



Malta Budget 2018

A review and commentary



HIGHLIGHTS

Key measures announced by the Minister for Finance in the budget speech for 2018 include

<i>Introduction of VAT grouping</i>	<i>Increase in exemption from tax on pension income</i>	<i>Stamp duty exemption extended to second time buyers</i>	<i>A one-year free bus pass for those aged between 16 and 20</i>
<i>An extra day of leave</i>	<i>Increase in the small undertakings VAT exemption threshold from €14k to €20k</i>	<i>Reduced stamp duty on UCA and Gozo properties</i>	<i>Additional financial assistance for adoptive parents, orphans and widows</i>
<i>Free school transport for next scholastic year and reduction in Matsec and SEC exam fees</i>		<i>The introduction of Equity Release Facilities</i>	<i>Exemption from registration tax on electric, hybrid and similar vehicles</i>

ECONOMY

The economy in 2017

"Surplus for 2018 is expected to be 0.5% of GDP"



€88m

The government reported a surplus in its finances which is expected to amount to around €88m (equivalent to 0.8% of GDP). For 2018, the surplus is expected to be 0.5% of GDP

€10.8bn

GDP for 2017 is expected to be €10.8bn. Furthermore, next year, GDP is expected to increase by 7.6% in nominal terms (5.6% in real terms)

4.1%

In August 2017, the number of people registering for work amounted to less than 2,500. The rate of unemployment is estimated at 4.1% of the labour supply

1.1%

The 12-month moving average rate of inflation in August 2017 stood at 1.1% which is the same as that registered in August 2016. For 2018, the rate of inflation is expected to be 1.5%

€1.75

The weekly cost of living increase for 2018 is €1.75 per week. Pensioners will receive an increase of €2 per week

€3.7bn

Estimated tax revenue for 2017 is expected to be €3.7bn and is expected to rise to €4.4bn by 2020

1.9m

Inbound tourists in 2016 amounted to over 1.9m visitors representing an increase of 10.2% over the previous year

€5.9bn

Government debt as at the end of 2017 is expected to amount to 54.9% of GDP (i.e. €5.9bn) and is expected to decrease to 44.6% of GDP by 2020

€2.1bn

The visible trade gap reached €2.1bn for the period January to July 2017 due to exports decreasing at a higher rate than the decrease in imports over the same period

1,414

The total number of Collective Investment Schemes between January and August 2017 increased by 83 bringing the total licensed number of Collective Investment Schemes to 1,414

INCOME TAX

"Increase in tax exemption on pension income"



One-time tax repayment

- A one-time tax repayment will be granted to full-time and part-time employees earning income of not more than €60,000.
- Such repayment will depend on the level of income earned and the tax status of the individual.
- The repayment will vary between €40 and €68, with the highest repayment granted to the lowest income earning employees.

Exemption in respect of pension income

- Following the introduction of the exemption in respect of pension income as from 1 January 2017, the maximum amount of exempt pension income will be increased as set out in the table below:

Single	Parent	Married
€13,200	€13,200	€13,200 (+ €1,000 tax free amount derived from other sources of income)

MicroInvest Scheme

- The value of assistance provided under this Scheme will be increased from €30,000 to €50,000 for Maltese enterprises.
- Such assistance will increase to €70,000 in the following cases:
 1. Enterprises established in Gozo;
 2. Enterprises having a female majority shareholding;
 3. Female self-employed undertakings.
- The MicroInvest Scheme will also be extended to enterprises which do not employ more than 50 (currently 30) full-time employees.

Tax credits for post-graduate courses

- Tax credits shall be granted to persons following a post-graduate course (commencing 2017/2018) leading to a Masters or Ph.D. (equivalent to MQF 7 and MQF 8).
- The tax credit shall be granted up to the level of the first €60,000 of income earned (subject to certain conditions).
- In the case of persons obtaining a Masters or MQF 7 qualification, the incentive shall be availed of in one year whilst for persons qualifying for a Ph.D. or MQF 8 the incentive shall be extended to two years.
- Applicants following the post-graduate course on a part-time basis will benefit from this incentive on a pro-rata basis.



Combating fiscal evasion

- The Government will continue to combat fiscal evasion and unfair competition through an increase in penalties.
- Such increase in penalties will apply to both out-of-court settlement agreements and to any court settlement arrangement.
- The Joint Enforcement Task Force will continue its programme in order to identify those entities and businesses evading taxes.

OTHER TAXES

"Introduction of VAT grouping"



Stamp duty

Extension of "First-Time Buyers" stamp duty exemption scheme

- The stamp duty exemption for first-time buyers on the first €150,000 of the value of the property is being extended by a further year.

Refund of stamp duty on the purchase of a new residential home for "Second-Time Buyers"

- Where a person sells his residential property so as to acquire another residential property and such person does not own other properties, he will be granted a reduction of stamp duty, by way of refund, of up to €3,000.
- Where the person involved has a disability, the refund increases to a maximum of €5,000.

Extension of stamp duty reductions for property purchases in Gozo and Urban Conservation Areas

- The reduction in stamp duty introduced in previous years in respect of property acquired in Gozo (reduction from 5% to 2%) and property acquired in Urban Conservation Areas (reduction from 5% to 2.5%) is being extended for another year.

Value Added Tax

VAT Grouping

- Introduction of VAT grouping for the financial services and gaming sectors. This will entitle separate legal persons having a fixed establishment in Malta and which are closely bound to one another by financial, economic and organisational links to be registered as one taxable person.
- As a result, supplies between members of the same VAT group will be regarded as falling outside the scope of VAT.

Submission of forms online

- The possibility for VAT returns and Social Security forms to be submitted electronically shall be extended to entities having 10 or more employees.

Higher VAT threshold for small undertakings

- The turnover threshold under which small undertakings may opt not to charge VAT will be increased from €14,000 to €20,000.

Extension of VAT refund on purchases of bicycles and pedelec bicycles

- Extension for a further year of the scheme for refunding VAT paid on the acquisition of bicycles and pedelec bicycles. This refund shall also be extended to companies which acquire such bicycles for the purpose of hiring out.



Grant on purchases of motorbikes, scooters and pedelec bicycles

- A grant of up to €400 in respect of purchases of motorbikes, scooters and electric assisted bikes. In the case of pedelec bicycles assisted bikes such grant will be in addition to the VAT refund mentioned above.
- The VAT rate on the leasing of bicycles shall be reduced to 7%.

Other indirect tax measures

- Aligning the excise duty rate levied on certain steel rods and bars to introduce a level playing field on the importation of similar goods.

SOCIAL MEASURES

"Inclusion of contributions paid after retirement for pension calculation"



Pensions

- The minimum retirement pension is being increased by €2 per week.
- The first €2,066 of a service pension is not taken into account in reducing the retirement pension.
- Contributions paid by pensioners who continue to work after reaching their pension age, will be taken into consideration in calculating the pension as from the age of 65.
- The Housing Authority will be offering financial assistance of up to a maximum of €25,000 for the first 100 unutilised private properties where an application for assistance is made for the renovation and rehabilitation thereof. Such assistance will be granted on the basis that the property being regenerated is rented out to the Housing Authority at advantageous rates for a 10 year period. This will in turn be used by the Authority for social housing purposes.

Other social measures

- Re-issue of Savings Bonds for pensioners at better market interest rates.
- Allocation of €11 million for the continuation of the fund created to cater for inequalities suffered by persons in the past such as ex-employees of the Malta Electricity Board, police, etc.
- €50m investment for the construction of almost 700 social housing units.
- Widening of the thresholds for subsidies to persons living in rented property, including special thresholds for persons who are 65 years and over.
- Approximately 200 new applications for a scheme which increases the stock of property being rented to the Housing Authority for the purposes of allocation to persons in need of social housing.



- In-Work Benefit rate increased from €350 to €450 yearly per child where only one parent is in employment. Increase in the community worker scheme of €200 per month.
- Additional benefit of €8.15 per week to the Increased Carers Allowance will not be taken into consideration in the means testing calculation for other benefits.
- Maximum aid of €10,000 for expenses incurred for adopting foreign children (this aid will also apply to those who are currently undergoing this process).
- The special allowance for orphans will also be applicable to those in employment.
- Installations of lifts in 109 blocks of Government rented apartments.
- Proposal for a white paper addressing issues related to rental agreements, including a proposal for the obligatory registration of rental contracts.
- A grant of €300 will be paid to each person who is 75 years and over and still living in his/ her own household.
- Measures to incentivise elderly persons residing in retirement homes to relinquish their right over property rented from the Government.
- The Housing Authority has entered into an agreement with APS Bank to provide loans to 100 prospective owners to enable them to buy their own residential property. Arrangements with Bank of Valletta shall also be introduced to enable 300 more applicants to acquire their residential property.
- The Foster Care Allowance will increase to €100 (from the current €70) per week.
- As from 2018, widowers who work and receive a contributory pension at the same time will be entitled to receive sickness benefits.

OTHER MEASURES

"Introduction of an additional day of leave"



Measures relating to employment

- Employees will benefit from an additional day of leave.
- Employees earning a minimum wage will receive a mandatory raise of €3 per week during the second year of employment and an increase of €6 per week during the third year of employment.

Property measures

- Individuals buying and restoring property within Urban Conservation Areas or any other property scheduled within the first or second grade will continue benefitting from a refund of certain expenses incurred in restoring the property.
- A new scheme will be introduced to redeem emphyteusis which will soon expire.
- The concept of Equity Release Facilities will also be introduced in Malta, where property owners can plan ahead to secure regular income as a return on their property after retirement age.

Gozo

- Entrepreneurs who offer a minimum of a 3 year full time contract of employment in Gozo to a Gozitan employee, will receive a 30% refund (up to a maximum of €6,000) calculated on the employee's average wage.
- Gozitan entrepreneurs operating in the tourism industry will be allocated funds aimed at improving tourist establishments, including other projects aimed at embellishing Gozo.
- New desalination plant in Gozo.
- Agreement with Vitals Global Healthcare for a new hospital in Gozo.

Transport

- Persons between 16 and 20 years old will be granted one year of free public transport.
- It is expected that free school transport to and from Church and Independent schools will be introduced in 2018/2019.
- The scheme providing incentives for investment in bicycle racks will be extended by another year.
- Various incentives aimed at reducing traffic congestion and pollution will be introduced such as the introduction of the new concept of "Share the Road" for bicycle users, increased safety measures targeted at motorists and incentives aimed at investing in eco-friendly vehicles.
- No registration tax on eco-friendly vehicles including vehicles operated by battery with a minimum range of 80km. Furthermore no road licence will be paid on such vehicles during the first five years from registration date.
- Further extension to scrappage schemes and grants in respect of vehicles converted from petrol to gas.
- A grant of a maximum of €10,000 will be awarded to individuals and companies investing in wheelchair accessible taxis. A fund of €100,000 will be allocated in this regard.
- An ex-gratia payment will be given to all persons who registered a new vehicle in 2007.
- Accessibility will be increased in ferry terminals and bus stops.
- Upgrading of bus shelters and roads.



Environment

- Investment of over €150m in waste conversion technology.
Initiative to plant a tree for every child born.
- Various investments in cleaner energy sources (solar farms, alternative energy, implementation of new gas pipeline).
- Extension of the collection of organic waste to all the localities, introduction of higher penalties to encourage cleanliness, and introduction of a refund on the return of plastic and glass bottles.
- Free consultations to assist families in reducing their water and electricity consumption.

Education

- In 2018, the Government will absorb half the fees for SEC and MATSEC exams. From 2019, these examinations will be free of charge.
- Extension of the 'One tablet per child' initiative.
- Extension of 'club 3-16' to further incentivise women to join the workforce.

Health

- Investment in two new primary health centres and refurbishing of existing ones.
- New Out-Patients block and parking facilities at Mater Dei through Private Public Partnership.
Strengthening of the law regulating the treatment of IVF.
- A number of training initiatives aimed at improving competences in the pharmaceutical industry will be implemented.

Other

- Introduction of an offsetting system for Maltese companies, allowing them to offset certain payments due to and from the Maltese government.
- Assistance is to be provided to start-ups investing in blockchain technology.

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The notes are designed to keep readers abreast with financial and tax developments. They are not intended to be a definitive or comprehensive analysis of the subject and should not be acted upon without prior consultation with the Partners or Senior Consultants of the firm. For further details please do not hesitate to contact:

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