

Budget 2017

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Avanzia
Tax and

Budget highlights:

Introduction of the fiscal consolidation concept

Initiatives to assist start ups

Incentives for listing of companies on the Malta Stock Exchange

Measures to abolish the eco contribution and replace it with excise duty

Reduction in duty on documents on certain transfers

Reforms to incentivise private pension schemes

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Introduction

On 17 October 2016, the Honourable Minister for Finance, Profs. Edward Scicluna, presented the Budget for 2017. This year the Maltese GDP increased by 4.1% in real terms and 6.1% in nominal terms. The GDP increase for 2017 is expected to be 3.5% in real terms and 5.8% in nominal terms. Unemployment in June 2016 was at a record low of 4.9% and the inflation is expected to reach 1.5% in 2017.

The deficit for 2016 is expected to be 0.7% of GDP, which is 0.4 percentage points lower than the original forecast. The deficit for 2017 is expected to be 0.5% of GDP. Government debt as at the end of 2016 is expected to amount to 63.3% of GDP (i.e. €5.9bn) and is expected to reduce to 56.5% of GDP by 2019. Malta's performance has also been recognised by the international rating agency Standard & Poor's, who upgraded Malta's rating to A-.

Cost of Living Adjustment (COLA)

The weekly cost of living increase for 2017 is €1.75 per week. The increase will be granted in full to pensioners and individuals on social benefits, and pro-rata to students.

Income Tax

The Maltese tax system will see the introduction of provisions to enable fiscal consolidation allowing a group of companies to compute taxable income on a consolidated basis. It is not yet clear whether or not the fiscal consolidation will replace the current group relief provisions already contained in the Income Tax Act.

Dividends from listed companies

Shareholders of not more than 0.5% of the capital of a company listed on the Malta Stock Exchange, may claim a credit of the tax at source on dividend distributions made out of profits derived after 1 January 2017. The credit may also result in a tax refund depending on the income tax rates applicable to the shareholder.

Fiscal incentives for IPOs

Persons who held shares prior to listing will not be subject to the 15% tax rate applicable to gains arising on a disposal of shares listed on the Malta Stock Exchange. This exemption will also apply to shares listed on the alternative trading platform. The extent of the exemption will depend on the amount of shares offered to the public.

Risk investment scheme

A maximum credit of €250,000 per annum will be granted to persons investing in SMEs or funds that invest in SMEs registered on an alternative trading platform such as 'Prospects' administered by the Malta Stock Exchange.

Incentives for start-ups

A start-up company having an annual turnover of not more than €80,000 and set up by graduates, may opt for an exemption from an audit requirement for the first two years or else claim a tax deduction amounting to 120% of the audit fee up to a maximum of €700 per annum.



Tax credits

Malta Enterprise will launch schemes to assist businesses set up by individuals requiring special assistance by granting financial assistance of up to €25,000 and a tax credit ranging between 25% and 45% of the expenses incurred on research.

A tax credit will also be provided for the development of digital games with a cultural theme. This credit will amount to a maximum of 30% of the development expenses incurred. Moreover, Malta Enterprise will be offering a tax credit on the renovations of hotels and restaurants capped at €200,000 and €50,000 respectively.

Tax deductions

Businesses providing transport to their employees free of charge will be granted a tax deduction amounting to 150% of the expenditure incurred. The tax deduction will be capped at €35,000 per annum for a company providing this service on its own but increased to €50,000 per annum per company if this service is provided jointly with another company.

Moreover, businesses undertaking projects which embellish and benefit a locality will be entitled to a deduction equivalent to 120% of the value of the work carried out (subject to obtaining approval from the respective local council). The additional 20% deduction will be capped at €15,000.

Contributions to private pensions

New incentives will be introduced with respect to contributions to a private pension scheme made by the employer (or an association of employers) on behalf of employees.

The incentives are:

- * an income tax deduction equivalent to the amount contributed by the employer; and
- * a tax credit amounting to €150 for every €1,000 contributed by the employer; and
- * the amount contributed will not be considered a taxable fringe benefit in the hands of the employee.

Furthermore, any contribution made by the employee to the same private pension scheme will benefit from a deduction of up to €150, depending on the total amount contributed.

Exemption in respect of pension income

As from 1 January 2017, pensioners over 61 years of age will be exempt from income tax. The extent of the exemption will depend on the tax status of the individual and the year in which the pension is derived as follows:

Calendar year	Single	Parent	Married
2017	€10,500	€11,500	€13,000 (+ €500 deduction against other income)
2018	€13,000	€13,000	€13,000 (+ €1,000 deduction against other income)

Judicial sale by auction of inherited immovable property

Property transferred by judicial sale and which was inherited after November 1992, will be subject to a 7% final withholding tax.

Renting residential property to low income families

Lessors entering into a rental agreement for a 7-year period with families considered to derive a low income will benefit from a reduced rate of income tax of 5% on the rental income. This reduced rate will not be applicable in cases where the rented property is located in a Special Designated Area. The benefit is a pilot scheme limited to 100 cases.

Tax evasion

Rental agreements covering a period of 3 months or more or renewals must be registered with the Inland Revenue Department to curb tax evasion on rental income.

The Government will set up a Joint Enforcement Task Force (JETF) between the Inland Revenue Department, VAT Department, Customs and the Tax Compliance Unit to make 'spot checks' and control tax evasion particularly with respect to non-registered employees, undeclared rental agreements and unfair competition.

Duty on documents

The stamp duty applicable on the transfer of businesses by parents to their children will be reduced to 1.5%. This reduction will only apply in 2017. Also, the stamp duty exemption for first time buyers on the first €150,000 of the value of property is being extended by another year. Moreover, stamp duty on acquisitions of immovable property in Gozo executed until the end of 2018 will be reduced to 2% in cases where the promise of sale agreement is concluded and registered with the Inland Revenue Department during 2017.

Eco-contribution and excise duty

The eco-contribution will continue to be reformed. Products such as batteries, mattresses, detergents, toiletries, vehicle filters, kitchen utensils and containers made of plastic will no longer be subject to eco-contribution but some of these products will instead be subject to excise duty.

Excise duty on non-bio-degradable plastic bags will be increased in order to incentivise even further waste separation.

The excise duty on cigarettes and cigars is being increased at an average rate of 3.76% and that on other tobacco products at a rate of 5.5%. The excise duty on non-alcoholic drinks will be increased by two cents.

Excise duty will be introduced on certain materials used in the construction industry such as iron, glass and tiles, as well as extension of excise duty on cement products acquired from outside Malta.

Other initiatives

The Minister announced further initiatives aimed at stimulating further economic growth and development in Malta. These include:

- * Introduction of further legislative measures in the areas of insurance, collective investment schemes and securisation;
- * Reform in the regulatory framework governing the gaming industry;
- * Further investment in the free trade zone;
- * The setting up of the Malta Development Bank to encourage local investment;
- * Further investment in network and data centres to promote further efficiency and business continuity;
- * The issuance of solar bonds aimed at incentivising further investment in renewable energy;



Conclusion

The Budget Speech contains a number of social measures to assist low income families and individuals such as pensioners. These are not covered in this newsletter which is more aimed at highlighting the fiscal measures applicable to taxpayers.

Several other measures were announced aimed at boosting consumption to continue fostering Malta's economic growth. Businesses may claim tax credits and tax deductions on certain expenditure. Probably the most notable change in the tax legislation is the introduction of fiscal consolidation.

There are no changes whatsoever to the VAT legislation but a few changes to other indirect taxes such as duty on documents and excise duties.



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