

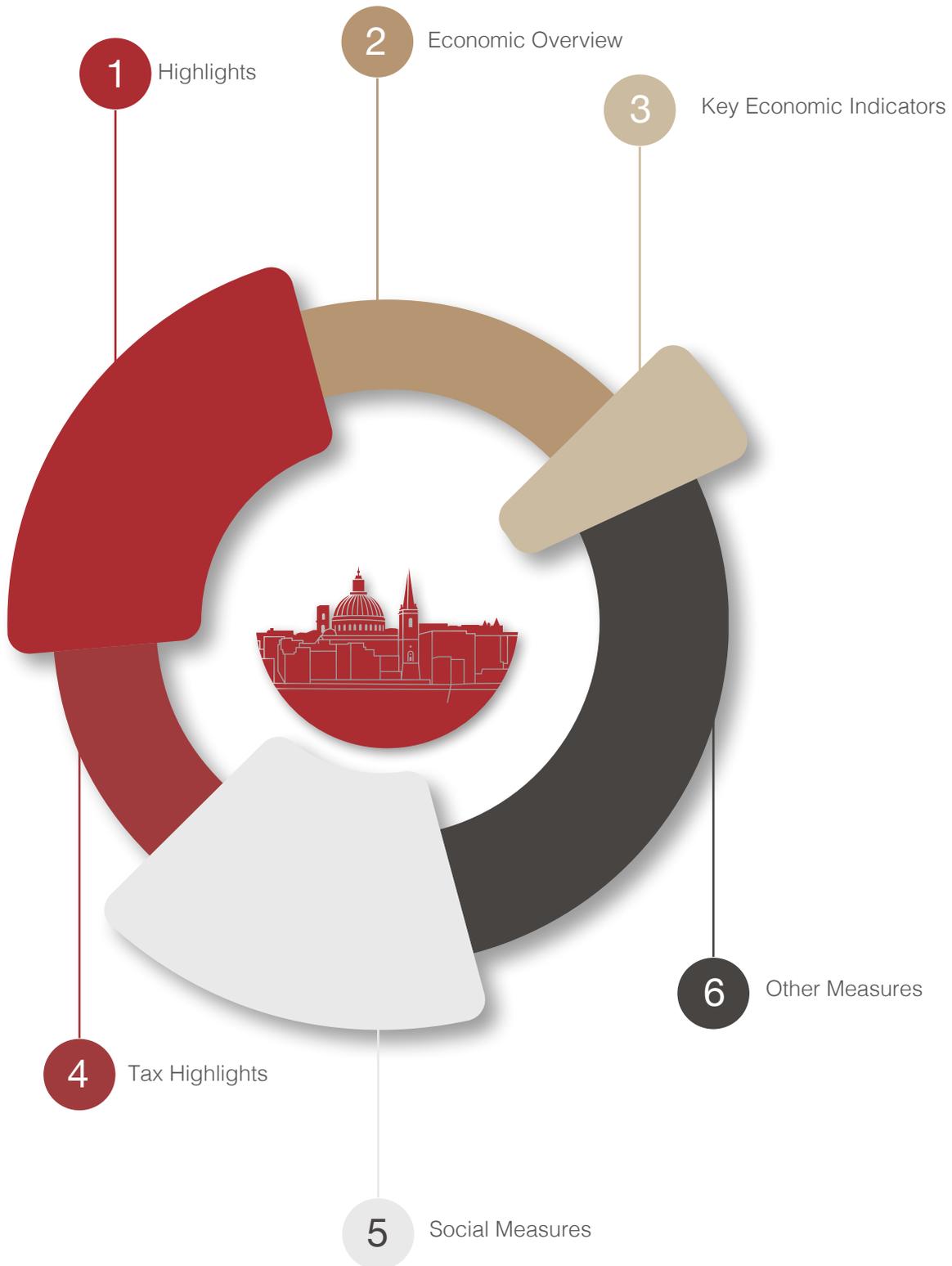
MALTA BUDGET 2019



CHETCUTI CAUCHI
ADVOCATES



CONTENTS





Highlights

- Encouraging innovation and investments in Artificial Intelligence and Internet of Things.
- Supporting small businesses investing in Fintech through the Malta Stock Exchange (MSE)'s Fintech Accelerator programme.
- Introduction of Tech.mt to promote Malta as hub for digital economy.
- Development of the e-Sports sector.
- Introduction of Equity Sharing Scheme for property purchase for people aged 40 and over.
- Incentives to encourage long term property rentals at affordable rates.
- Individual Investor Programme revised to be the most exclusive on the market.
- Weekly cost of living increase of €2.33 per week.
- Increase of Children's allowance for all families earning less than €20,000 per year.
- Increase in tax deductions for parents whose children attend private schools.

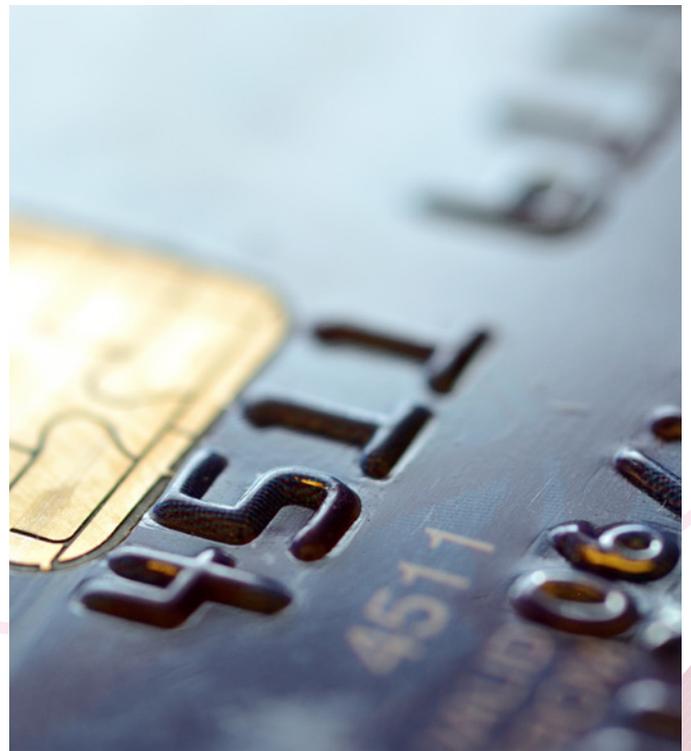


Economic Overview



In the Malta Budget 2019 speech the Minister highlighted the economic and fiscal achievements recorded in 2018, including a well-contained inflation of around 1.7% as of September and steady GDP growth which is expected to reach 5.8% in real terms by year end. Statistics provided by the Government depict a robust economic growth driven mainly by net exports and private consumption which grew by 6% in the first half of 2018. For the third consecutive year the government registered a fiscal surplus which is projected to reach 1.1% of GDP this year. The General Government Gross Debt ratio continued with its downward trajectory and now stands at 47%. Buoyant economic activity resulted in more than 200,000 people in employment implying an increase of 5% and a record low unemployment rate of 3.8% as at August.

In 2019, Malta is set to remain one of the top performers in the European Union with a projected real GDP growth of 5.3%, much higher than the average 2.0% expected in the Eurozone. Economic growth will be driven by an increase of 8.4% in investments and 4.1% in private consumption. Employment is expected to grow by 3.7%, whilst inflation is projected to reach 1.9%. Capital expenditure will rise by 26% due to several large-scale investment projects in health, real-estate and tourism sectors. The government is aiming for another fiscal surplus of 1.3%, which will result in further lowering of the General Government Gross Debt ratio to 44% of GDP.





Key Economic Indicators



Real GDP Growth



%

Fiscal Surplus as % of GDP



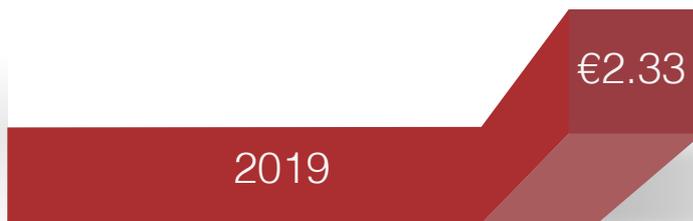
Unemployment



International Trade in 2019^f

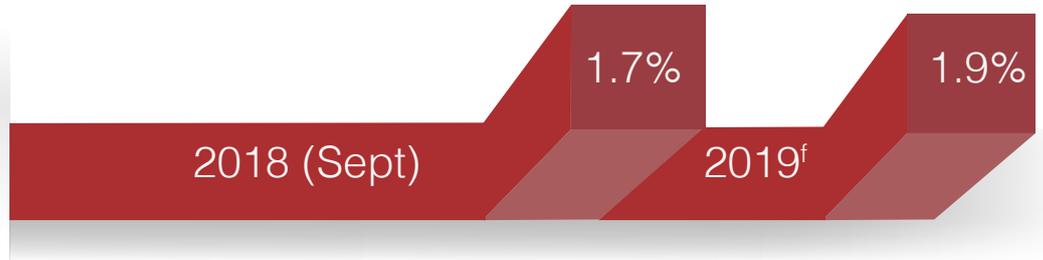


Cost of Living Adjustment per Week





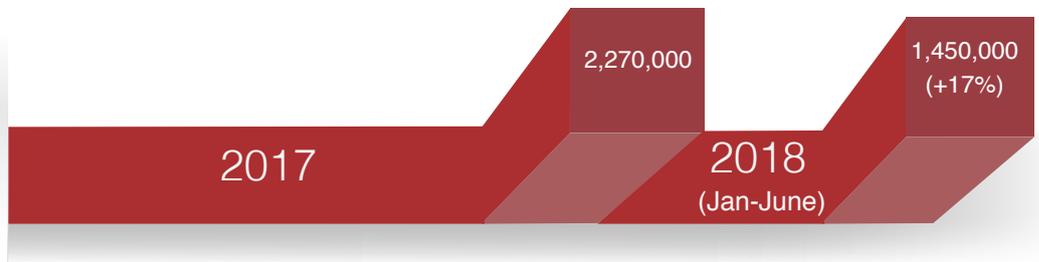
Inflation



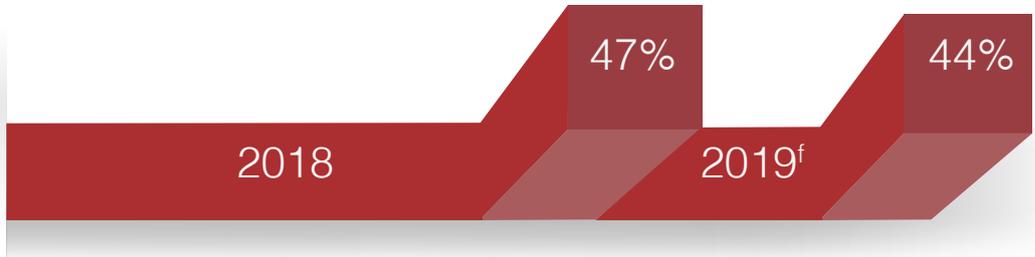
Property Price Index



Inbound Tourism



Government Debt Ratio



Credit Ratings



Global Competitiveness Index (WEF)





Tax Highlights



INCOME TAX

Income tax refund

Tax refund to employees earning under €60,000 – between €40-68 depending on tax status and level of income of employee which were granted in 2018 shall also be granted in 2019.

Exempt pension income

Maximum amount of pension not subject to tax has been increased as indicated below:

2019	
Single or parent rate	€13,434
Married rate	€13,434 plus €1,000 derived from other sources

Incentives for contributions to private pensions

Increase in tax credit for contributions to personal pension plans and voluntary occupational pension plans from 15% to 25% of the qualifying contribution.

Deduction for private school fees

Increase of €300 per child in the tax deduction afforded to parents who send children to independent schools.

Exemption for voluntary organisations

Voluntary organisations which have registered with the Commissioner for Voluntary Organisations and whose annual income does not exceed €10,000 are eligible for exemption.

PROPERTY TAX

Reduced property tax rate in respect of previously rented properties.

Government is considering a scheme where by property owners who have rented out property at an affordable rate for a period of at least 7 years could qualify for a lower tax rate upon eventual transfer of property.

STAMP DUTY

Extension of 1st time buyers scheme

Stamp duty exemption for first time buyers on first €150,000 of the property value extended for another year.

Extension of 2nd time buyers scheme

Individuals who sell residential property so as to acquire another residential property where such individual does not own any other properties currently benefit from a refund of Stamp Duty of up to €3,000 or €5,000 in the case of persons with special needs. This benefit is being extended for a further year.

Stamp Duty reductions extended for a further year

For Property purchases in Gozo the stamp duty is reduced from 5% to 2%, whilst for property purchases in UCAs the stamp duty is reduced from 5% to 2.5%.

Intra-family transfers of business property and securities

Reduced rate of 1.5% currently applicable to intra-family transfers of business properties or related securities.

VAT

Reduction of the VAT rate on e-books, and other digital publications including electronic newspapers and magazines to 5% in line with decision of the EU Council earlier this month.

GRANTS

- Refund of VAT payable upon purchase and installation of domestic reverse osmosis systems and similar water purification apparatus up to a maximum of €70.
- Increase of €250 in wedding grants up to a maximum of €2,000.
- Refund of VAT payable upon purchase of musical instrument even where such instrument is purchased overseas.
- Grant of 15.25% on purchase price of bicycles and pedelec bicycles extended by another year.
- Grant of up to €400 on purchase of motorcycles, scooters and electric bikes extended to 2019.

INTERNATIONAL MEASURES

Anti tax avoidance measures and initiatives

Implementation as from 1 January 2019 of rules introducing the measures required in terms of the Anti Tax Avoidance Directive (ATAD) namely:

- Rules limiting the deduction of interest where borrowing costs exceed interest receivable
- Exit taxation rules to apply when a company changes its tax residence or transfers its assets/business to another jurisdiction
- General anti-avoidance rules to extend the provision currently existing under Maltese law
- Controlled Foreign Company (CFC) Rules whereby the profits of qualifying direct/indirect subsidiaries are subject to tax in Malta.

ATAD 2 which deals with hybrid mismatches will also be transposed into Maltese law and regulations are currently being drafted to meet implementation deadlines of 01/01/20 and 01/01/22.

On the international stage Malta has also taken other measures to bring itself in line with international standards and the EU rules being implemented:

- Implementation of the OECD Multilateral Instrument (MLI)
- Implementation of the EU Mandatory Disclosure Directive (DAC6) 0 01/01/20
- Engaged in discussions relating to taxation of the digital economy
- Implementation of EU Dispute Resolution Mechanism 30/06/19
- Introduction of patent box regime based on the modified nexus approach in line with EU Code of Conduct on Business Taxation and OECD BEPS standard announced.



Social Measures



Increase in children's allowance for all families earning less than €20,000 per year



The cost of living adjustment (COLA) for 2019 amounts to €2.33 per week



Health and Welfare

- Strengthening of the health system and continued investments in more medicines and treatments for cancer patients including the introduction of a new committee with the purpose of selecting requests for medicine and treatments in the case of rare illnesses.
- Increase of €5.14 per week in non-contributory medical assistance to married couples where two adults of the family suffer from chronic illnesses.
- Increase in children's allowance for all families earning less than €20,000 per year.
- Investment in Robotic Surgery and blood donation equipment.
- A new strategic plan between 2020 - 2030 to address areas of research, mental health and genetics.

Income and Pensions

- The cost of living adjustment (COLA) for 2019 amounts to €2.33 per week. The increase will be granted to all employees, to pensioners and to those receiving social benefits. Students will also be granted such increase on a pro-rata basis.
- Social security pensions to increase by €4.50 per week, which is inclusive of the COLA.
- Persons who reach retirement age, but do not have enough social security contributions paid to obtain a full pension can continue to work and make social security contributions in order to increase their pension entitlement. Such provision will be gradually extended also to the public sector as of 2019.
- Workers will benefit from an additional day of vacation leave totalling 26 days.
- The bonus for persons who are not entitled to receive a pension will increase by €50 per year.
- Self-employed persons who in certain circumstances had to stop working will have a right to receive unemployment benefits in line with the social security contributions paid during their period of self-employment.
- Minimum wage to increase by further €3 per week over and above COLA.
- Government will issue another savings bond for those aged 62 and over.



Environment

- The Government has enacted a variety of measures that will introduce cleaner and greener energy, and the consolidation of all-waste management operations including the development of a new Material Recovery Facility, a MultiMaterial Recovery Facility and Waste-to-Energy facility.
- Investments to improve the Reverse Osmosis plants in Malta and Gozo.



Other Measures



Incentives and promotion to develop new high-tech sectors such as AI and IoT



Free Zones Act will be enacted to boost investments in the area of international logistics



Fintech & Innovation

- Small businesses investing in Fintech will be supported by the Malta Stock Exchange (MSE) authority through the Fintech Accelerator programme. The MSE will also partner with businesses operating in the blockchain and cryptocurrency space.
- Plans to develop niche markets within the iGaming sector, such as e-Sports.
- The Malta Communications Authority is preparing a study on the application of 5G technology.
- Incentives and promotion to develop new high-tech sectors such as Artificial Intelligence and Internet of Things.
- The Government will consolidate its marketing efforts related to disruptive technologies under a common framework. It will establish a dedicated entity named Tech.mt, in order to promote Malta as a hub in the area of technology, digital economy and innovation.
- In 2018 Malta trademarked itself as the Blockchain Island and was the first country in the world to develop a regulatory framework. A bill is to be published that will grant legal personality to certain aspects of blockchain.
- Strengthening of the Malta Digital Innovation Authority and the setup of a specialised unit within the Malta Financial Services Authority (MFSA) for Fintech.

Infrastructure

- €100 million investment in 2019 to roads network upgrade project.
- Several initiatives to combat traffic congestion have been enacted to encourage the use of alternative means of transport, including the enhancement of the ferry transportation network.
- Plans for the possible development of additional parking areas equipped with modern technology.
- Extension of the exemption from any registration tax on eco-friendly vehicles (including electric and hybrid cars) for another year.
- Extension of scheme providing incentives for investment in bicycle racks and eco-friendly vehicles.
- National policies on aviation will continue to be updated. The new measures will include a master plan for the airport and its environs and the construction of an Air Traffic Control Centre.
- It is expected that a Free Zones Act, similar to the Malta Freeport, will be enacted to boost investments in the area of international logistics.



Property

- An Equity Sharing scheme will be introduced next year, which will allow persons aged 40 and over wishing to acquire a property to obtain a bank loan to cover not more than 50% of the purchase price, for which the Government will finance any interests.
- Following the launch of the White Paper on Property, the government is planning a legal framework that establishes regulation in the real estate market, thus providing a code of ethics which estate agents must abide by when carrying out functions relating to property rental agreements, including the obligatory registration of rental contracts.
- Necessary fiscal and regulatory framework being put in place for Real Estate Investment Trusts (REITs) to be traded on the MSE as from 2019.

Brexit

- Malta Enterprise shall be providing business advisory services to support SMEs that are dependent on the UK for their business.
- The Maltese government is also working to attract UK companies to Malta following Brexit.

Residency and Citizenship

- The programmes are attracting new investments, talent and human resources, with contributions to philanthropic organisations and the NSDF making a difference to Maltese society. The programmes will continue to be improved with the aim of making Malta's passport 'the most exclusive on the market'.
- The Government plans to introduce a start-up visa concept that will facilitate the process for attracting foreign start-ups.

Pharma

- The Malta Medicines Authority shall continue to develop regulations with respect to the production of cannabis for medical use.



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Disclaimer

The above is intended to provide highlights of the high level financial and tax developments announced in the Budget Speech on 22 October 2018 and is not intended to provide a comprehensive analysis of the matters mentioned. Implementation of such announcements are typically affected through detailed legislative amendments and regulations which are yet to be published. Please seek appropriate advice from partners or senior advisors within the Firm prior to acting upon and information provided herein.