Budget 2019 Alert

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Building a better working world

This summary discusses the tax measures mentioned by the Minister for Finance in his Budget Speech of October 22, 2018.

1. Income Tax

1.1 Tax benefit for persons earning less than €60,000

Individuals whose income is less than €60,000 per annum will benefit from a reduction in tax. Individuals whose income falls within the tax free bracket will also benefit from such deduction. The tax benefit shall take the form of a payment calculated as follows:

Single Computation	
Income (€)	Amount (€)
0 – 15,000	60
15,001 – 30,000	50
30,001 – 59,999	40

Married Computation	
Income (€)	Amount (€)
0 – 20,000	68
20,001 – 40,000	56
40,001 – 59,999	44

Parent Computation	
Income (€)	Amount (€)
0 – 15,000	64
15,001 – 30,000	52
30,001 – 59,999	40

1.2 Taxation of income from part-time employment

Persons receiving earned income who pay tax according to the single computation, whose employment income is derived from part-time employment which exceeds the ceiling of €9,100 but does not exceed the minimum wage, will not be subject to tax.

1.3 Deduction, school fees

Article 14B of the Income Tax Act provides for a tax deduction in respect of parents sending their children to private independent schools. This tax deduction has been increased as follows:

- From €1,300 to €1,600 per year for every child attending kindergarten
- From €1,600 to €1,900 per year for every child attending primary level education, and
- From €2,300 to €2,600 per year for every child attending secondary level education.

1.4 Tax exemption on pension income

The tax exemption on pension income has been increased from €13,200 to €13,434.

1.5 Private pensions

Presently the law provides for a tax exemption on income from certain financial investments. The investment amount generating the exempt revenue is subject to applying a capping. The applicable capping has been increased to €2,000 per annum. Moreover, employees and employers paying contributions to a qualifying scheme will now benefit from a tax credit of 25%, which marks an increase of 10% over the existing rate.

1.6 Introduction of a patent box regime

A new Patent Box Regime compliant with the EU Code of Conduct (Business Taxation) and OECD proposals on the Modified Nexus Approach is being developed by the Government.

1.7 Tax avoidance

The Minister said that, as part of the Government's drive to combat tax avoidance by companies, a number of areas will continue to be developed, namely:

- Co-operation with other jurisdictions with the aim to combat tax avoidance
- The strengthening of the tax legal framework and tax administration with the aim to ensure that tax which is due is duly collected in an efficient and timely manner, and
- Increase in tax transparency with the aim to reduce opportunities of tax avoidance.

Accordingly, Malta has become a signatory to the OECD's Inclusive Framework on Base Erosion and Profit Shifting (BEPS) and will adopt the various EU Directives implementing BEPS Action.

<u>Adoption of Council Directive (EU) 2016/1164 – Anti-Tax Avoidance Directive 1 (ATAD 1)</u>

The following anti-abuse provisions are expected to be introduced in Maltese law following the adoption of ATAD 1:

- Interest limitation rules: This rule will limit the deductibility of a company's exceeding borrowing costs, that is the interest and similar borrowing costs which exceed the interest received or receivable in a tax period to the higher of:
  - 30% of EBITDA; and
  - €3,000,000.

  The rules will provide for a carry forward of unutilised exceeding borrowing costs, subject to any applicable limitations put forward by the Income Tax Act. The interest limitation rules may be applied on a group basis and will not be applicable to financial undertakings, costs on loans used to fund long-term public infrastructure EU projects or loans concluded before 17 June 2016.
- Exit tax: The movement of a company's assets, its business or tax residence will be treated as a taxable exit event and the company in question will be taxed as if it has disposed of its assets. The unrealised gains will be determined by reference to the asset's market value at the time of exit. In the case of intra-EU movements, the deferral of exit tax is envisaged.

  Temporary movements of assets (<12 month displacement) linked to certain financial transactions will not give rise to exit taxes.

- General Anti-Abuse Rule (GAAR): The Income Tax Act's existing GAAR (Article 51) will be enhanced with the definition of tax avoidance schemes contained in ATAD 1. The GAAR will accordingly apply to arrangements which are not genuine, that is, not put into place for valid commercial reasons reflecting economic reality, and which have been put in place with a main purpose of obtaining a tax advantage that defeats the object or purpose of tax law.
- Controlled Foreign Company rules: CFC rules, which have the effect of re-attributing the income of a low-taxed controlled subsidiary to its parent company, will be introduced. A subsidiary will be considered a CFC where:
    - It is subject to more than 50% control by a parent company, a company which is tax resident in Malta, and its associated enterprises, and
    - The tax paid by the subsidiary on its profits is less than half the tax that would have been paid had the subsidiary's income been subjected to tax in Malta.

  Certain *de minimis* exemptions are envisaged, namely:
    - No reattribution of income will be made where the CFC's accounting profits do not exceed €750,000 and its non-trading income does not exceed €75,000, or
    - No reattribution of income will be made where the CFC's accounting profits amount to not more than 10% of its operating costs for the tax period.

  Double tax relief will be available for the tax paid by the subsidiary on the reattributed income and in the case where the CFC subsequently distributes its profits or the parent company disposes of its interest in the CFC.

<u>Adoption of Council Directive (EU) 2017/952 – Anti-Tax Avoidance Directive 2 (ATAD 2)</u>

The ATAD 2's anti-hybrid provisions are expected to be adopted by the provided implementation deadlines (1 January 2020 and 1 January 2022).

<u>Ratification of the OECD Multilateral Instrument</u>

The Minister announced that the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent BEPS, a multilateral convention whose aim is to update existing double tax treaties with a view of tackling tax avoidance, has been signed by Malta and subsequently ratified by the Maltese Parliament.

<u>Adoption of the Council Directive (EU) 2018/822 - Mandatory Disclosure Directive (DAC6)</u>

The Minister confirmed that Regulations transposing the DAC6, which imposes an obligation on EU intermediaries or taxpayers to report specified cross-border arrangements, will be issued within the implementation deadline, namely 1 January 2020

<u>Adoption of the Council Directive (EU) 2017/1852 - EU Dispute Resolution Mechanism Directive (DRM Directive)</u>

As from the end of June 2019, Maltese taxpayers will benefit from access to the dispute resolution framework contemplated in the DRM Directive, which should ameliorate the available mechanisms afforded by the existing double tax treaties and the Arbitration Convention.

The EU Presidency

The Minister referred to the EU's tax related initiatives which have been concluded during Malta's EU Presidency including ATAD 2 and the DRM Directive. During this period, Malta also played a role in the launching of the process leading to the establishment of the EU list of non-cooperative jurisdictions for tax purposes.

1.8 Taxation of the digital economy

The Minister said that Malta is engaged in discussions relating to the taxation of the digital economy.

2. Value Added Tax

2.1 Reduced rate of VAT on electronic publications

The current reduced VAT rate of 5% on printed matter and audio books, books and similar printed matter supplied on CD, DVD, SD-card and USB as provided for in the Eighth Schedule to the Maltese VAT Act will be extended to cover also books, newspapers and other publications provided electronically.

2.2 VAT refund schemes

A new VAT refund scheme will be introduced on the purchase of domestic reverse osmosis systems, with the VAT refund capped at €70.

The VAT refund scheme associated with wedding related expenses as per Government Notice No. 965 dated 23 September 2014 published in the Government Gazette No. 19,314 will be amended whereby the VAT Refund capping will be increased by €250 to €2,500.

The VAT refund scheme associated with the acquisition of Bicycles and Pedelec Bicycles as per Government Notice No. 1,231 dated 15 December 2015 published in Government Gazette No. 19,512 will be extended for another year.

2.3 VAT refund on car registration tax

During 2019 VAT will be refunded to those who registered their vehicle in 2008.

3. Others

3.1 Extensions to existent schemes

Transfer of business to descendants

In 2017, a reduced rate of 1.5% on the certain transfers to qualifying relatives was introduced. This scheme has been extended for another year.

First time buyers

The tax scheme for first-time buyers, originally introduced in 2014, shall be extended for another year.

Second time buyers

In last year's budget speech the Minister mentioned that individuals, termed as "Second Time Buyers", who sell their residential home, being their sole owned immovable property, and acquire another home ("second home") within 12 months from the date of transfer of the replaced property shall receive a refund of the duty paid on the first €86,000 of the value of the replacement property. This scheme was available up to 31 December 2018 but has now been extended for another year.

Reduced rate of Duty on Documents on acquisitions of immovable properties in UCAs

The reduction of duty on documents from 5% to 2.5% applicable on the acquisition of immovable property situated in Urban Conservation Areas will be extended for another year.

Reduced rate of Duty on Documents on acquisitions of immovable properties in Gozo

The reduction of duty on documents from 5% to 2% applicable on the acquisition of immovable property in Gozo will also be extended for another year.

3.2 Voluntary Organisations

The Minister announced that small Voluntary Organisations whose income does not exceed €10,000 per annum will be eligible to a tax exemption.

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