

Budget 2024

Malta Chamber of SMEs` proposals

August 2023

Preamble



The year 2023 has overall proven to be a successful year. Despite the many challenges, the increased level of consumption, especially the pick-up of tourism gave reason for much encouragement.

The current levels of inflation, the energy crises, difficulties faced with global human resource shortage are a few which the world is currently battling and Malta is trying its very best to stay afloat despite the powerful international waves that keep threatening.

It is clear that national unity is key to continue doing our best on issues where Malta is powerless. Apart from this Malta must push for the European Union to be a bigger player in bringing member states together to battle such challenges.

The SME Chamber Budget priorities for 2024

- Reducing tax on businesses
- Addressing the Human Resource Crises
- Mitigating the impact of inflation
- Removing death tax on businesses
- Good Governance in Public Procurement
- Malta's Quality – Quality of life and Tourism
- Energy Sustainability

Reducing Tax on Businesses

The discussion on changing the local tax system for businesses and the promise to reduce tax for businesses has been present for a while now.

2023 has in fact been somewhat dominated by the issue of taxation. Where this related to enhancement in the collection system, tackling cases of long standing dues and the potential required reform. Indirectly we were seeing this as an opportunity to tackle unfair competition, caused by evasion as well as legally institutionalised unfair competition, via the 6/7ths tax incentive.

The SME Chamber positively notes the improvements being implemented by the new Commissioner for Inland Revenue. Important steps forward with a positive attitude which we are more than happy to work along side and support. This will tackle unfair competition coming from unlawful practices and change the way businesses look at tax collection.

On the other hand however no positive improvement has as yet been registered on the institutionalised unfair competition local businesses face with the 6/7ths tax incentive. While appreciating the importance of this incentive in the bigger context of things, the harm it is doing in the not-so-smaller context of things is shameful and cannot be ignored. Malta has become a country that is forcing Maltese businesses to register abroad and organise its directorships accordingly, for the simple reason of being at par with its competitors. This is truly shameful. It is forcing businesses directly impacted by this unfairness to creatively compete in order to be able to survive and then the same authorities call out any unlawfulness in this regard. The SME Chamber will never condone unlawfulness, however the state must recognise its responsibility in the hardship and poor choices businesses end up making.

Proposal 1	<p>Lower Corporate Tax to 15%.</p> <p>This will increase the balance between the local and foreign owned businesses. Whilst still, there is an unfair advantage, it would certainly improve the status-quo, whilst retaining the important advantage that attracts foreigners.</p> <p>Reducing Corporate Tax will also alleviate the need to pass on inflationary pressures. Many businesses speak of their worries of</p>
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	not remaining competitive and their clients not being able to afford further increases.
Proposal 2	<p>Use additional tax incentives for qualifying businesses</p> <p>Lower tax rates should be implemented for qualifying businesses. Some examples of which businesses qualify could include.</p> <ul style="list-style-type: none"> - Enterprises operating completely electronically (payments) - Enterprises reaching specific and achievable sustainability targets

Addressing the Human Resource Crises

It is a recognised fact that inflation is an extremely serious national issue. An assessment of how other challenges for businesses compare with inflation provides a clear understanding of their seriousness and topping the chart and surpassing inflation is the issue of employees shortage, as is clearly shown in Table 1, the most significant single challenge businesses are facing is the lack of human resources across the board.

What the government is failing to understand is that this is not just a business problem but a national issue, that is creating long term harm.

For many years Malta has been enjoying a healthily balanced labour market, with forces that ensured fairness and the preservation of core principles. Unfortunately the current situation is far from ideal, not just because the employers are at the mercy of their employees but for a number of other reasons, amongst which the below:

- Wage inflation
- Lower productivity
- Frequent mobility
- Lack of interest in life-long-learning
- Early school leavers
- Less incentive to study longer

The aspect of the quality of the human resources Malta is attracting is also of a concern and this ranks 5th in terms of the challenges businesses face, just 4 places down for the lack of human resources itself. Malta has so far not managed to implement an effective skills strategy and fragmentation in the approach will not lead to the leap Malta critically needs.

The problem is however larger than the serious ones already listed above. A significant level of incoherence is being noticed in the management of the system. While foreign workers are coming to Malta in tens of thousands, employers are still starved of resources. Hence the question begs. Where are all these foreign employees working? how is a small market like Malta able to absorb all these employees? Unfortunately reports leave little to the imagination. In their first days in Malta TCNs end up behind the doorstep of a number of recruiters complaining they barely have any work, some having no work at all and have been brought to Malta only for some players to benefit from their fee to get them a work permit in Malta. Something is clearly not right and it is not rocket science to either realise this or address it.

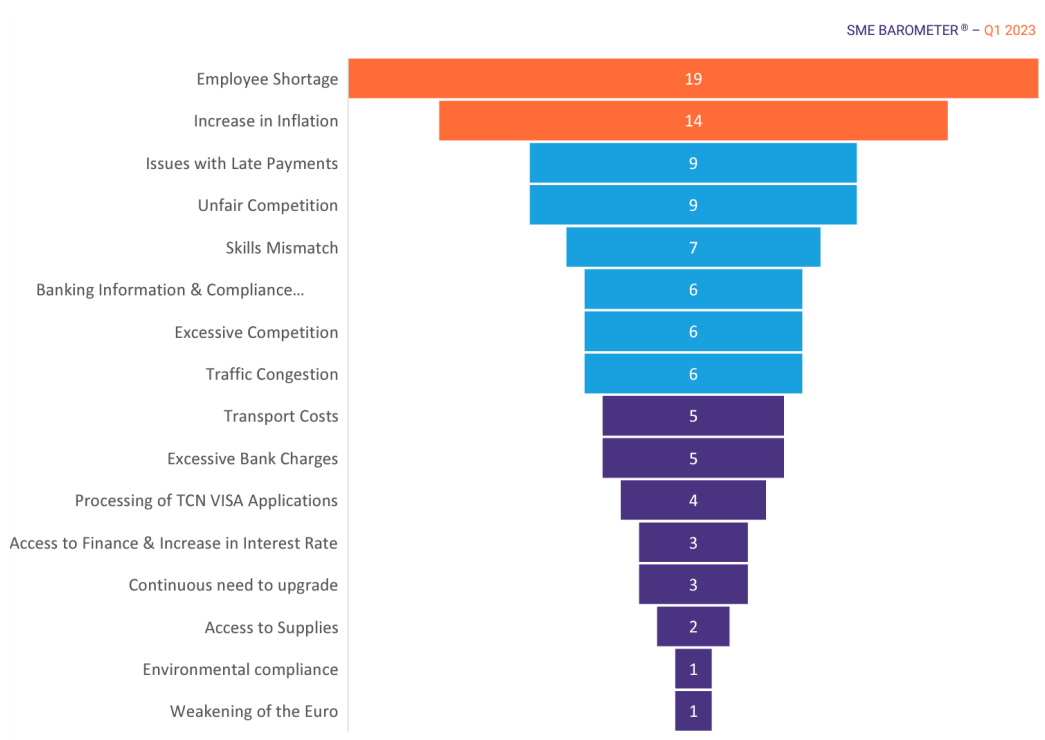


Table 1 – Source: Malta Chamber of SMEs and Misco SME Barometer Q1 – May 2023

Referring to these challenges as inefficiencies is a significant understatement. The cost of human resources by far exceeds the wage costs with the training

requirements, loss of productivity due to language barriers and other, high turnover rates, etc.

Whilst the system is still bureaucratic, and significant checks are in place, there is lack of coordination and intelligence sharing between the various key stakeholders. Data needs to be shared. How is it possible that a TCN working in Malta that had not been paying taxes does not raise a red flag? Why are successful work visas not followed up to ensure employment is being implemented correctly? These are just a couple of questions that show lack of sufficient checks and balances along the process following the work permit.

Proposal 3	Implement an attractive secondment plan from government employment to productive jobs with the private sector to incentivise private sector employment.
Proposal 4	Reinstate proper trade programmes where pupils that do not want to attend standard education programmes can follow and learn specific trades that would make them industry ready. This would also welcome pupils that have decided on their trade route. Members mention Malta’s original trade schools. Inclusion of trade skills should start from the younger years.
Proposal 5	Form a joint stakeholder working group that establishes the information that needs to be shared, cases of concern which are used to address policy shortcomings and establishing checkpoints to ensure regular monitoring throughout the TCNs stay in Malta.
Proposal 6	Create a set of incentives to help retain foreign workers and avoid them leaving to other EU countries which offer better packages. Incentives would include: <ul style="list-style-type: none"> - A rental voucher scheme - Better opportunities to bring over family members

Mitigating the impact of inflation

Inflation is understandably a national concern which is also common across the globe. The pain of the consumer is the one which gathers most attention, however businesses are impacted on both sides in terms of investments and running costs costing more than projected and concerns related to consumer affordability and competitiveness. Inflation is a common enemy.

Whilst it is true that Malta's inflation is mostly imported it is also equally true that a substantial amount is generated locally through wage inflation and all other cost increases.

It is difficult for Malta to keep inflation under control given its import dependency however a number of measures can further help, in addition to what is being done already to mitigate the impact. Inflation has had an impact on consumption and consumers have become more price sensitive and have found ways to reduce their purchases.

Proposal 7	<p>Widening of tax brackets for individuals</p> <p>The current tax brackets have not been sensitive to Malta's inflation and resulting COLA adjustments.</p> <p>The SME Chamber proposes that tax brackets are widened so that the non-taxable income goes up to 14,000 in order to help those on low wages most especially.</p>
Proposal 8	<p>Reduce VAT</p> <p>A measure already proposed by the Malta Chamber of SMEs to counteract inflation. Reducing VAT is a great incentive to preserve the spending power and also to direct consumption patterns. At the moment the government is receiving more income from VAT due to the increase prices of products. Whilst lowering VAT, government will not necessarily reduce its projected income.</p>
Proposal 9	<p>Removal of Excise Tax</p> <p>SISA is an unfair hidden tax. Unfair on businesses and unfair on consumers. It is an indirect way for the collection of public</p>

revenue, which is not fitting the current economic situation when consumption needs assistance.

Removing death tax on businesses

Death is many times the cause that forces a Family to restructure business ownership. In fact, surveys show that when a family member passes away, this results in huge stress to the family and its business alike. In addition to this, the current legislation, ready to claw succession duty from a family immediately after one of the owners dies, makes this time more difficult to endure. It is unfair that grieving families have to put up with this unjust tax when the business is actually staying within the same family.

The family must be regarded as a nucleus and no duty should be claimed from transfers within the same family members of Registered Family Business. Enterprises pay taxes throughout their lifecycle, and the value of business at the time of death is already net from Government's share. Family Businesses find Succession Duty to be the Government's opportunity to tax in a very difficult moment. A huge burden which sometimes, due to unavailable liquidity, forces the remaining members to sell!

Proposal 10

Remove transfer tax to all family business transfers

A family is one nucleus and should be considered as such also for business purposes. No tax should be due for transfer of identified family members, including children or siblings, including document duty. The removal of any taxes due should be both in case of inter-vivos and causa mortis.

Good governance in Public Procurement

Public procurement represents an opportunity like no other for the government to lead by example. It is testament to where the government wants to lead the country in terms of quality. Unfortunately, the results speak for themselves as public procurement is many times a testament to shoddy preparation and execution and lack of good governance.

There is lack of trust in the public procurement system and the conviction that tenders are set up for specific and repeated service providers which are pre-chosen, pre-advised and have tenders tailored to their specifications.

Proposal 11	<p>Public Procurement fairness</p> <p><u>Public Procurement Ombudsman</u> that would be independent and be able to scrutinize tenders that are presented to it through formal presentation. The Ombudsman would also carry out independent checks and reviews of adjudication or non-performance. All direct orders would fall under the automatic remit of the ombudsman and scrutiny would be from start to finish. Direct orders should be more difficult and not the easy way out.</p> <p>Issue a percentage amount of tenders for all governmental entities that would need to be adjudicated following the <u>MEAT</u> system.</p> <p><u>Remove tender financial requirement.</u> These should only be required upon winning the tender and in understandable proportions. This also includes the removal of substantial financial fees to raise claims on the adjudication process.</p> <p>Should include a focus on safeguarding <u>basic employment rules.</u></p> <p>Using <u>smaller lots</u> for tenders for smaller investors.</p> <p>Incentivising and <u>rewarding green initiatives</u> by bidders to promote environmentally friendly products and services.</p>
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Malta's Quality – Quality of life and Tourism

Malta is a country with very limited resources. It's strong points depend very much on how much Malta is cared for. Unfortunately, accelerated economic growth has left an impact of how much quality is being cared for.

The country's main problem is overdevelopment, which has uglified Malta and taken away too many of the spaces. Lax development regulations and room for abuse have greatly degraded Malta's overall look and also affected village cores and important historical areas. Overdevelopment cannot be spoken of as something of the past. Development is still rampant with construction sites, heavy equipment, noises and dust a daily nuisance. Apart from affecting locals this greatly impacts Malta's attractiveness to tourists.

Traffic is another main downside of being in Malta. Traffic is now found everywhere, at all times of the day and is unavoidable. The sheer amount of vehicles on the road, the frequency of roadworks and massive infrastructural projects happening all at one go and the reckless driving by motorcycle deliveries and scooters have degraded Malta's roads to be closer to those found in much less developed countries. Road accidents continue to increase with more erratic driving and obstacles in the streets, making Malta's roads less safe than what they used to be.

Safety concerns are not only related to roads but also to crime and the seriousness of crime in general. There is a perception that crime is on the rise. Many factors could be attributed to this, amongst which the increasing inter-cultural scenario of Malta, increase in poverty rates and marginalisation and also mental health issues. This is problematic since safety was always one of Malta's strong points. This is obviously independent of the increase in corruption and other sophisticated crimes.

- Tourism

Even though the country has fared well in supporting the Tourism sector through the last years and recovery post-Covid started quickly, further implementation of a sustainable and competitiveness plan are needed.

Malta has mitigated the impact of Covid in the best possible way from a high-level point of view. Malta has successfully retained the absolute majority of its tourist capacity and services, encouraged re-investment during the quieter times and restarted in a timely manner. Malta must however take stock of its package and

offer for tourism as a whole, not just relying on individual initiatives. Greater management is needed for a wholistic strategy.

Malta is a tourism dependent country. The record challenges of market instability, harsh Covid recovery and major inflation are no joke to endure. At the same time that Malta's hands are spread wide open to welcome tourists, our conditions as a whole package are not reflective of a country that is attractive enough to welcome the level of tourists that we seek. Prices have sky-rocketed and the quality and attractiveness is not at par. A clear strategy of the types of tourists Malta wants to prioritise and a serious implementation plan is needed to shift the balance in favour of quality tourism.

<p>Proposal 12</p>	<p>A quality strategy for Malta</p> <p>A holistic quality strategy that would stop Malta's uglification first and foremost and work on a strategy to deconstruct it. The following elements should be addressed:</p> <ul style="list-style-type: none"> - Development planning - Road works - Traffic issues - Safety and Security <p>A number of activities which would normally only be acceptable as one-off occurrences have become the order of the day and one-off nuisances are making staying in Malta unbearable both for locals and tourists. A holistic strategy that would normalise living in Malta is necessary.</p>
<p>Proposal 13</p>	<p>Development limitations</p> <p>Alternatives to further development should be substantially incentivised. The incentives should be significant enough to cause a shift towards sustainable use of already existing buildings as opposed to new buildings.</p> <p>An analysis on the supply should guide the amount and quality of permits issued. The ultimate aim should be to consolidate and improve on what we already have rather than adding onto the problem.</p>

Proposal 14	<p>Upgrading Malta’s tourism package</p> <p>All support services are lagging behind and in many case have caused collateral damage. This includes:</p> <ul style="list-style-type: none"> - Cleansing and Refuse Collection - Maintenance and embellishments of Public Areas - Public Signage - General Enforcement
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Energy Sustainability

The year 2023 has provided us with a profound lesson: the imminent challenges posed by climate change, population growth, and the electrification of transport have underscored the real and pressing issues facing our energy grid.

In light of the increased pace by which the electricity demand is growing, urgent action is now needed. If this is not done, the country will suffer even more severe power-cuts in summer 2024. There is a national concern of how Malta will be actively served for the vehicle electrification needs, how this will impact Malta’s supply demands and what role the private sector plays in this.

The power outages in July naturally highlighted the need for long-term planning and immediate patching of the current network, including exploring new technologies and practices. Overall, a proactive approach, incorporating innovative solutions, transparency, and public involvement, is essential to address ongoing power issues effectively.

Proposal 15	<p>Strengthening Malta’s Energy Service:</p> <ul style="list-style-type: none"> - Upgrading the network with thicker cables, alternative distribution paths, new substations, and redundancy measures. - Creating a user-friendly power outage app for better communication during outages.
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	<ul style="list-style-type: none"> - Ensuring transparency in operations and sharing action plans with clear deadlines. - Establishing a Service Mandate for the electricity provider, including compensation for damages. - Whilst a year may not suffice for comprehensive upgrades but taking proactive steps toward lasting solutions.
Proposal 16	<p>Incentivising energy investments:</p> <ul style="list-style-type: none"> - Identification of a number of sites across the nation suitable for large-scale renewable energy ventures. Complementary installations to the clean energy generation would encompass energy storage units and electric vehicle charging stations in designated regions. The additional grid infrastructure funding required for these projects will be mainly undertaken by Enemalta, thereby facilitating private sector investments in project generation. - Pro-Rata Cost Structure: Implement a pro-rata cost structure based on KW allocation, such as setting a fixed fee of Euro 10,000 for every 100KW as an example, to ensure transparency and fairness in grid connection costs, reducing the financial burden on project developers. - Uniformity and Predictability: Establish uniform guidelines for grid connection costs to eliminate discrepancies and unpredictability in project expenses, which can deter investment in renewable energy. - Energy Storage Incentives: Create incentives for businesses to invest in energy storage solutions, including microgrids, similar to the successful domestic battery scheme, catering to various business sizes and needs.