



# Budget 2018: Highlights and Opportunities

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## KPMG Comment

Malta has continued to build on the success of previous years, posting an exceptionally strong economic performance, with real GDP growth of 5.5% in 2016 and 6.3% to June in 2017. This is coupled with strong employment figures, including a 3.1% increase in female participation in the work force with unemployment reduced to just 4.1%, and a total increase of some 9,500 jobs across the board, 8,500 of which are in the private sector. On the back of this economic growth, public debt decreased to 57.6% of GDP for 2016, and is projected to further decrease to just 50.8% of GDP in 2018 as a result of the continued budget surplus and economic growth, while inflation has been contained and remains stable at around 1.2%.

In this year's budget, the Government has chosen to renew its focus on the themes of social justice, with a special focus on the housing market, as well as addressing the various infrastructural issues being faced as a result of the country's strong economic expansion.

On the theme of social justice, the government has announced the introduction and/or extension of the following key measures:

- The granting of additional days of leave to compensate for public holidays falling on weekends, starting with an additional day in the coming year.
- An increase in the statutory minimum wage.
- A tax break for those earning less than €60,000.
- Increases in the levels of social security pensions.
- An increase in the pension tax free bracket.
- Financial assistance for parents seeking to adopt of up to €10,000.
- Investment of €50 million to build 700 social housing units.
- Expansion of the rent subsidy programme.
- Financial assistance to private property owners who choose to rehabilitate their property for social housing purposes.
- Expansion of the social loan programme to assist individuals acquiring a property.

- The launch of a white paper on the rental market to explore amendments and simplification to the legal framework to protect both landlord and lessee.
- The introduction of a framework for equity release schemes.
- The extension of the duty exemption for 1<sup>st</sup> time buyers for another year.
- A duty rebate of up to €3,000 for 2<sup>nd</sup> time buyers who are moving to a new primary residence (further extended to €5,000 for persons with disability or parents of children with a disability).
- A tax credit of up to €60,000 for persons completing a Masters or Ph.D level degree.
- Extension of the in-work benefit.

In relation to Malta's infrastructure, the government has presented a plan to continue improving the quality of product Malta, both for those who live and work here as well as for the record numbers of tourists who choose to visit. The various measures announced include the following:

- A commitment by Government to reduce bureaucracy to facilitate private business by 30% over this legislature's term.
- The granting of free *tal-linja* cards to youths between the ages of 16 - 20.
- The extension of the VAT rebate on the purchase of bicycles and electric bicycles for another year.
- Building a water desalination plant in Gozo.
- The commissioning of a new electricity distribution centre in Ricasoli and various other measures related to the electricity grid's modernisation and upgrade.
- Plans to create a seamless interconnection between the various modes of public transport.
- Ongoing exploration of the feasibility of the Malta – Gozo tunnel connection.



## KPMG Comment (continued...)

- Free school transport for children attending independent and church schools to commence for the 2018/2019 scholastic year.
- A new 350 bed in Gozo hospital to be built in conjunction with Vitals Global Healthcare as part of the State healthcare offering for Gozo.
- Re-surfacing of all roads in Malta and Gozo project to commence shortly under the oversight of a new Government agency to be set-up.
- Expansion of the scheme for the collection of organic waste and drink containers.
- An investment of more than €150 million into an energy from waste project.

While the opening tenet of the Hon. Minister Scicluna's budget speech was the commitment not to announce any tax rise, either direct or indirect, a commitment which was honoured, various fiscal measures were announced, including:

- VAT grouping for regulated groups active in financial services and gaming.
- An increase in the VAT small businesses threshold to €20,000.
- The exemption of electric and hybrid vehicles from registration tax and the annual road license for 5 years from the date of registration.
- A VAT rebate of up to €400 on motorbikes, scooters and bicycles with an electric assist motor.
- Extension of the reduced rate of duty (2.5%) for purchases of vacant property located in an Urban Conservation Area for the coming year.
- Extension of the reduced rate of duty (2%) for persons purchasing their residence in Gozo for the coming year.
- The expansion of the MicroInvest scheme.

One would also be remiss should one fail to mention the Government's repeated emphasis of its vision for Malta to become a centre for excellence for blockchain technology with initiatives in this area including:

- The adoption of Blockchain to facilitate secure access to certificates issued by MCAST, NCFHE and ITS.
- The upcoming launch of a Blockchain Lab at MITA.
- The creation of a web-portal to serve as a point of communication for all those interested in the technologies.
- Support to business start-ups in this space through the creation of a Blockchain Hub.

Overall, the budget clearly sought to consolidate that which was working, whilst gearing additional government expenditure towards addressing those areas which have been placed under strain, redistributing wealth to those in need and setting out a plan for continued incremental step improvement in all other areas with a special emphasis on adoption of Blockchain technology.



## Fiscal Measures

- A one-time refund of between €40 and €68 for all individuals working on a full time or part-time basis and earning less than €60,000 (gross).
- The tax exempt pension threshold has been increased from the current €13,000 to €13,200. The government will also introduce a new system for the revision of the pension calculation for those who continue to work after pensionable age and who had missing social security contributions and continue to make contribution up to the age of 65.
- Self-employed and SMEs to benefit from an increase in the VAT-exempt turnover threshold from €14,000 to €20,000.
- Reduction of VAT on the hiring of bicycles from 18% to 7% VAT incurred on bicycles and pedelec bicycles shall continue to be eligible for a refund.
- Introduction of the concept of VAT grouping for regulated financial services and the gaming industry. As a result of this change, independent entities linked financially, economically and organisationally may opt to be treated as a single VAT person, meaning that supplies between group entities would fall outside the scope of VAT.
- The introduction of a tax exemption, via tax credits, for persons who are not yet 40 years of age and who opt to further their studies at Masters (or MQF 7) or Ph.D (or MQF 8) level. In the case of Masters, a one- year exemption, while in the case of Ph.D, a two-year exemption is granted from income tax by way of tax credits up to maximum of €60,000. This exemption applies insofar as the person to whom the credit has been granted continues to work in Malta for a period of at least 3 years.



## Economy

- Real GDP growth of 5.5% in 2016 and 6.3% recorded in the first 6 months of 2017.
- Budget surplus of €88 million projected for full year 2017.
- National debt as a percentage of GDP expected to drop to 54.93% in 2017.
- COLA set to €1.75 per week.
- Inflation rate stood at 1.2% as at August 2017.
- Less than 2,500 people registering as unemployed as at August 2017.
- Record unemployment rate of 4.1%.
- Female participation rate increased by 3.1%.



## Highlights

- An extra day of vacation to compensate for public holidays falling on a weekend, shall be given in the coming year.
- An increase to the statutory minimum wage of €3 per week after 1 year in employment and a further €3 per week in the 3<sup>rd</sup> year of employment.
- Assistance of up to €10,000 to cover expenses relating to adoption of children from abroad.
- All pensioners, whether on a contributory or non-contributory social security pension, will receive €2 weekly increase.
- Government to address duty anomaly on certain steel rods and bars falling under a specific HS code to ensure a level playing field in the market.
- The criteria for eligibility of rental subsidy granted by Government to those families with low level of income will be widened.
- Financial assistance of up to €25,000 to cover rehabilitation costs of abandoned private residential property which will be rented for social housing for a 10 year period.
- Extension in social loan programme for those looking to buy property but facing financial difficulties.
- The first-time property buyers' scheme will be retained and extended for another year and a new scheme for people selling their first home to buy a second will be launched, with a maximum refund of €3,000 generally and €5,000 for disabled persons or parents with disabled children.
- Extension of the reduced rate of duty on acquisition of vacant property in Urban Conversation Area at 2.5% and for property situated in Gozo at 2% for the coming year.
- One-year free bus pass for all those aged between 16 and 20.
- Extension of the Malta Individual Investor Programme (MIIP).
- An increase in the MicroInvest Scheme assistance from €30,000 to
  - (i) €50,000 for enterprises based in Malta;
  - (ii) €70,000 for enterprises based in Gozo; and
  - (iii) €70,000 for enterprises owned, in majority, by women.
- A refund of 30% of the wage of an employee, up to a maximum of €6,000, will be granted to employers engaging employees in Gozo for a contract period spanning over a minimum of three years.
- Introduction of a system, wherever possible, to allow companies which owe and are owed money by government to offset these amounts directly.
- Facility regarding on-line submission of social security and VAT forms to be widened to cover companies employing 10 workers or more.
- A Working Group will be set up to devise a regulatory framework through which financial institutions may start providing equity release facilities with the aim of allowing home owners over a certain age to be in a better position to finance their retirement.

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