
Enterprise incentives and measures

Initiatives aimed at startups and businesses

An international accelerator programme is being introduced to Malta, aimed at assisting niche local businesses, with preference given to development of new technologies and to further entice foreign investment towards local startups and SMEs.

A number of new schemes offering assistance to businesses run by individuals who are at a disadvantage are being introduced via Malta Enterprise. Assistance shall be given in the form of tax credits amounting to 25% to 45% of expenditure incurred, capped at €25,000 per business.

National Development Bank

A National Development Bank specialising in the development of investment in Malta will be operative in 2017, capitalised with an issued share capital of €30 million. The bank is planned to tap into EFSI funds to finance such projects as the Marsamxett breakwater.

Simplification of bureaucracy

Retail and other commercial outlets, or persons carrying out an activity on client premises, will no longer require a licence to carry on their business.

Tax credits for the tourism industry

New investments in Gozo include a €5 million investment to set up a Museum in Gozo, a Home for the Elderly involving an investment of €6 million and a €3million street project in Rabat.

Proposals will also be invited to consider a fast ferry service between Valletta and Mgarr Harbour. At the same time progress was achieved in connection with a permanent link between Gozo and Malta. In 2017 geological examinations should be undertaken and the first phase of a public call to design, build and operate a sub seabed tunnel between the two islands.

Digital games

Companies engaged in developing digital games with a cultural theme will be entitled to tax credits amounting to 30% of expenditure to develop the game.

Projects in industrial zones

A reduction in planning fees for projects in industrial zones is being introduced.
During 2017 government will concentrate mainly on the Kappara Junction project with the aim that this should be completed by the end of the year, followed by a new Marsa Road project. Restoration work on the the Valletta Triton Fountain and surrounding area will also be undertaken.

Other works will also commence on the widening of the Hamrun bypass and new junctions in St Andrews and Mosta.

A new company will be set up to oversee oil exploration matters.

The cruise liner industry will continue to receive support. Pinto Wharf will be widened by fifteen metres and negotiations will be undertaken to expand the Deep Water Quay.

An investment of over €56 million will be undertaken on the new ITS complex in Smart City. Work is to commence in 2017.

A tax deduction of 120% of expenditure incurred for embellishment projects as approved by local councils will be allowed. The additional 20% cannot exceed €15,000.

Other investments include a new park in Zonqor Point as well as a €3million project to convert three gardens into botanical gardens and a new breakwater in Marsaxlokk.

A Food Manufacturing Centre will be set up at the former Dowty site in Mriehel.

Fibre optic link
Government is allocating €3.2 million over the next two years to install a Fibre Optic Link to Gozo in order to attract further niche investment in the IT sector and the digital economy to Gozo.

Public car parks
In 2017, the Planning Authority shall propose fiscal incentives for the development of new public car parks including open spaces.

Exemption on startups
Another incentive is aimed at persons who graduated within the last three years and who set up a company with a turnover not exceeding €80,000. Such persons will be able to opt for an exemption from audit requirements for the first two years or a tax credit of 120% on audit fees capped to €700.
Social Measures

Social security contributions

Women who did not pay enough social security contributions to qualify for a pension will benefit from an increase of €50, while pension disparities between men and women will be removed. This forms part of a three-year government target to help children out of the poverty line. This translates to an in-work benefit for low-income parents with children which will be increased by €200 to €1,200. In the case of working single parents, they will receive an increase of €50 a year to €1,250.

Those with a low income who do not benefit from the in-work benefit will get an improvement of their supplementary allowance.

Married couples earning between €11,089 and €13,000, and single persons living independently and earning less than €9,012 or on a minimum wage will benefit from an additional yearly allowance of €126.36.

In 2017, persons on a minimum wage who make social security contributions will benefit from an increase of €4 per week, whether through the in-work benefit, the supplementary allowance and the cost of living adjustment.

The €300 annual grant to those aged over 75 will be retained whilst those who receive a service pension will be given an additional €200 next year.

Preferential tax rate for lessors hiring their property for social housing, can enter into an agreement for 7 seven years and pay a final tax of 5%.

Cost of living adjustment

Wages will increase by €1.75 per week to reflect the cost of living adjustment.

It was also announced that married pensioners on a minimum pension will receive an increase of €4 per week.

Stipends and education

The cost of living increase will also be reflected in stipends pro rata. Maintenence and supplementary grants will also be granted to students with a disability and students residing in church homes or similar institutions.

Educational support is also being extended to provide tablets to all 4th year primary students. Computers older than eight years will be changed.

€400,000 is being allocated for teachers from state and other schools applying for a sabbatical year in order to further their studies.

Other initiatives aimed at reducing youth unemployment are also being introduced through Jobs+ and the Work Programme Initiative through collaboration with the private sector.
Social Measures

Medical leave
Introduction of special medical paid leave over and above statutory sick leave for employees diagnosed with cancer and undergoing treatment.

Carer’s allowance
Means testing for eligibility to the carer’s allowance will be removed. Unmarried individuals who are not working in order to care for their parents will have their allowance increased by €35 per week, to €140 per week.

Married people who take in their parents and care for them will be eligible to €90 per week.

A respite service for carers will also be introduced, with assistants being provided to take care of their relatives and give the carers a break.

Such measures are aimed at reducing demand for places at old people’s homes.

A subsidy is being offered to the elderly interested in engaging a care worker. This is aimed at promoting the elderly to remain in their homes, close to their relatives. A further investment is being made towards the extension of the Carer at Home project committed to elderly awaiting entry to a retirement home.

Other enhanced allowances
A reform in the disability pensions and medicinal entitlement is being proposed.

The current rent subsidy given to 1,400 vulnerable families is being revised and the number of targeted families is being doubled to 2,800.
Sustainability

Energy

The energy plants operating on heavy fuel oil will be closed and will commence operating by means of gas. The Marsa Power Station will be decommissioned, and during 2017 the dismantling of the Delimara Power Station will also commence.

A gas pipeline linking Malta and Gela in Sicily is still being evaluated. During 2016 work was carried out to identify the best underwater route and location to link the pipeline between Sicily and Malta. In 2017, geological tests will also be undertaken to search for the best route to pass the pipeline underground to Delimara.

Enemed will be modernising the storage facilities at Has-Saptan with the development of a new filling station involving an investment of over €50 million as well as a further investment of over €15 million to modernize the facilities of jet oil storage at the airport.

Grants to residents who wish to install solar panels on their residences will be extended during 2017.

New schemes to incentivize the use of heat pump water heaters, double glazing, roof insulation, solar water heaters and restoration of wells will be introduced.

Malta Enterprise will be administering new schemes aimed at assisting enterprises with high energy consumption to reduce their energy consumption by investment in new systems and more efficient machinery. Grants will also be available to promote the replacement of old appliances.

Following the European Union funds obtained for renewable energy, Solar bonds will be issued jointly by Malita plc and Malta Government Investments Ltd and will be open to the public. The bonds will be utilised for the finance of solar panels.

Transport

As from 2017, a tax deduction will be made available to companies on 150% of the expenditure for the provision of free transport services to their employees. This will be capped at €35,000 per annum, where the service is provided by the company, or €50,000 per company, if jointly provided by two companies.

Youths who reach the age of eighteen during 2017 will be offered free use of public transport for one year, capped at €312 per youth.