Financial Services

The following are our proposals for the financial services sector. Overall, participants within this focus group believe that the government is doing a good job. These proposals complement the current direction being taken by the government.

In connection with foreign direct investment, additional incentives could be offered to Sovereign Wealth Funds (SWF) to make the undertaking of large investments more attractive. Specific incentives for SWF to invest in local loss making entities through either primary (injection in a company) or secondary (buy-out) investments could be offered. Such incentives include the removal of uncertainties when negotiating the use/sale of land for big projects. As it stands the Government does not have full control to negotiate such deals since the relevant authorities would need to approve the decisions. The ‘subject to planning permission’ clause deters many investors from committing funds for large projects.

The facilitation of business and opening of corporate accounts through local banks for non-EU based companies is a growing service that Maltese banks are benefiting from. This business is made possible since Maltese banks offer flexibility in the way they operate whilst being very prudent in their operations with oversee by the Malta Financial Services Authority (MFSA). The efforts by the European Commission to harmonise the banking sector could reduce Malta's attractiveness for such companies to seek local services. The uncertainty that is brought about by regulatory compliance at the European level can disrupt business. A more comprehensive communications framework between the key financial players and the European Commission will help to minimise uncertainty and assist business.

The Maltese islands are not endowed with natural resources and rely mostly on the provision of services to generate wealth. In a bid to achieve higher competitiveness, the following are some proposals to this regard:

- The setting up of a strategic unit to strengthen ties with ‘Sovereign Wealth Funds’ who can invest substantially in large entities.

- Align policies of the Ministry of Finance, Malta Financial Services Authority and other players in the financial sector to increase Malta’s capacity to assist funds relocation (Hedge funds/Mutual funds/Custodian Banks etc).

- Formulate policies at the European level to protect Malta's volatile financial sector from competitive erosion. One example is the veto of the proposed 'Tobin Tax' being discussed at the European level.

- Boost Malta's influence in the small states arena by taking the lead in international financial management. This will help build the reputation of the Maltese Islands as an onshore (within the European Union) financial hub and in turn, will make it easier to attract business. A platform for this is the 'Small States Forum' meeting held on the margins of the World Bank/IMF annual meetings which is usually attended by the Central Banks and Ministries of Finance of Small States. (Note: the Secretariat of the Small States Network for Economic Development, which is an arm of the Small States Forum is located in the Annex of the Central Bank of Malta www.ssned.org).

- Reform Malta's old rent laws to let market forces operate freely in the real estate sector. The spillover effect will have a sizeable positive impact on the financial services sector through the release of equity from sale of properties.

- A trained workforce is imperative to sustain Malta's attractiveness to financial institutions seeking to relocate operations. As more institutions relocate to the Maltese islands, demand for skilled labour will outweigh supply. The lack of trained workforce drives wages upwards and erodes the island's competitiveness, as is happening to Ireland within the financial sector. To this extent, additional funds should be allocated to the University of Malta to assist the Faculty of Economics, Management and Accountancy (FEMA) in keeping pace with the fast changing financial sector. The Faculty can use such funds to have periodic meetings with entities such as the MFSA, Banks, financial institutions and other key players in the sector that will provide feedback about the skills that are required from students when they seek employment post-graduation.

- Open discussions on pension reform through a 3 pillar system. The financial sector is key to support pension reform through the introduction of private pension funds and defined-contribution plans in the pillar system. The main aim of the white paper by the European Commission on pension reform in Malta consisted of the following recommendations, namely:

- Create better opportunities for older workers to remain in jobs by adapting workplace and labour market practices and using EU funds.

- Develop complementary private retirement schemes and optimise tax and other incentives.

- Make supplementary pensions compatible with mobility through legislation protecting the pension rights of mobile workers and through pension tracking services across the EU.

- Enhance the safety of supplementary pension schemes.

- Promote longer working lives by linking retirement age with life expectancy, restricting access to early retirement and closing the pension gap between men and women.

- EU to continue to monitor the adequacy, sustainability and safety of pensions.

Additionally, despite the fact, that a number of tax measures have been introduced to attract high net worth individuals, high calibre professionals and foreign direct investment to our shores, a number of measures could be used to render our system increasingly attractive or merely realistically affordable, depending on the case at hand. To this end Government has introduced a number of useful measures in the last budget, which to date have not yet been implemented via the pertinent legislation, namely the Budget Implementations Act 2012 and which is indeed long overdue. This is causing marked uncertainty for both practitioners and clients alike, particularly as income tax return deadlines approach and new non-Maltese resident clients seek to invest in Malta based on what was announced during the last budget. Against the current economic and fiscal milieu, Government should consider implementing the following measures:

Render the thresholds pertinent to the High Net worth Individuals more realistic in terms of what Malta has got to offer, particularly in relation to the yearly minimum tax liability and the ‘Gratuitous Voluntary Deposit’ related to Non-EU regulations for High Net-Worth Individuals. As the ‘so called advantageous tax scheme’, stands at present, half a million Euro, by way of a Gratuitous Voluntary Deposit, is too high, overtly unrealistic. We propose bringing this bond, down to Euro 175,000 (and Euro 50,000 for

every dependant). Moreover, congruent to such rationale, the minimum tax liability for EU Nationals should be brought down to Euro 12,000 (plus Euro 2,500 – as is currently the case), while that pertinent to Non-EU nationals, should be brought down to a realistic Euro 18,000 (plus Euro 3, 000 per dependant).

Introduce more sophisticated rules in relation to the attainment of residence by way of a 'minimum investment criterion' than those currently in existence which are warped in uncertainty and merely in guideline form. By way of example, investment schemes could be introduced whereby an investment in Malta Government Bonds, share capital or loan capital in Malta companies, would grant Maltese long-term residence within a number of years, the higher the investment the lower the number of years required to obtain long term residence (UK based system) – subject to the fulfilment of necessary conditions such as appropriate medical cover.

Set up new tax advantageous schemes for foreign retirees, wishing to retire in Malta. By way of example a 15% tax rate on all foreign remitted pensions into Malta, subject to a minimum tax liability of Euro 9,000 and a minimum qualifying property requirement of Euro 200,000.

Introduce Notional interest deduction rules applicable to Maltese resident companies as well as Malta branches of non-resident companies. This is a tax deduction for venture capital which alleviates the differences in tax treatment between finance raised through borrowed capital and finance raised through equity capital. The system allows companies to **deduct from their tax base a notional interest charge** (not stated in the accounts) corresponding to a specific percentage of their 'adjusted' equity capital. Valuable use ought to be made of lessons learnt from countries such as Belgium, in order to ensure that such rules are EU Compliant.

Introduce tax incentives in the form of tax shelters. This is a form of tax incentive designed to encourage the production/undertaking of activities in certain target sectors: for example audio-visual works and films. The system would allow companies wishing to invest in such target sectors to benefit from a tax exemption on retained profits worth up to, by way of example 150% of the capital actually invested.

Progressive
Moderates