

MALTA BUDGET 2019 – A GENERAL OVERVIEW



INTRODUCTION

In his Budget speech for 2019, Finance Minister Prof. Edward Scicluna provided a review of the key economic indicators for the current year:

- **Gross Domestic Product (“GDP”):** The real GDP is expected to increase by 5.3%;
- **Debt to GDP Ratio:** This is estimated to decrease to 46.8% (€5.6 billion) in 2018, from 54.9% in 2017. This is expected to continue decreasing to 43.8% in 2019;
- **Rate of Inflation:** As at September 2018 the 12-month moving average rate stood at 1.7% and is expected to reach 1.9% in 2019 (1.3% in 2017);
- **Estimated Tax Revenue:** This is expected to be €4.2 billion in 2018 and is expected to rise to €4.6 billion in 2019;
- **Unemployment:** Malta’s unemployment rate as at March 2018 stood at 3.9% and is expected to be 4.1% in 2019;
- **Weekly Cost of Living Adjustment:** The cost of living adjustment for 2019 will increase to €2.33 per week (€1.75 in 2018).

FISCAL MEASURES

One-time tax refund to employees

- **All employees earning up to €60,000 will benefit again from a tax refund** which will be in the form of a **payment to be made by the Government**, similar to the tax refund granted in 2018;
- The tax refund 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 and the lowest payment made to the highest earners.

Exemption on pension income increased even further

- The exemption on pension income has been **extended from €13,200 in basis year 2018 to €13,434 in basis year 2019**;
- As a result, pensioners **will be exempt on the first €13,434 of their pension income**;
- Persons on the **Married** tax rate have an **additional exemption of €1,000 on income derived from other sources**.

Tax relief for single part-timers

- In order to address a tax anomaly, individuals on the single tax rates will not be taxed on the portion of income exceeding €9,100 but does not exceed the minimum wage.

Contributions to private pensions

- In order to enhance the Third Pillar Pension Scheme and the Voluntary Occupation Pensions Scheme, **the tax credit on the qualifying contribution will increase from 15% to 25%**.

Tax deduction on private school fees

- All maximum amounts of tax deductions from **private school fees will increase by €300**.

Voluntary organisations

- **An exemption from income tax** to organisations whose **annual income does not exceed €10,000**, provided that they are duly registered with the Commissioner for Voluntary Organisations.

VALUE ADDED TAX (VAT)

VAT rate reduction on electronic publications

- The VAT rate on **e-books and other digital publications will be reduced to 5%**. This rate shall not apply to publications wholly or predominantly consisting of advertising, audible music and/or video content.

Extension of VAT refund and grant 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 (even for the purpose of renting out) **is wholly refunded shall be extended for another year**;
- The **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 extended**.

Other VAT grants

- **Water purification apparatus:** Grant equivalent to the VAT element (**capped at €70**) on the purchase and installation of a domestic system or apparatus.
- **Weddings expenses:** Grants applicable to couples on wedding expenses incurred will **increase by €250 to a maximum of €2,000**.

STAMP DUTY ON DOCUMENTS AND TRANSFERS

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 will continue to apply until the end of 2019**.

Refund of stamp duty for second-time buyers

- Extension of stamp duty **refund of up to €3,000** for individuals selling their sole residential property to acquire another residential property – **this refund will continue to apply until the end of 2019**;
- **Refund of up to €5,000** in the case of disabled persons or parents of disabled persons, subject to certain conditions.

STAMP DUTY ON DOCUMENTS AND TRANSFERS (continued)

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 similarly be **extended for another year**.

Extension of the reduced rate of duty on intra-family transfers of business property and securities

- **Another extension (for another year)** will apply for the reduction in the rate of duty on documents on **qualifying business transfers** effected by parents to their children and other family members satisfying certain conditions (from 5% to 1.5%).

SOCIAL AND OTHER MEASURES

Pensioners

- **Pension:** Contributory and non-contributory pensions are being **increased by €2.17 per week**, thus the total increase together with the cost of living increase amounts to €4.50 per week;
- **Savings bonds:** The Treasury will re-issue Savings Bonds for individuals aged 62 and over with interest rates higher than market interest rates.

Employment

- **Additional day of leave** to be granted to all employees;
- Employees earning a **minimum wage** will benefit from another **mandatory increase of €3 per week**, with a proportionate increase to employees earning more than the minimum wage.

Transport

- **Various schemes** already in place **providing incentives, exemptions and grants** in respect of different modes of transport have been **extended for another year**;
- **Free public transport (tal-linja card) for a whole year** for the following persons:
 - **Extension** for persons aged between **16 and 20 years old**;
 - **Opened up to** persons aged between **14 and 15 years old**;
 - **Full-time students aged 20 and over**.

SOCIAL AND OTHER MEASURES (continued)

Housing and Rental

- **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;
- The extension of the **grant of €300** to be paid to persons **over the age of 75** and that are **still living in their private household**;
- **Subsidy for property rental:** The introduction of a new scheme will see an **aid of between €3,000 and €5,000 per year** to eligible persons. The means test for eligibility will be replaced with two criteria, **based on gross income and rental costs**;
- **Incentive for landlords:** Government is considering the introduction of a measure whereby landlords who **rent out a property at an affordable rate for a period of at least seven years** would qualify for a **reduced rate of tax upon eventual sale of that property**;
- **Equity sharing scheme:** Persons **aged over 40** in need of financing to cover not more than 50% for the acquisition of a residential home, will have the **interest component of a loan** granted by a financial institution being **paid by the Government**;
- **Home equity release:** This scheme aims to release the value of the property in order to improve the pensioner's quality of life while receiving either monthly instalments or a one-time payment from a financial institution, in exchange for the assignment of the right over the property.

Allowances and Assistance

- **Children's allowance:** Families whose gross income is less than €20,000 **will receive an increase of €96 per child per year**;
- **Disabled children:** The allowances granted to parents with **physically or mentally disabled children will be increased from €20 to €25 per week**;
- **Disabled persons:** Assistance to **severely disabled persons who are unable to work will increase from €140 to €150 per week**.

REGIONAL MEASURES – GOZO

- Extension of the refund scheme whereby **up to 30% (up to a maximum of €6,000)** 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**;
- **Gozitan Works Subsidy:** Gozitan employees **employed by the private sector in Malta** will be granted a **refund of the ferry ticket fare with effect from 01 January 2019**.

ANTI-TAX AVOIDANCE MEASURES AND INITIATIVES

Implementation of the EU Anti-Tax Avoidance Directives (ATAD 1 and ATAD 2)

- The rules transposing the **ATAD 1** shall be implemented into Maltese Legislation as from 01 January 2019. As a result, the following anti-avoidance measures are expected to be introduced:
 - Interest limitation rules
 - Exit tax rules
 - General anti-abuse rules
 - Controlled foreign company rules
- **ATAD 2** rules are expected to meet the Directive's implementation deadlines, which are 01 January 2020 and 01 January 2022. These rules will replace ATAD 1 with respect to the anti-hybrid provisions.

OECD Multilateral Instrument

- Malta signed the Multilateral Convention to implement key recommendations of the OECD Base Erosion Profits Shifting ("**BEPS**") project and thus assisting in the fight against aggressive tax avoidance strategies by updating double tax treaties that are already in force.

Other measures

- Various other measures are in the process of being transposed for implementation by the applicable deadlines including the EU Tax Intermediaries Directive (**DAC 6**) and the EU Dispute Resolution Mechanism Directive (**DRM**);
- The introduction of a patent box regime based on the Modified Nexus Approach – In line with the EU Code of Conduct on Business Taxation and the OECD BEPS.

TECHNOLOGY AND BUSINESS INCENTIVES

Blockchain strategy, Digital economy and Disruptive technology

- The Government has established the **Malta Digital Innovation Authority** to further regulate and certify blockchain technology as well as a specialised unit for fintech within the MFSA;
- A feasibility study on the application of 5G technology will be undertaken by the Malta Communications Authority;
- **Tech.mt** will be set up to consolidate the Government's marketing efforts related to disruptive technology;

TECHNOLOGY AND BUSINESS INCENTIVES (continued)

Malta Stock Exchange (“MSE”)

- The MSE has launched the **Fintech Accelerator Programme**, which aims to assist start-ups and entrepreneurs particularly within the cryptocurrency and blockchain sector;
- **Real Estate Investment Trusts (REITs)** are planned to be traded on the Exchange in 2019 once the necessary processes are finalised.

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**This update summarises the measures announced during the Budget Speech on 22 October 2018. 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.*