

MALTA BUDGET 2017 - GENERAL OVERVIEW



INTRODUCTION

In his introduction to the Budget speech for 2017, Finance Minister Prof. Edward Scicluna reviewed the Maltese economy's performance for the current year. The key figures analysed included the following:

- **Deficit to GDP Ratio:** This is expected to decrease to **0.7%** (1.6% in 2015) whereas the Government aims to decrease this further to **0.5%** for 2017;
- **Unemployment:** Malta's unemployment rate for 2016 is estimated at 4.9% (as at June 2016) and expected to remain stable at 5% for the remainder of 2016;
- **Debt to GDP Ratio:** This is estimated to decrease to 63.3% in 2016 (from 64% in 2015);
- **Weekly Cost of Living adjustment: The minimum weekly wage** will increase to **€169.76** in 2017 (from €168.01 in 2016) resulting in a cost of living increase equivalent to €1.75 per week, equal to the previous year's increase. This will also be granted to pensioners and any persons in receipt of social benefits. With regards to students, their stipends will be increasing on a pro-rata basis.

INCOME TAX

Malta Stock Exchange (MSE) – Fiscal Incentives

- **Dividends from companies listed on the MSE:**
Shareholders who do not own more than 0.5% of the **share capital of a company listed on the MSE** may claim a **full credit of the underlying tax paid (by the company on such profits) upon a dividend distribution**. This will be applicable with respect to distributions of profits generated

on or after 1 January 2017. Depending on the income tax rates applicable to the shareholder, the above credit may result in a refund.

➤ **Risk Investment Scheme:**

An **annual tax credit of up to €250,000** will be granted to persons who invest in **Small or Medium Enterprises (SMEs)** or **funds that invest in SMEs** that are registered on an alternative trading platform such as ‘Prospects’.

Registration of rental contract/agreement

- **Any property rental contract/agreement, including renewal, covering a period of three (3) months or more are required to be registered with the Inland Revenue Department** either by the lessor or by the lessee. In the event that the said rental contract/agreement is not registered as aforesaid, the lessor will be subjected to the penalties contemplated by law.

Refund Schemes – Restoration of Urban Conservation Area (UCA) property

- **First time buyers** will benefit from **refund schemes of up to €100,000** on expenses incurred on the **restoration of property situated in an Urban Conservation Area (“UCA”)** or any other property scheduled within the first or second grade.

Exemption on pension income

- **An exemption will be introduced over a period of two (2) years whereby pension income or part thereof will be exempted from income tax.** The extent of this exemption will depend on the tax status of the individual – as set out below:

Tax status	Exempted income in 2017 (€)	Exempted income in 2018 (€)
Single	10,500	13,000
Parent	11,500	13,000
Married	13,000	13,000

Married couples will benefit from an additional exemption of €500 in 2017 and €1,000 in 2018 against other income.

Malta Enterprise – Fiscal Incentives

- **Tax credits** will be granted by Malta Enterprise **on renovation works undertaken on hotels and restaurants**, capped at **€200,000** (for hotels) and **€50,000** (for restaurants);
- Financial assistance of up to **€25,000** to help **disadvantaged individuals setting up a business;**

- **Tax credit for expenses** incurred on a **research project** amounting to between **25% and 45%** of the eligible expenses;
- **Tax credit for expenses** incurred in the **development of digital games with a cultural theme** - amounting to a **maximum of 30%** of the development expenses.

Transport provided to employees - Tax deduction

- **Companies providing transport to their employees free of charge** will be entitled a **tax deduction amounting to 150% of the expenditure incurred**. Such credit will be limited to €35,000 per annum for a company providing this service on its own, whereas this will be increased to €50,000 per annum if this service is provided jointly with another company.

Incentives for start-ups

- A new incentive that will be introduced is directed to persons that have **graduated from a post-secondary institution in the last three (3) years** and have set up a **start-up company** which does **not have an annual turnover of more than €80,000**. By virtue of this incentive, companies which fall under the above criteria will be granted the **option of exempting the company from audit for the first two (2) years**. Alternatively such companies **may choose to have an audit and claim a tax deduction of 120% of the audit fees up to a maximum of €700 per annum**.

SOCIAL AND OTHER MEASURES

Pensioners

- **Pension increase:**
As from January 2017, the **minimum retirement pension** is being **increased by €4 per week (€208 per annum) for married couples in receipt of a minimum pension**.
- **Savings Bonds:**
The Treasury will introduce Savings Bonds for pensioners with attractive interest rates, higher than market interest rates.

Renewable energy – Incentives and schemes

- **Grant schemes** are to be extended in such a way to cover also the installation of photovoltaic cells, heat pump water heaters, double glazing, roof insulation, solar water heaters and the renovation of wells.

- Malta Enterprise is to develop a scheme to assist businesses which may have high energy consumption by assisting investments in energy efficient systems and machinery.
- **New Solar Bonds** will be issued to the public to finance rental of photovoltaic panels installed by commercial establishments.

Reduced tax rates for rental income derived from lets to low income families

- **Lessors entering into a rental agreement (for a 7-year period) with families** that are considered to **derive a low income** will benefit from a **reduced rate of income tax of 5% (instead of 15%)** on the rental income, subject to the satisfaction of certain criteria (to be published).

STAMP DUTY ON DOCUMENTS AND TRANSFERS

Business transfers

- **Reduction to 1.5% (from 5%) in the rate of duty on transfers of businesses by parents to their children in 2017**, subject to the satisfaction of the required conditions.

First time buyer's exemption

- **Extension of one-time exemption from payment of duty on the first €150,000 of the value of immovable property being acquired by first time buyers** – this one time exemption (previously applicable until 31 December 2016) **will continue to apply until the end of 2017**.

Reduced rates of duty for residential properties in Gozo

- **The rate of duty on documents on any residential property in Gozo will be reduced to 2% (from 5%)** if the promise of sale agreement is registered with the Inland Revenue Department by 2017 and the property is acquired by 2018.

EXCISE DUTY AND ECO-CONTRIBUTION

Excise duty

- **Excise duty on the following will increase, be introduced or extended:**
 - Increase on non bio-degradable plastic bags;
 - Increase of 3.76% in respect of cigarettes and cigars and an increase of 5.5% in respect of other tobacco products;

- Increase of two cents (€0.02) on non-alcoholic drinks (other than water);
- Introduction of excise duty on certain materials used in the construction industry;
- Introduction on certain concrete products acquired from outside Malta.

Eco-contribution

- Eco-contribution reform is to be finalised by the end of 2017. Eco-contribution will no longer be charged on certain products – with some products being charged to Excise duty instead. Such products include batteries, detergents, toiletries, vehicle utensils and plastic containers.

ADMINISTRATIVE MEASURES

Enhancement of Maltese tax system – Group tax consolidation

- Plans to introduce new detailed rules to enable a group of companies to calculate taxable profits and losses on a consolidated basis.

Joint Enforcement Task Force

- A Joint Enforcement Task Force is being set up between the Inland Revenue, VAT and Customs Departments, assisted by the Tax Compliance Unit. Its priorities will include controls and spot checks on irregular employees, undeclared property rentals as well as unjust competition resulting from illegal importation of goods.

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**This update summarises the measures announced during the Budget Speech on 17 October 2016. As such, many of these measures are still to be clarified by the publication of the relevant legislation and/or guidelines. Readers should seek professional advice by contacting directly any one of the professional advisors indicated above before acting upon any of these measures for any business transaction or for any action that may be affected by such measures announced in the Budget Speech.*