

MALTA BUDGET 2018 - GENERAL OVERVIEW



INTRODUCTION

In his Budget speech for 2018, Finance Minister Prof. Edward Scicluna provided a review of the key economic indicators for the current year:

- **Total estimated tax revenue for 2017:** €3.69 billion;
- **Unemployment:** Malta's unemployment rate for 2017 is estimated at 4.1% (as at August 2017);
- **Debt to GDP Ratio:** This is estimated to decrease to 54.9% in 2017 (from 63.3% in 2016);
- **Weekly Cost of Living adjustment:** the cost of living adjustment for 2018 will increase to €1.75 per week, equal to the previous year's increase.

INCOME TAX

One-time tax repayment to employees

- **All employees earning up to €60,000 will benefit from a tax refund** which will be in the form of a payment to be made by the Government;
- **The tax payment will range between €40 to €68 depending on the employee's income;**
- **Such benefit is to be granted to all full-time and part-time employees** – with the highest payment to be made to the lowest income employees (including low income employees that fall below the taxable brackets and did not pay any tax) and the lowest payment made to the highest earners;

INCOME TAX (CONTINUED)

Exemption on pension income increased even further

- **The exemption on pension income** which was introduced in last year's Budget Speech has **been extended from €13,000 to €13,200** – applicable from basis year 2018;
- As a result, as from 2018 pensioners (irrespective of their tax status) **will be exempt on the first €13,200 of their pension income.**

MicroInvest Scheme

- **The amount of tax credit being awarded by virtue of the MicroInvest Scheme will be increased by €20,000 across the board, resulting in the following increases:**
 - (a) Enterprises based in Malta: from €30,000 to €50,000;
 - (b) Enterprises based in Gozo: from €50,000 to €70,000; and
 - (c) Enterprises that are majority owned by women: from €50,000 to €70,000.
- **The Scheme is also being extended to enterprises which do not employ more than 50 full-time employees (limit is currently capped at 30 employees).**

Students following post-graduate courses to benefit from a tax credit

- **Students following post-graduate courses (starting from academic year 2017/2018 onward) are to benefit from a tax credit on their income;**
- **The tax credit is available for one year for students pursuing such courses at Masters (or MQF 7) level and for two years for students pursuing courses at Ph.D (or MQF8) level;**
- **Students following such courses on a part-time basis are also eligible for such benefit on a pro-rata basis;**
- **Tax credit is capped up to a maximum of €60,000 and applies subject to certain conditions – including the condition that the recipient of such credit continues to work in Malta for a period of at least 3 years.**

VALUE ADDED TAX (VAT)

VAT grouping regulations for the financial services and gaming sectors

- **Regulations for VAT Grouping** are to be introduced for entities established in Malta that are involved in the **financial services and gaming sectors in Malta**;
- By virtue of such regulations two or more entities established in Malta that are **legally independent but with financial, economic and organisational links** between them may opt to register as a **single entity for VAT purposes**;
- **Such option allows the supplies within the group to be out of the scope of VAT**, avoiding any irrecoverable VAT cost that may be suffered by any entity involved in such supplies.

Increase in the VAT threshold for VAT exemption for small undertakings

- **The threshold for small undertakings opting to register for VAT as exempt** (in terms of Article 11 of the VAT Act) **shall be increased from €14,000 to €20,000**.

Electronic submissions of VAT Returns and Social Security forms

- The current option for entities to submit their **VAT Returns and Social Security forms electronically is to be extended to entities that employ 10 employees or more** (currently available for entities having 30 employees or more).

Extension of VAT refund on purchases of bicycles and electronic bicycles

The scheme by virtue of which the **VAT element on the purchase cost of bicycles and electronic bicycles is wholly refunded** shall be extended to a further year;

- This scheme is to be extended also to operators that purchase **bicycles and electric bicycles for the purpose of renting out**;
- **A grant of up to €400 on the purchase price of electric bicycles, scooters and motor cycles that are assisted with an electric motor will also be introduced**.

Reduction of VAT rate on the leasing of bicycles

- The VAT rate on the **leasing of bicycles** will be reduced from **18% to 7%**.

STAMP DUTY ON DOCUMENTS AND TRANSFERS

Refund of stamp duty for second-time buyers

- As from 10 October 2017 individuals **selling their sole residential property to acquire another residential property** may benefit from a **refund of stamp duty amounting to up to €3,000**;
- The refund increases to a maximum of €5,000 in the case of disabled persons or parents of disabled persons, subject to certain 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 extended until 31 December 2017) will continue to apply until the end of 2018.

Extension of reduced rates of duty for properties in Gozo and in Urban Conservation Areas

- The reduction in the rate of duty on documents on any residential property in Gozo (from 5% to 2%) will be extended for another year;
- The reduction in the rate of duty on documents on any property situated in an Urban Conservation Area (“UCA”) (from 5% to 2.5%) will be extended for another year.

BUSINESS MEASURES

Investment in Gozo-based businesses

- A **refund of up to 30%** of an employee's average wage will be paid to entrepreneurs if such **employee was engaged in Gozo** and the contract is for a **minimum of 3 years' full-time employment**.

Blockchain technology

- The Government will be launching **several initiatives within the area of Blockchain technology**. These include:
 - (a) The adoption of Blockchain within academic institutes;
 - (b) The launching of a Blockchain Lab at MITA;
 - (c) The creation of a web-portal; and
 - (d) The creation of a Blockchain Hub to support business start-ups within this technology.

SOCIAL AND OTHER MEASURES

Pensioners

- **Pension increase:**
Contributory and non-contributory pensions are being **increased by €2 per week**;
- **Savings Bonds:**
The Treasury will re-issue Savings Bonds for pensioners with interest rates higher than market interest rates.

Other measures

- **New social housing units to be built:**
A €50 million investment is being pledged for the construction of nearly 700 new units for social housing purposes;
- **Widening of the thresholds for persons entitled for subsidy on rental payments:**
The thresholds for persons qualifying for rental subsidies shall be widened in such a way that more persons will now become eligible. Specific thresholds will be applicable for persons aged over 65 years in such a way that they can benefit even further;
- **Financial assistance** to be granted to persons who **rehabilitate** their **private property** for **social housing purposes**;
- **In-Work Benefit to be increased from €350 to €450 annually** for each child where only one of the parents is employed;
- **Additional day of leave** to be granted to all employees;
- Employees earning a **minimum wage** will benefit from a **mandatory increase of €3 per week during the second year of employment**, increasing further to **€6 per week during the third year** of employment;
- **Free public transport** for a **whole year** for persons aged between **16 and 20 years old**;
- **Free transport for students attending church schools and independent schools** as from the scholastic year 2018/2019;
- **Grant of €300** to be paid to persons that are **75 years old and older** and that are **still living in their private household**.

ADMINISTRATIVE MEASURES

Measures to combat tax evasion

- With a view to continue the fight against tax evasion, **penalties will increase** for offences that are settled in court as well as any out-of-court settlement arrangements;

Joint Enforcement Task Force

- The **Joint Enforcement Task Force** between the Inland Revenue, VAT and Customs Departments, assisted by the Tax Compliance Unit will increase its drive and efforts to identify any businesses that may be involved in tax evasion.

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**This update summarises the measures announced during the Budget Speech on 9 October 2017. 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.*