

# Budget 2018

10 OCTOBER 2017

# Avanzia

 TAXAND

## **Budget highlights:**

Positive results for 2017

No new taxes or increases were announced

VAT grouping

Changes in exempt thresholds for small businesses

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## Introduction

On 9 October 2017, the Honourable Minister of Finance, Professor Edward Scicluna, presented the Budget for 2018. As has become customary, the introductory part of the budget speech was dedicated to the salient features of the Maltese economy, highlighting the achievements for 2016 and those underway for 2017 and the projections for the current year and 2018.

During 2016, the Maltese GDP grew by 5.5% in real terms whilst inflation remained very low at around 1% and the unemployment rate decreased to 4.7%. These positive trends should also be reflected in both 2017 and 2018. Indeed, the growth rate next year is expected to be 5.6%.

The Minister of Finance highlighted that the state coffers ended up with a surplus of approximately 1% of GDP. A budget surplus hasn't been recorded for 35 years. The growth in the Maltese economy and the surplus had a positive effect on the outstanding debt which since 2012 has decreased from 70% of GDP to 57.6% of GDP in 2016. The projected outstanding debt for 2018 is estimated to be at 50.8% of the GDP.

## Cost of Living Adjustment (COLA)

The weekly cost of living increase for 2018 is €1.75 per week. Pensioners in receipt of contributory and non-contributory pensions will receive an increase of €2.00 per week.

Apart from the COLA, persons in employment will get an extra day of vacation leave added to their annual entitlement.

The increase in minimum wage will now be linked to the number of years in employment.

## Income Tax

No new taxes or increases were introduced in this Budget.

Employees working on a full-time or part-time basis earning income of not more than €60,000 will receive a one-time tax rebate which varies between €40 and €68.

The tax-free pension threshold has been increased to €13,200.

Individuals who are not older than 40 years will get a one year income tax exemption on the first €60,000 of income earned if they obtain a Masters degree or MQF 7 and a two-year income tax exemption if they obtain a PhD or MQF 8. If the Masters or Doctorate is obtained under a part-time course then the exemption will be pro-rata.

The Government plans to increase penalties for fiscal tax evasion.

## Other incentives

The value of assistance provided under the MicroInvest Scheme will be revised to €50,000 from €30,000 for enterprises situated in Malta. Assistance under this scheme will be increased to €70,000 for enterprises situated in Gozo, enterprises having female majority shareholding or female self-employed. The scheme will also be extended to cover enterprises employing not more than 50 full-time employees.

An amount of €6,000 or 30% of the average wage, whichever is the lower, will be refunded if a new employee is given an employment contract of at least three years within the private sector in Gozo.



### VAT and other indirect Taxes

VAT grouping for the financial services and gaming sector will be introduced. Separate legal entities having a fixed establishment in Malta, having financial, economic and organisational ties between them, may be registered as one taxable person. Within the ambit of the VAT legislation, any supplies between the members of the same VAT group will be considered as falling out of scope.

The VAT exemption entry threshold for other economic activities applicable to small undertakings has been increased from €14,000 to €20,000.

The scheme covering the full VAT refund on bicycles and pedelec bicycles has been extended by another year. Companies leasing bicycles will also be benefiting from an extension of a further year and will be refunded the VAT paid on the acquisition of such bicycles.

A new measure to incentivise the purchase of motors, scooters and electronically assisted bikes will be introduced and a refund of €400 will be granted.

The VAT rate on the leasing of bikes which currently stands at 18%, shall be reduced to 7%.

Electric, hybrid and similar battery vehicles will be exempt from the registration tax and no road license will be paid for five years from the date of registration of the vehicles.

The first-time buyers scheme granting an exemption of stamp duty on the first €150,000 upon the acquisition of their first residential homes has been extended for a further year.

Second-time buyers changing their residential property to another residential property and who do not own any other property will be benefiting from a stamp duty refund of an amount up to €3,000. Where the buyer is a disabled person, the stamp duty refund will be a maximum of €5,000. The incentive introduced in the previous year with regards to the reduction in the stamp duty from 5% to 2% for property situated in Gozo will be extended by another year. The reduced stamp duty of 2.5% will also apply on the purchase of immovable property in urban conservation areas.

Although not necessarily limited to VAT and income tax, the Government will introduce a mechanism to be able to offset amounts payable and receivable between taxpayers and the Government.



### Measures aimed at Students

Students who are between 16 years and 20 years will get a free Tal Linja card to have free public transport. Free school transport will also be introduced for the next scholastic year.

SEC and MATSEC examination fees will be reduced by 50% next year and abolished as from the following year.

### Transport and Environment

An agency will be set up to oversee the infrastructural investment of €700 million over the next seven years to upgrade the road network as well as introduce measures to reduce traffic congestion.

The collection of glass and plastic bottles will be facilitated by introducing a refund scheme on returns.

### Other

The government will create a task force to implement a national strategy for the use of Blockchain technology as well as looking into the possibility of introducing a framework for cryptocurrencies.

The rental of immovable property will be subject to a white paper with a view to introduce measures including the registration of rental agreements.

Companies employing more than 10 employees may now submit Social Security Forms and VAT Returns online.

### Social measures

Various social measures were announced during the budget to assist low income earners and vulnerable persons. These include:

- ◆ Inward benefit has been increased from €350 to €450.
- ◆ Carers will receive €8.15 per week in case of loss of benefits.
- ◆ Foster allowance increased from €70 to €100 per week.
- ◆ A grant of €10,000 for adoption purposes.
- ◆ Maintenance allowance will no longer be considered as income for 'means test'.
- ◆ Financial assistance will be provided to house owners who wish to make their property available for social housing rents.
- ◆ Introduction of equity release facility by financial institutions for elderly persons who own property however wish to increase disposal income without selling their own house.

### Conclusion

The Budget for 2018 contains the introduction of no new taxes for 2018, whilst aiming to assist vulnerable people in the Maltese society, especially due to the increase in the rent of immovable property which has increased substantially in the last few years.

The budget lacks incentives aimed at increasing investments. The budget only targets new employments in Gozo and small enterprises who may avail themselves from better tax credits under the MicroInvest scheme.

