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Malta Budget Highlights - 2017

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On the 17th October 2016, the Minister of Finance, Prof. Edward Scicluna, presented the budget for 2017. The Minister announced various measures in order to further strengthen the Maltese economy. This Insight will provide you with a summary of the relevant budgetary measures that were announced.

STATE OF THE ECONOMY

During 2016 the Maltese economy has continued to grow with the Minister announcing that the Maltese economy has grown by 4.1%, and is projected to sustain a 3.5% growth throughout 2017. This is in line with the recent announcement from the ratings agency Standard & Poor's which raised Malta's rating from 'BBB+' to 'A-'. They have further predicted that the economy will continue to grow by an annual average of 3 per cent until 2019.

The Government's deficit is also expected to drop to 0.7%, whereas public debt is expected to drop to 63.3% of Gross Domestic Product. For 2017 the deficit is forecast at 0.5% and public debt is expected to drop to 61.9% of Gross Domestic Product.

TAX MEASURES

Corporate

In 2017 a notional interest deduction is being introduced. This is intended to bring companies capitalised via equity or debt to an equal footing. This includes, tax consolidation to allow companies forming part of a group to be treated as a single taxpayer, therefore, allowing their taxable income to be completed on a consolidated basis.

Also, as of 2017, shareholders holding not more than 0.5% of the issued shares in companies listed on the Malta Stock Exchange may apply for a refund of tax suffered at source upon receipt of dividends from such holding, according to their personal income tax rates. This will be applicable with respect to distributions made out of profits derived after 1 January 2017.

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Stamp Duty

Throughout 2017, if any parents decide that they wish to transfer their business to their children, the duty on such transfers shall be charged at a reduction of 1.5% instead of the current 5% (in case of companies' which own immovable property making up 75% or more of their total assets, 2% in all other cases).

Encouraging Investment on the Malta Stock Exchange

A new fiscal incentive in the form of an annual tax credit capped at €250,000 in terms of a Risk Investment Scheme shall be introduced. This tax credit will be afforded to those persons who invest in either Small and medium-sized enterprises registered on an alternative trading platform on the Malta Stock Exchange or in Collective Investment Schemes investing in the Small and medium-sized enterprises.

The Government will also introduce an exemption from capital gains tax on shares transferred to the public through a listing on the Malta Stock Exchange. The current tax is at a rate of 15%. This benefit will also be available for those persons listing their company on alternative trading platforms.

These measures are intended to complement various initiatives still to be announced.

Financial Services

Malta's right to offer a competitive tax system whilst representing the principles of tax transparency and exchange of information was reiterated. The Government has committed itself to introduce new measures to attract foreign investment and to also update the local regulatory regime. This is in particular to insurance, collective investment schemes and securitisation. Malta will continue defending and at the same time updating its tax system.

ENTERPRISE INCENTIVES AND MEASURES

Initiatives aimed at startups and businesses

A number of new schemes are being offered by the Malta Enterprise including the following:

- Assistance to sustainable businesses run by individuals who are at a disadvantage in the form of tax credits amounting to 25% to 25% of expenditure incurred, capped at €25,000;
- A start-up company having a turnover of not more than €80,000 per annum may opt for either:

- An exemption from preparing an audit of its financial statements for the first two years;
or
- Subject the company to an audit of its financial statements and a claim a tax deduction amounting to 120% of the audit fee (up to a maximum of €700 per annum).
- A scheme consisting of a tax credit in relation to costs incurred on renovation works in hotels and restaurants, capped at €200,000 and €50,000 respectively;
- A tax credit will also be provided for the development of digital games with a cultural theme. This credit will amount to a maximum of 30% of the development expenses incurred.

Reducing bureaucracy to start a business

From 1 January 2017, shops and other commercial businesses will no longer need a Trading Licence to carry out their commercial activity. This will decrease the amount of time it takes to set up a business from 30 days to 3 days.

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