

BUDGET 2015 OVERVIEW

Economic growth is projected to reach 3.0 per cent in 2014 and accelerate further to 3.5 per cent in 2015. The Maltese economy is expected to continue growing over the 2016-2017 period, rising by 3.4 per cent in 2016, and slowly converge to its potential and reach 2.9 per cent in 2017. Employment growth is expected to maintain a strong momentum and rise by an average of 2.0 per cent in 2014 and 2015. Inflation should remain relatively low during this year at an average of 0.7 per cent but is expected to increase moderately to 1.5 per cent in 2015.

After bringing the deficit down from 3.7 per cent in 2012 to 2.7 per cent of GDP in 2013. The Government is aiming to reach a deficit target of 2.1 per cent of GDP for this year, and to continue on this path of fiscal consolidation and further reduce the deficit to 1.7 per cent of GDP in 2015. A number of structural reforms, particularly in the transport and energy sectors, are expected to exert a notable impact on public finances. On the other hand, a number of fiscal consolidation measures are envisaged in order to mitigate the impact of higher expenditure commitments. The fiscal targets in the 2015 Budget will also be supported by a range of structural economic policies as presented in this year's National Reform Programme. These include the implementation of a number of supply-side policies aimed at raising the country's potential growth whilst ensuring responsible environmental management and social cohesion. Against this background, the Budget for 2015 is based on the strategy of making work pay. This will be achieved by ensuring that the social security system positively incentivises work effort and discourages dependency, while introducing measures to strengthen social cohesion and reduce poverty for families on low income. Strengthening the skill and educational levels of the workforce will also be given priority. Furthermore, the Budget for 2015 aims to enhance the competitiveness of the Maltese economy through a number of public-private partnerships, reduction in utility tariffs and other incentives to encourage entrepreneurship.

1. MACROECONOMIC REVIEW AND OUTLOOK

Amidst the fragile economic performance of most countries in the Euro Area and the uneven economic performance observed in the rest of the world, the Maltese economy continued to grow by an average rate of 3.2 per cent in real terms in the first half of 2014. A sectoral analysis of the economy shows that growth in gross value added was rather broad based, with strong increases registered primarily in the service sectors, including the professional, scientific and technical activities, the administration and support services activities, and the information and communication activities. During the same period, compensation of employees increased by 5.6 per cent (or €93.4 million) as growth in employee compensation was recorded in all sectors of the economy, with the exception of the agriculture, forestry and fishing sector. Gross operating surplus and mixed income increased moderately by €26.7 million or 1.7 per cent during the same period. Meanwhile, taxes on production and imports increased by an average rate of 11.9 per cent, while subsidies on production and imports increased by 19.3 per cent. Labour market developments strengthened markedly during the first half of 2014, as gains in employment were coupled with a falling unemployment rate. The Labour Force Survey (LFS) recorded an employment rate of 61.6 per cent in the second quarter of 2014, a 1.0 percentage point increase when compared to the corresponding quarter in 2013. During the same quarter, the official harmonised unemployment rate stood at 5.9 per cent which is lower than the rate prevailing in 2013 and the rates recorded in the Euro Area (11.6 per cent) and the European Union (10.3 per cent).

In addition, the twelve month moving average HICP inflation rate, which during 2013 stood at 1.0 per cent, continued in its downward trajectory during the first half of this year and stood at 0.8 per cent in the latest report. The annual HICP inflation rate was marginally lower, standing at 0.6 per cent in September 2014.

ECONOMIC FORECASTS

The Maltese economy is expected to retain the positive momentum in the second half of 2014. Overall growth in 2014 is expected to reach 3.0 per cent in real terms, and will continue to be supported primarily by positive developments in the domestic sector of the economy. Indeed, private consumption is expected to increase by 2.1 per cent in real terms, sustained by robust growth in employment and real disposable income, the latter driven by an appreciation in wages, lower energy prices, and lower income tax rates.

Government expenditure is projected to rise by 6.0 per cent in 2014, reflecting increases in compensation of employees and intermediate consumption. Gross fixed capital formation is expected to remain strong over the second half of the year and increase by 14.3 per cent in 2014, largely on the back of a large-scale project in the energy sector, the absorption of EU funds and the recovery in construction activity.

Exports are expected to grow marginally by 0.7 per cent during 2014, reflecting the subdued external demand counter-balanced by a weaker exchange rate. The strong domestic demand, particularly investment, is expected to drive up imports by 1.9 per cent, resulting in a negative net trade contribution to growth. During 2015, economic growth is set to accelerate, growing by 3.5 per cent in real terms, with domestic demand remaining the main driver. However, the negative trade gap forecasted for 2014 is expected to be reversed, with net exports contributing positively to economic growth. Domestic demand is expected to be supported by a positive performance in both private and public consumption expenditure and gross fixed capital formation. Positive external developments are expected to be primarily underpinned by favourable exchange rates developments, whilst the foreseen recovery in imports is largely reflecting strong domestic conditions. The macroeconomic forecasts for 2015 and beyond are based on a no policy change approach. The Maltese economy is expected to continue growing over the 2016-2017 period, rising by 3.4 per cent in 2016, whilst growth is expected to slowly converge to its potential and reach 2.9 per cent in 2017. Domestic demand is expected to remain the main driver of growth; yet the external sector is also set to contribute positively towards economic growth in both years.

Private consumption is expected to remain robust in 2016 and to grow less strongly in 2017, rising by 2.1 per cent and 1.4 per cent respectively. Public consumption is set to remain positive over the forecast period, albeit at subdued growth rates in line with the Government's fiscal consolidation targets, rising by 0.9 per cent in 2016 and by 0.5 per cent in 2017. Growth in gross fixed capital formation is set to remain steady for the outer years of the forecast period, with expected rates of 6.1 per cent and 5.1 per cent in 2016 and 2017 respectively. In addition, the positive trade gap forecasted for 2015 is expected to persist during both years as net exports are forecast to increase by an average rate of 0.4 per cent and by 0.5 per cent in real terms respectively.

The positive developments in the Maltese economy are expected to be sustained by a strong and resilient labour market. Growth in employment is expected to remain robust as it is set to increase by 2.1 per cent and 1.9 per cent in 2014 and 2015 respectively and by an average of 1.5 per cent thereafter. Congruently, the harmonised unemployment rate is expected to continue declining from a forecasted rate of 6.0 per cent in 2014 to 5.7 per cent by 2017. This is well below the expected EU average rate and reflects efforts in ongoing active labour market policies. The HICP inflation rate is expected to average 0.7 per cent in 2014 and it is expected to remain broadly stable at around 2.0 per cent over the 2015-2017 period.

2. FISCAL REVIEW AND OUTLOOK

The fiscal deficit in 2013 was brought down from 3.7 per cent in 2012 to 2.7 per cent of GDP, well beyond the headline target recommended by the European Council of 3.4 per cent. This is 0.3 percentage points below the 3.0 per cent deficit threshold. Despite the reduction in the deficit, a strong economic recovery, and the attainment of a primary surplus, the national debt ratio increased to 69.8 per cent of GDP on account of a debt increasing stock-flow adjustment.

The Government is committed to continue on a path of fiscal consolidation and further reduce the deficit to 2.1 per cent of GDP this year, and to 1.6 per cent of GDP in 2015. This is expected to stabilise the increase in the debt ratio in 2014, which is then expected to embark on a downward trajectory reaching 69.0 per cent of GDP in 2015.

3. MAIN BUDGET 2015 MEASURES

3.1 REVENUE MEASURES

Revision in Excise Taxes

The rate of excise tax on cigarettes and tobacco, fuel and cement will be revised upwards, however the price of fuel will decrease. There will also be a revision of excise tax on mobile phone lines and an excise tax on wine. The Government will replace the eco-contribution on tyres, ammunition and petroleum oils with excise tax.

Revision in Stamp Duties

Stamp duty on insurance documents and services will be revised. No changes will be made to stamp duties on life insurance policies.

Revision in Licences

Licences on cars that pollute by more than 100g/km of Co₂ will be reviewed, while those with Co₂ emission rates by not more than 100g/km and registered after 2009 will not be affected. There will also be a revision in licences of swimming pools.

Revision in Fees of Office

There will be marginal upward revisions in fees of office charged by Government departments.

3.2 Fiscal Incentives to Make Work Pay

Reduction in Income Tax

The rate of personal income tax of 29.0 per cent applicable to those who earn sixty thousand Euro or less will be reduced to 25.0 per cent. This will apply to every computation: single, married and parental. Income from dividends received by individuals will remain taxable at the same rate.

Cost of Living Adjustment

The Cost of Living Adjustment (COLA) as calculated by the established mechanism agreed between the Social Partners resulted in compensation of €0.58. Furthermore, for the coming year, the full amount of COLA will be granted to pensioners.

One-Time Additional Bonus

Against a backdrop of low inflation, the COLA for 2015 amounted to €0.58 per week. The Government, conscious of its social obligation towards certain categories of households, will give a one-time additional annual bonus of €35 to all persons in receipt of social security benefits, all low income earners, and all those income tax payers working full-time not benefitting from the 2015 income tax reductions. It will also be given on a pro-rata basis to students and part-time workers.

Relief from Income Tax on Minimum Wage and for Pensioners

The Government is committed not to tax minimum wage earners. Thus, the present tax ceiling will be raised to take COLA into consideration. Furthermore, pensioners whose pension does not exceed the minimum wage will also be exempted from paying income tax.

In-Work Benefit

The Government will continue strengthening the concept that of 'making work pay' by introducing an in-work benefit scheme. This benefit will be paid to those low-to-medium income families where both spouses are in employment and have dependent children up to 23 years of age. This benefit will also apply to single parents in employment.

Extension of Free Childcare Service

The introduction of free childcare centres succeeded in improving the work-family balance, leading to an increase in female participation in the labour force. Given the success of this initiative, the Government is committed to maintain and expand this service.

3.3 IMPROVING THE COMPETITIVENESS OF THE MALTESE ECONOMY

Reforming Eco-Contribution

The Government, is committed to reform the eco-contribution mechanism so that local businesses compete on a level playing field with foreign ones. The first phase of the reform will entail eliminating eco-contribution on electronic and white goods classified as WEEE items, by September 2015.

Seed Investment Programme

Income tax law will be amended to provide tax credits equivalent to investment made in start-ups, up to a maximum of €250,000 per year.

Implementation of the Family Business Act

The Family Business Act will be introduced next year. The act will provide a clear definition of what constitutes a family business and will facilitate and incentivise the transfer of business between members of the same family. A set of incentives linked to this act will be launched.

Benefits for those who provide Employment and offer Training to their Employees

The European Social Fund will be re-launched. Through this scheme, employers will be able to access the fund when they employ disadvantaged persons or provide training for their employees.

Better Regulation of the Estate Agent Sector

During the coming months, the Government will be issuing a White Paper to allow for consultation on regulating real estate agents and property agents and consultants.

Special Unit for Local Businesses

To ensure fair competition and a more level playing field, a special unit will be introduced on the same lines as that of the Border Agency in UK.

United Nations Pension Programme

The Government will launch a United Nations Pension Programme, which is a scheme designed to attract foreign pensioners retiring from international organisations, like the United Nations, to reside in Malta.

Public-Private Initiatives - Projects Malta

In 2014, the Government set up the company Projects Malta and, since it started operating in July, the company has been working on identifying a number of public-private initiatives. In the coming months, Project Malta will be launching a number of projects across various sectors, including health, commerce, tourism, and sports.

PPP for Enlarging Sandy Beaches

The Government will be introducing the concept of the Private Public Partnership, or PPP, in coastal, rural and urban works through a number of programmes and initiatives which will include access for divers, creation of artificial reefs through scuttling of vessels, enlargement of sandy beaches and better access to rocky shores. There will also be additional work on aspects of country walks, work with environmental NGOs, and management of sites financed through ERDF, funds as well as upgrades of touristic zones. This development will be carried out in a sustainable manner which respects the environment.

PPP for the Construction of a Breakwater between Valletta and Sliema

Projects Malta, together with the private sector, is looking at the possibility of building a breakwater between Valletta and Sliema. Among other benefits, this will facilitate the development of yacht marinas in the area.

PPP for a Hotel at Bighi

The Ministry for Tourism has identified the tourism potential that Bighi can offer. Together with the National Centre for Science and the private sector, the Government is studying the possibilities of developing the area into a major Mediterranean tourist centre.

PPP for a Health Centre in Cospicua

This administration continues to give priority to primary health care. A pilot project with the private sector is being launched to modernise the Cospicua Health Centre, while assuring the public that the service will remain free of charge.

Incentive for Cruise Liners Overnight Stays

Through this budget, the Government will be launching a scheme whereby cruise liners can remain in Malta overnight. They will be able to open their casinos after obtaining approval from the Lotteries and Gaming Authority upon the payment of a fee. To safeguard Maltese casinos, these cruise liners will only be able to allow registered passengers to engage in such activities.

In addition, and in order to promote Gozo, cruise liners which choose to remain overnight in Gozo will be exempted from paying the fee.

Tax Refunds for Non-EU Residents

A number of countries operate various schemes whereby visitors, coming from countries outside of the European Union (EU), can obtain a refund on VAT before leaving the country. During the next year, this Administration will be introducing similar systems in Malta.

Cooperatives

The Government is committed to promoting the use of the cooperative model so that there is a level playing field for cooperatives to operate without being at a disadvantage when compared with other enterprises. The Government will work closely with the Cooperative Board to revitalise cooperatives.

Gaming Malta

The LGA, which presently is the regulatory authority, will be converted to a Malta Gaming Authority. This is a new way of repositioning the Authority in the existing industry and that of the future. Furthermore, the Gaming Academy is expected to start operating during the first quarter of next year. Gaming Malta will also promote Malta as a primary jurisdiction where the gaming industry is concerned.

Studies regarding Fibre Optic Cable Connection

In order to improve the adaptability and the quality of the existing international telecommunications connectivity in Malta, the Malta Communication Authority will finalise an analysis of the technical, economic and financial feasibility of a new submarine cable between Malta and continental Europe.

“Sukuk” and Islamic Banking

Following various meetings with representatives of the banking and financial sectors, the Government feels there is space for a new commercial activity in the form of “Islamic Banking”. During the coming year, the necessary legislative changes will be made to attract and facilitate financial institutions involved in this sector to start operating in Malta.

Trade Malta

Projects Malta, together with Malta Enterprise and the Ministry for the Economy, will set up Trade Malta Ltd. The aim of this joint venture between the Government, the Chamber of Commerce, Enterprise and Industry will be to see that there is a collective effort to enable Maltese enterprises to better exploit international markets.

Conventions Malta

The Government will set up a foundation that promotes and encourages foreign conventions and congresses to be held in Malta.

Incentives for the Film Industry

The Government will introduce a set of incentives in connection with specialised courses for the local film industry.

Wi-Fi State

The Government is committed to make Malta and Gozo a Wi-Fi state. Currently there are 191 hot spots areas of free internet, these will be extended to cover more places.

Yachting Malta

Through Public Private Partnership, the Government is confident it can boost the tourism sector by improving the touristic product and provide additional value to the existing product. To this end, Project Malta has started working to join with the private sector to strengthen the sport sailing sector.

Marina Implementation

Earlier this year, Transport Malta issued a call for tenders for the privatisation of the Sa Maison Marina. The call attracted five bids and the evaluation process is now well under way. Once completed, this yacht marina is expected to add around 250 new berths.

National Agricultural Policy

A National Agricultural Policy will be drawn up, providing a vision for this sector.

Ideas Forum

An Ideas Forum will be launched to receive proposals in connection with sustainable development so that in collaboration with the private sector, specific projects for re-generation will be undertaken.

National Strategy for Electronic Payments

Electronic payment systems are more secure and efficient when compared to cheques and cash payments. To this end, a Working Group will be set-up to make recommendations to Government of how to widen electronic payments.

3.4 INVESTING IN EDUCATION AND VOCATIONAL STUDIES

Reduction in VAT when Buying Digital Books

This Government will be introducing a reduced VAT rate on e-books.

Research in University

For the year 2015, given that 80.0 per cent of research in Malta is carried out by the University of Malta, the University will be aiming to increase its research activity through funds provided both by the Government as well as the EU.

3.5 ENHANCING THE ENVIRONMENT

Expression of Interest on Recycling Plastic Waste

An expression of interest will be issued to introduce recycling of plastic waste.

Green Recreation Areas

A study will be undertaken to evaluate the possibility of creating greenbelts around building zones. Where possible, this initiative will be undertaken in collaboration with the private sector.

Environmental Taxes

The amount of feed used in fish farms has a negative environmental impact. Based on a polluter pays principle, a tax will be applied on these products.

Parks and Afforestation

In 2015, there will be a national afforestation plan for Malta that will conform with the Government overall biodiversity strategy.

3.6 REFORMS IN PRIORITY SECTORS

Energy Reduction in Utility Rates for Industry

As promised, in 2015, utility rates for the industry will be reduced.

Energy Audits for SMEs

Presently, only large enterprises have the capacity to benefit from executing proper energy audits. The aim for 2015 is to extend these audits to SMEs.

Solar Farm Policy

In collaboration with the Planning Authority, a solar farm policy will be announced to regulate sizeable installations of solar panels with the aim of minimising any negative impact on the environment.

Renewable Energy

The Government will continue incentivising investment in renewable energy and efficiency improvement in the use of energy. The Malta Resources Authority will launch additional schemes for the installation of photovoltaic panels and solar water heaters, as well as initiatives to encourage efficient use of energy.

PPP for Work on the Old St Luke's Hospital

Once the plans for St Luke's are completed, the Government will issue a call for expressions of interest so that this site is developed in a way that will benefit the needs of the Maltese and Gozitan people.

Ex-Gratia Payment on Registration Tax

The Government will continue fulfilling its pledge of refunding the tax paid on vehicle registration. Hence, as from 2015, those who registered a vehicle for personal use between the 1st May and the 31st December 2004 will receive a refund. In this way, by next year, those who had registered a vehicle in 2004 would be reimbursed in full.

Government Grants on Purchase of Environmentally-Friendly Vehicles

For next year, the scheme for scrapping old and polluting vehicles will continue. Other schemes relating to Autogas and electric vehicles will also be renewed.

Setting Up of a PPP to Direct Underground and Sea Transport in Valletta

Projects Malta is studying the feasibility of alternative forms of transport including sea transport and underground tunnels which will help to solve part of the existing traffic problem.

Judicial and Constitutional Reforms Implementation of a Judicial System Reform

The year 2015 will be an exciting year in the justice sector where, after continuing to give new rights both to arrested persons as well as victims in the penal sector, the Ministry for Justice, Culture and Local Government will start to implement reforms in the civil sector.

3.7 CREATING A FAIR AND JUST SOCIETY

Buying-Back National Insurance Contributions

A number of persons born between 1950 and 1956, and who are currently employment but by the time they reach their retirement age would not have made enough contributions to reach the National minimum pension, will now be given the opportunity to pay back a maximum of five years of contributions so that they will qualify for a minimum pensions once they retire.

Compensation for Paid National Insurance Contributions

Presently, there are a substantial number of people who worked for a number of years paid their contributions for the period in which they were working, but they received nothing back because they do not qualify for the minimum pension. Therefore, as of next year, the Government will launch a scheme whereby these people will be given a yearly lump sum of money. This means that persons born between 1941 to 1953, will receive an annual fixed amount of €100 if they had paid contributions for one year or more, but less than 5 years and €200 if they had paid contributions for five years or more.

Raising the Maternity Leave Benefit Rate

At present, women in employment benefit from the Maternity Leave Benefit, which covers from the 15th to the 18th week of their maternity leave. As from the 1st of January 2015 onwards, the rate of this benefit will be increased and paid at a rate equivalent to the National Minimum Wage.

Raising the Maternity Leave for Self-Employed

Women in self-employment will have their maternity benefit rate increased to the minimum wage for their 14 weeks of maternity leave.

Donations to Malta Community Chest Fund

Companies donating not less than €2,000 to Malta Community Chest Fund, will get 50.0 per cent of the amount of donation deducted from their 2015 taxable income.

Disabled Person in the Labour Market

This budget will introduce fiscal incentives for employers employing disabled persons. More specifically, an employer who employs a disabled person will be exempt from paying social security contributions for such employee, and he can also be eligible to claim a tax deduction on profits equivalent to the disabled person's wage. The maximum credit cannot exceed €4,500 for each disabled employee.

Full Disability Pension

The Government is committed to upgrade social benefits for disabled persons. Therefore, this Government will make it easier for disabled persons in employment earning more than a minimum wage to get the full disability pension.

Fiscal Incentives for Trusts and Foundations set up to Help Disabled Persons

A number of fiscal incentives for Trusts and Foundations will be introduced, with the aim of helping disabled persons. Some of these incentives will include exemption of capital gains taxes well as the elimination of stamp duty on documents and transfer of residential property which is the residence of the parents and is transferred to the Trust or Foundation initially for disabled children, and which is then inherited by siblings or heirs on the decease of the disabled person.

3.8 DEALING WITH TAX EVASION AND IMPROVING TAX EFFICIENCY

Final Withholding Tax

With effect from the 1st January 2015, the 35.0 per cent Capital Gain Tax will be replaced by an 8.0 per cent Final Withholding Tax (FWT), applicable to traders and non-traders alike. However, in case of non-traders, property acquired before 2004, the applicable FWT rate will be 10.0 per cent, while for property acquired less than 5 year period before the transfer of title, the FWT rate will be 5.0 per cent. This change will improve revenue tax as well as reduce the bureaucratic procedure.

Reducing Tax Evasion

The Government is committed to continue reducing tax evasion. As from next year, whoever carries out any type of commercial activity has to be registered with the VAT Department, irrespective of the amount of sales per year. Those who do not exceed a certain amount of sales per year will not be obliged to submit a return to the Department but will still be obliged to register. A pilot project will be launched through which the Tax Department will be able to gather, analyse data and utilise such data for investigative purposes.

A Study on Limiting the Amount of Cash in Transactions

In conformity with EU Regulations, there is a need to limit the amount of cash in a single transaction. A study will be undertaken to address this.

3.9 FAMILY AND HOUSING CHILD SUPPLEMENT

To address poverty and social exclusion, the Government will be introducing a Child Supplement of €400 for every child until the second child, and €200 from the third child onwards, to families whose household income is less than €11,900. The supplement will be tied to school attendance, regular medical check-ups and the child's participation in sport and cultural activities, with the aim of improving the children's education and psychosocial health. It is estimated that 22,000 children in 9,000 families will benefit from this measure.

Exemption on Purchase of First Property

The last budget introduced a one-time concession for those individuals who had never owned immovable property and who purchased property as a residence during 2014. This measure will now be extended to 30th June 2015.

Tax Exemption on property divided between Co- Owners

In cases of contracts for the division of immovable property where the owner acquires a share which has the same value as when it was undivided, no tax will be payable. This measure will give owners the chance to divide their property between them without having to pay excessive taxes. Co-owners will have the facility of not selling their share.

Exemption from Capital Gains Tax

The Budget will introduce a tax exemption on capital gains and stamp duty on property, whose transfer of title occurred from one of the owners to the other, and was acquired by two individuals with the aim of residing in it or building their main residence there on.

Choice of Main Residence for Tax Purposes

The Government will continue to simplify and strengthen the tax system in order to reduce abuse of the tax exemption in the context of the sale of property which was their main residence for more than three years. For this aim, a system will be introduced where individuals would be required to state their main residence according to transparent rules and conditions.

For more information please contact

Christina Xuereb

CS Advisory

Fourth Floor, Domestica Buildings
Msida Valley Road Msida, MSD9020

E: christina.xuereb@csadvisory.co