


# FINANCE BUDGET PROPOSALS 2025

Compiled by: Mr. Beppe Muscat on behalf of the Malta Chamber of SMEs

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## Introduction

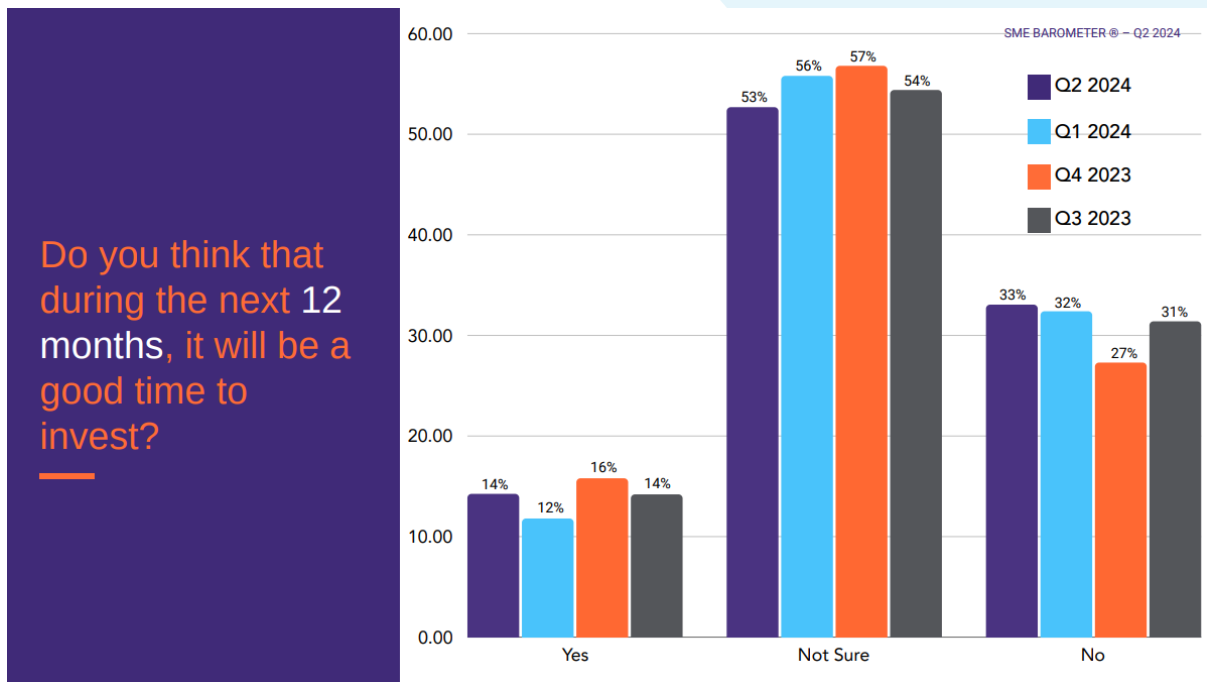
*These proposals are being presented, for consideration for Budget 2025. They aim to outline strategic measures through which the Maltese Government can actively support businesses and cultivate a more inviting business ecosystem that fosters investment and innovation. These proposals are not merely a wish list but are carefully constructed to be aligned with Government initiatives and objectives. Proposals are structured in such a way as to ensure a return on the investment being made.*

*In this document, the proposals put forward are mainly centred around four pillars:*

### **1. Government & Private Sector Investment**

*Government investment in local businesses is pivotal for sustaining and enhancing economic growth, especially in light of current global economic uncertainties. In addition, with the ongoing recovery from the Covid-19 pandemic and the need to transition towards a more sustainable economy, government investments can play a vital role in modernising infrastructure and fostering green technologies. Such investments will not only solidify Malta's economic resilience and enable it to cushion the repercussions of any possible recessions, but also position it as a competitive hub for high-value industries in the future, ensuring long-term prosperity and stability.*

*Furthermore, these proposals align with the most recent SME Barometer for Q2 2024, which reveals significant discomfort and persistent concerns among local businesses. Specifically, 53% are experiencing uncertainty regarding investment decisions for the upcoming year. The concern here lies in the fact that this sentiment has cemented itself as a trend over the last 18 months at least. Addressing these issues and incentivising investment is essential for improving the business climate and ensuring sustainable economic growth.*



SME Barometer 2024 Quarter 2 results<sup>1</sup>

## 2. Supporting Good Business

Most local businesses are dedicated to creating jobs, generating wealth, driving innovation, and contributing to our communities' well-being, making them a crucial part of our society. In this context, the government should focus on creating an eco-system that fosters opportunities, encourages investment and supports good business. By providing targeted incentives, the government can support these responsible enterprises, enabling them to expand, hire more employees, and stimulate economic growth. This approach not only fosters a more resilient economy but also ensures that our workforce thrives and our nation remains competitive in the global market. Additionally, the Government should avoid competing with the private sector for employment, allowing businesses to take the lead in job creation and economic development.

## 3. Self-Employed and Micro-Enterprises

Self-employed and small business predominance and economic significance in modern economies is undisputed and supported by research and statistics. The national statistics

<sup>1</sup> <https://www.smechamber.mt/downloadable/>

office (NSO)<sup>2</sup> has released data that indicates that more than 99.8% of all business units are SMEs and contribute to approximately 78% of private sector employment. 97.8% of all business units in Malta employ less than 50 employees, and are thus considered to be micro or small enterprises. More than 35,000 individuals operate as self-employed. Undoubtedly, the self-employed, small and medium-sized enterprises (SMEs) are extremely important for economic growth and development and must be given their due attention and support.

#### 4. Anticipating the Future of Work

The digital transformation and its impact on the world of work is a reality that researchers have been alerting us to for the past years. The digital transformation's impact on the economy is likely to persist and increase, which requires policy makers and stakeholders to better understand the complexities of this change, that is "likely to cause major disruptions to the workplace of the future" (De Villiers, 2021)<sup>3</sup>, an immense and extensive revolutionary transformation (Kommunuri, 2022)<sup>4</sup> and "major uncertainty for the future of work" (Singh et al., 2022)<sup>5</sup>.

A report published by Dell Technologies and authored by the Institute for the Future (ITF) estimates that 85% of the jobs that will exist in 2030, had not yet been invented. The World Economic Forum's Future of Jobs Report (2020) warns that the world of work is up for major disruption over a very short span of time. Reports from The Oxford University estimate that 47% of current jobs will cease to exist by 2033.

Singh et al., (2022) discuss that this changing business landscape, that has also been accelerated by the COVID-19 pandemic, is shaping a new way of working and will transform the "three Ws" – work, workforce and workplace. This suggests that we can

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<sup>2</sup> **National Statistics Office.** Registered Business Units:2021. [https://nso.gov.mt/wp-content/uploads/News2022\\_077.pdf](https://nso.gov.mt/wp-content/uploads/News2022_077.pdf)

<sup>3</sup> **De Villiers, R.** (2021). Seven principles to ensure future-ready accounting graduates - a model for future research and practice. *Meditari Accountancy Research*, 29(6), 1354-1380. <https://doi.org/10.1108/MEDAR-04-2020-0867>

<sup>4</sup> **Kommunuri, J.** (2022). Artificial intelligence and the changing landscape of accounting: a viewpoint. *Pacific Accounting Review*, 34(4), 585-594. <https://doi.org/10.1108/PAR-06-2021-0107>

<sup>5</sup> **Singh, A., Jha, S., Srivastava, D.K. & Somarajan, A.** (2022). Future of work: a systematic literature review and evolution of themes. *Foresight*, 24(1), 99-125. <https://doi.org/10.1108/FS-09-2020-0093>

expect this disruption to have a significant impact on people's lives, organisations/companies, society and the economy at large (Schiele et al., 2022)<sup>6</sup>.

In Malta, while the evolving digital landscape is acknowledged in various policies, there remains a notable lack of alignment and active engagement from several stakeholders to proactively plan for these impending shifts. As a result, it is important to convene relevant stakeholders to discuss and anticipate the future of work in a holistic manner. This forward-thinking approach must transcend political agendas and establish a unified vision for Malta's future workforce. Collaboration and strategic planning in the immediate future can ensure that the country is well-prepared to harness the benefits of digital transformation and mitigate any potential challenges.

The proposals put forward in this document are organised under these four pillars, and specific initiatives. The proposals are designed to incentivise investment and support good business by increasing business cashflow, reducing bureaucracy, simplifying procedures, supporting innovation and rewarding compliance. This aligns with Government objectives to enhance government revenue, improve compliance rates but also create an environment that encourages business investment.

We also emphasise the importance of the self-employed and small business as the backbone of our economy. It is high time that we walk our talk and support the self-employed and small business by addressing their struggles and supporting their development.

Last but not least, these proposals seek to address the interests of employees and their families, who's well-being and livelihood depend on the sustainability and success of their employers and the economy at large.

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<sup>6</sup> **Schiele, H., Bos-Nehles, A., Delke, V., Stegmaier, P. & Torn, R.-J.** (2022). Interpreting the industry 4.0 future: technology, business, society and people. *Journal of Business Strategy*, 43(3), 157-167. <https://doi.org/10.1108/JBS-08-2020-0181>

# Pillars 1 & 2: Incentivising Investment & Supporting Good Business

## Initiative: Tax Deductions

### Context:

The Government's electoral manifesto of 2022 contained a promise to reduce the income tax rate for businesses from **35% to 25%**. This corporate tax rate reduction was also proposed by the Opposition. Despite being in the electoral manifesto and obtaining cross party agreement, so far we have not seen its implementation, despite its numerous benefits for local businesses and the economy at large. This change in taxation is essential for several reasons, including enhancing tax collections, fostering a level playing field for local companies, incentivising compliance, and stimulating economic growth through increased investment and job creation.

## Proposal 1: Decreasing Income Tax Rates for Businesses

### Outcomes:

**Level Playing Field for Local Companies:** The current tax structure puts local companies at a disadvantage compared to foreign-owned Malta-based companies that benefit from lower effective tax rates. By reducing income tax rates, we aim to create a more equitable business environment that fosters fair competition and supports the growth of local enterprises.

- **Alignment with Compliance Initiatives:** To qualify for the reduced tax rate, businesses must demonstrate compliance with tax regulations by obtaining a clean compliance certificate and fulfilling reporting obligations. This requirement not only ensures that tax benefits are directed towards compliant businesses but also incentivises others to adhere to tax laws, thus improving overall compliance rates.
- **Cash Flow for Investment and Job Creation:** Lowering income tax rates will provide businesses with increased cash flow, which can be reinvested in expansion initiatives,



research and development, and job creation. By incentivising further investment, the proposed tax deduction will fuel economic growth and contribute to employment opportunities within the local community.

- **Increase Tax Collections:** Historical data indicates that reducing tax rates can lead to increased tax collections.

## Initiative: Business Turnaround Schemes

### **Context:**

Businesses facing financial difficulties often encounter significant challenges in accessing necessary funding to recover, turn around, and sustain their operations. Traditional retail banks, constrained by risk considerations and regulatory frameworks, are generally reluctant to extend assistance to these struggling enterprises. As a result, businesses find themselves trapped in a cycle of financial distress, jeopardising not only their own viability but also the employment opportunities they provide. Businesses today have varied avenues of assistance. Yet when they need it most they are starved of this assistance and blacklisted immediately. Recognising this pressing need, we propose a series of interventions aimed at providing targeted financial support to businesses in distress, thereby facilitating their turnaround and safeguarding both business continuity and employment prospects. The main proposals being put forward here are the Business Turnaround Finance and the Business Turnaround Grant.

### Proposal 2: Business Turnaround Grant

The development of a specialised grant, aimed at subsidising the costs associated with developing recovery or restructuring plans, including professional fees.

### **Mechanism:**

- Certified professionals would be engaged to assess the financial situation of distressed businesses and formulate comprehensive turnaround strategies tailored to the business's specific needs.
- The grant would provide financial support to cover various expenses involved in these processes, namely, the costs related to the development of viable comprehensive recovery or restructuring plans, ensuring they are tailored to the specific needs of the organisation or project.
- The grant would also be extended to cover professional fees, providing funding to engage qualified experts who can offer essential expertise and assist in the effective implementation of the recovery or restructuring plans, ensuring their success and sustainability.

#### Outcomes:

- **Customised Recovery Strategies:** Certified professionals will assess and formulate tailored turnaround plans, addressing specific business needs effectively.
- **Financial Relief:** Subsidised costs for professional guidance will alleviate financial strain on businesses, enabling focused investment in recovery efforts.
- **Enhanced Business Viability:** Implemented strategies will improve operational efficiency and sustainability, fostering resilience against future economic challenges.
- **Job Preservation:** By stabilising distressed businesses, the grant will safeguard existing jobs and support community stability.
- **Economic Stimulus:** Successful business recovery will stimulate economic activity, contributing to local economic growth and confidence.

### [Proposal 3: Business Turnaround Finance](#)

The development of a specialised fund tailored specifically for businesses facing financial distress in order to turnaround their business

#### Mechanism:

- With the involvement of professionals who are to present and sign off a viable Business Recovery / Restructuring Plan and who should remain involved, accountable and

committed to its implementation and who will be bound to report to the body issuing the assistance. The professional would also be able to declare if the business has a chance of recovering.

- This financing mechanism would enable eligible businesses to access the capital necessary for recovery efforts, including restructuring and diversification initiatives.
- Typically, businesses in distress exhibit weakened financial metrics such as losses, increased creditors, and liquidity constraints, rendering them unattractive to traditional lenders.
- Additionally, based on the outcome of the business recovery plan, by offering specific turnaround finance, the lending authority can fill this financing gap and provide a lifeline to businesses striving to overcome economic challenges.
- The financing terms and conditions would be designed to accommodate the unique circumstances of distressed businesses, including flexible repayment structures and reasonable interest rates.
- The fund could possibly be administered by the Malta Development Bank (MDB), Malta Enterprise, or any other suitable authority.

#### Outcomes:

- **Revitalisation of Distressed Businesses:** By providing necessary capital, the fund will enable businesses to implement recovery strategies, such as restructuring operations, optimising costs, and exploring new revenue streams, thus aiding in their return to profitability and long-term sustainability.
- **Job Preservation:** By supporting businesses in distress, the fund will help preserve existing jobs that might otherwise be lost, maintaining employment levels and contributing to economic stability.
- **Enhanced Economic Activity:** The revitalisation of distressed businesses will lead to increased economic activity, contributing to GDP growth and stimulating broader economic benefits for the community.
- **Strengthened Financial Metrics:** With access to turnaround finance, businesses will be able to improve their financial health by addressing liquidity constraints, reducing creditor pressure, and stabilising their balance sheets.
- **Restored Creditworthiness:** As businesses recover and strengthen their financial positions, their creditworthiness will improve, making them more attractive to traditional lenders in the future.

- **Catalyst for Further Investment:** The successful turnaround of distressed businesses can act as a catalyst for further investment from both domestic and international investors, enhancing confidence in the Maltese business ecosystem.
- **Promotion of Entrepreneurial Resilience:** The availability of turnaround finance will encourage a culture of resilience and perseverance among entrepreneurs, reinforcing the notion that temporary financial difficulties can be overcome with the right support and resources.
- **Local Early Warning Mechanism:** A good number of EU Countries have successfully set up an Early Warning Mechanism structure that provides SMEs with unparalleled support and effectively a second chance. SMEs in such countries have the advantage of having this extra layer of safety net, which system had also done a lot to improve the stigma associated with business failures.

## Initiative: Taxation Arrears Financing

### Context:

Businesses experiencing financial distress often face challenges in meeting their tax obligations, leading to mounting arrears, interest and penalties. On the other hand, retail banks typically refrain from extending financing to address tax liabilities, exacerbating the financial plight of these businesses. It is important to clarify that this initiative is in no way intended to suggest that tax dues should go unpaid, but rather delegate the financing mechanism aspect of tax arrears to entities having more knowledge and expertise to take risk based decisions.

### [Proposal 4: Taxation Arrears Financing Program](#)

The establishment of a Tax Arrears Financing Program, wherein the Malta Development Bank would provide financing to distressed businesses to settle outstanding tax dues, instead of having MTCA handling the repayment agreements without having the financial expertise to handle this process in the most efficient and effective manner.

### Mechanism:

- The MDB's strategic objective is to offer financing facilities that support productive and viable operations where the market is unable or unwilling to fill in this gap, in whole or

part. This makes it very well placed to offer financial assistance to businesses who are struggling to repay their tax arrears.

- By assuming responsibility for the repayment process, the MDB would relieve businesses of immediate financial pressure and facilitate their compliance with tax obligations. Additionally, the MDB could negotiate favourable repayment terms with tax authorities on behalf of the business, easing their financial burden and promoting sustainable recovery.
- Through this mechanism, the tax authorities will cease direct negotiations and repayment agreements with businesses. Instead, this process will be taken over by the MDB against a service fee.
- To incentivise the MDB's involvement, a fee structure could be established wherein the authorities compensate the MDB for assuming the debt and managing the repayment process on their behalf.
- The MDB should structure the repayment plans in a way to minimise its exposure to risk. This could include requesting guarantees from borrowers, and to present a viable business plan to ensure their ability to meet repayment obligations.
- To ensure a viable repayment plan, we recommend engaging professionals to develop, present and take responsibility for a comprehensive turnaround plan and financial projections. This approach will help ensure the business is well-positioned to repay its debts to the MDB.
- This mechanism can possibly allow private and retail banks to offer financing solutions for settling tax dues, with support from the Malta Development Bank (MDB) in the form of guarantees and subsidized interest rates.

#### Outcomes:

- **Immediate Financial Relief:** Businesses will receive immediate financial relief from financial distress by accessing financing to settle outstanding tax arrears, avoiding further penalties and potential legal action.
- **Enhanced Business Sustainability:** The program will support business sustainability by promoting timely tax compliance and reducing financial instability, enabling businesses to focus on long-term growth strategies and avoid their position deteriorating
- **Negotiated Repayment Terms:** The MDB's involvement allows for negotiated repayment terms with tax authorities, potentially reducing interest charges and penalties, and easing the financial burden on businesses.

- **Stimulated Economic Recovery:** By stabilising financially distressed businesses, the program will contribute to broader economic recovery, preserving jobs, and maintaining economic activity within local communities.
- **Improved Tax Collections:** With the involvement of the MDB, tax authorities will benefit from more efficient and professional handling of repayment agreements that is expected to enhance the effectiveness of tax collection efforts. Furthermore, this would allow the tax authorities to redeploy resources to focus on tasks and initiatives that can give a better return.

## Initiative: Supporting Lower Income Earners & Employers

### Context:

Whilst the Cost-of-Living Adjustment (COLA) mechanism was a very important step which still gives returns to this day, over the past decade, it has become increasingly evident that certain elements need updating in order to better serve both employers and employees. Recognising the need for reform, we propose a mature discussion to take place between social partners that would lead to a comprehensive review of the COLA mechanism to address the experienced shortcomings and ensure that it serves its intended purpose in providing equitable compensation for workers and achieving social justice.

### [Proposal 5: Discussion for a COLA Mechanism Reform](#)

**Discussion aimed towards reforming the COLA mechanism to provide a more accurate and consistent reflection of the increase in cost of living, better support lower-income earners while alleviating the financial burden on employers.**

### Mechanism:

Given the discrepancies observed in the past ten years, it is imperative to re-evaluate the methodology used to calculate COLA and make necessary adjustments to ensure a more accurate reflection of inflation rates. The revision process should involve comprehensive

analysis and an exercise aimed at reaching a social agreement between social partners and engages the relevant stakeholders. The following considerations can provide the basis to kick off the plans:

### 1. Reform the COLA Mechanism:

- The Cost of Living Allowance (COLA) mechanism in Malta has been a pivotal tool for adjusting wages in response to inflation. However, it has been in place for several years without significant updates, and there is growing evidence that it is becoming more difficult for the mechanism to adequately address the needs of various social classes. Therefore, a comprehensive reform of the COLA mechanism is essential.
- To ensure the Cost of Living Allowance (COLA) mechanism is accurately reflecting current economic conditions, it is essential to engage field experts to conduct a comprehensive analysis of the existing system, assessing its effectiveness and identifying any disparities or inaccuracies in its adjustment to living costs.

### 2. Income-based COLA considerations:

- Consideration should be given to varying the current compensation system to levitating it towards more of a means tested system that would better address societal needs.
- Following on the above-mentioned point, the system could be even more aggressive in certain respects and compensate lower income earners with a higher COLA percentage, ensuring that those most vulnerable to inflationary pressures receive adequate compensation to maintain their purchasing power.
- Beyond a certain income threshold, COLA does not significantly affect individuals' spending power or quality of life. Therefore, high-income earners (Euro 60K +) should contribute to alleviating this burden by receiving a reduced or no COLA adjustment.

### 3. Distributed COLA Burden

- Recognising that inflation is a national and international issue not solely attributable to employers, we advocate for distributing the burden of COLA across all businesses, rather than solely on those employing workers.
- Introducing the concept of a COLA fund, funded by contributions from businesses as a percentage of their annual revenues, would enable a fairer distribution of the cost burden. This would include all registered enterprises, including foreign-owned and holding companies. Once spread across a wider spectrum, businesses would have to pay a relatively small contribution.

- Employers contributing to the COLA fund would be eligible to claim a refund, subsidy, grant, or tax credit equivalent to a predetermined percentage of the COLA costs they would have incurred. This mechanism would alleviate the financial strain on employers while ensuring that low income workers receive adequate compensation for inflation.

#### Outcomes:

- **Social Progress:** Addressing the long overdue calls to initiate a process that would revisit the COLA system to become up to date with today's realities.
- **Fair COLA Adjustments:** Improved accuracy and fairness in COLA adjustments, ensuring workers receive adequate compensation to offset the impact of inflation on their living expenses.
- **Supporting Lower-Income Earners:** Enhanced social justice by prioritising assistance to lower-income earners who are most vulnerable to inflationary pressures.
- **Relieved Financial Strain:** Reduction of financial burdens on businesses by distributing COLA costs more equitably across the economy and providing mechanisms for reimbursement or relief.
- **Promoting Stability:** Strengthened confidence and trust in the COLA mechanism, fostering a more stable and harmonious labour environment conducive to sustainable economic growth.

## [Proposal 6: Tax Deductibility of National Insurance Contributions and Extension of Tax Brackets for Self-Employed Individuals](#)

#### Context:

Under the current system, the maximum rates of national insurance (NI) contributions are capped at an income level of €26,831. Consequently, a self-employed individual earning €26,831 pays the same NI contribution as someone earning €100,000. Maximum tax and NI rates are triggered at an earnings level that is too low, especially when one considers the significant increase in the cost of living. Furthermore, self-employed individuals cannot deduct their annual NI contributions as an expense in their profit and loss accounts.

To alleviate the financial burden on self-employed individuals, we propose making national insurance contributions tax deductible, thereby reducing their overall tax liabilities and further incentivising entrepreneurship and job creation.



In terms of income tax, the rates applied to lower-income brackets are disproportionately high, placing an undue burden on individuals with lower earnings. We propose revisiting the personal income tax structure to extend the tax brackets and adjust the percentages paid, thereby creating a more equitable system that reduces the tax burden on lower-income earners and aligns contributions more closely with actual earnings.

**Mechanism:**

- Self-employed individuals are allowed to enter their annual NI contributions paid as a tax-deductible cost in their profit and loss account.
- In connection with the proposed COLA reform, the government should also help employers and employees by reducing the personal tax rates through an extension of the current personal income tax brackets.

## Proposal 7: Extending Tax In Danger Limits

Extending the “Tax in Danger” limits to encompass various investment activities beyond traditional brick and mortar works and lowering the threshold from €70,000 to €50,000.

### Initiative: Alleviating Financial Burdens on Businesses

**Context:**

One effective way to incentivise investment in the current economic landscape is through tax policies that alleviate financial burdens and bureaucracies on businesses. One such policy is the Tax in Danger provision, which provides exemptions on VAT charges for certain investment-related expenses, typically in the construction of immovable property.

Currently, there isn't a law stipulating the threshold and conditions for one to apply and be eligible for the Tax in Danger provision, and the granting of such provision is completely at the discretion of the MTCA.

This provision empowers the Commissioner with the authority to issue a written notice to both parties involved in a supply contract under specific conditions. These conditions include the contract's value being more than €70,000 and the customer having the right

to deduct input VAT. When the commissioner issues this notice, it essentially means that the person receiving the supply is treated as if they supplied it to themselves. This means that instead of the supplier charging VAT on the supplies mentioned in the contract, the customer receiving the supplies needs to add VAT, essentially self-charging VAT. At the same time, they can deduct this VAT they've added as input VAT. In simpler terms, this provision essentially allows for an exemption of VAT on such transactions, whereby the supplier does not charge VAT. This does not represent any loss of tax revenue for the tax authorities, since the VAT that would have been charged would have been claimed back by the customer just the same.

This provision helps the customer in better cash flow management, thereby incentivising investments. However, there is a significant limitation to the current application of Tax in Danger limits. As an example, this exemption does not apply to the purchasing of furniture. This highlights the need to broaden the scope of this policy and standardise its requirements and eligibility criteria. The proposal aims to extend the Tax in Danger limits to encompass a wider range of investment activities and possibly lower the threshold to make it more accessible to businesses.

#### **Mechanism:**

This expansion would allow businesses to benefit from VAT exemptions on expenses related to investments in furniture purchasing and other eligible areas, lowering the threshold to ensure that more businesses can avail themselves of this incentive.

Businesses seeking to benefit from VAT exemptions would be required to maintain clean compliance records, thus incentivizing adherence to tax regulations and improving overall compliance rates.

#### **Outcomes:**

- **Stimulated Investment:** By incentivising investment in various sectors, businesses will be encouraged to expand their operations and contribute to economic growth.
- **Improved Cash Flow:** VAT exemptions on investment-related expenses will alleviate financial burdens on businesses, improving cash flow and enabling them to pursue growth opportunities.
- **Enhanced Compliance:** Linking eligibility for the Tax in Danger provision with compliance certification will incentivise businesses to adhere to tax regulations, leading to improved compliance rates and a more transparent business environment.

- **Precedent for Future Policies:** The proposed expansion of Tax in Danger limits sets a precedent for future policies aimed at promoting domestic investment and economic development. It lays the groundwork for broader concepts such as VAT domestic recharge, paving the way for further economic stimulus measures.

## Proposal 8: VAT Domestic Reverse Charge

### Initiative: Introducing a VAT Domestic Reverse Charge

#### **Context:**

The current VAT system requires businesses to pay VAT on purchases and then reclaim it later, creating cash flow challenges and administrative burdens. This conventional approach can hinder business operations, particularly for small and medium-sized enterprises (SMEs), and often results in delays and complexities for both businesses and tax authorities. Additionally, maintaining compliance and embracing digitalisation remain significant challenges within the VAT system.

This presents an opportunity to introduce a VAT reverse charge mechanism which would alleviate cashflow pressures, reduce administrative complexities, and streamline the VAT process for businesses, facilitating greater compliance and encouraging digitalisation within the VAT system, without impacting the government's revenues.

#### **Mechanism:**

Similar to existing practice in transactions with suppliers from other EU countries, a domestic reverse charge mechanism could be introduced for B2B transactions among local VAT registered entities, resulting in no VAT being charged and subsequently no VAT being claimed.

Taxpayers could also be required to adopt an e-invoicing system to make use of this mechanism. This not only aligns with modern business practices but also lays the groundwork for the eventual transition to mandatory e-invoicing, as issued in the European Commission's 2022/0407 (CNS) Directive, that lays out a series of measures to modernise the EU's VAT system by January 2028.

This mechanism can significantly help businesses manage their cashflow more effectively without impacting government revenues.

#### Outcomes:

- **Enhanced Cash Flow:** This mechanism offers a cash flow advantage and reduces cash handling burdens for businesses, while maintaining cash neutrality for tax authorities.
- **Streamlined Processes and Simplification:** Simplified administrative procedures for both businesses and tax authorities, leading to increased operational efficiencies and significant cost savings for all stakeholders.
- **Promotes Compliance:** Eligibility to making use of this system could be contingent upon maintaining a clean compliance record. This incentivises adherence to tax regulations and automatically enhances tax collection by the Tax Authorities.
- **Modernisation of Businesses:** It encourages businesses to embrace digital technologies, leading to a broader digital transformation across the economy and increased productivity.
- **Cost Savings for Tax Authorities:** With reduced administrative burdens and improved compliance, tax authorities can allocate resources more efficiently, leading to cost savings in tax enforcement and compliance activities.
- **Stimulated Investment and Economic Growth:** With a simplified and more transparent tax system, businesses are more likely to invest in expansion, innovation and job creation, contributing to overall economic growth and prosperity.

## [Proposal 9: Strengthening the Grid Connection](#)

### Initiative: Making more projects economically viable

**Context:** 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. The power outages in 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.

- Pro-Rata Cost Structure for grid connections: It is imperative to 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 fairness in grid connection costs and reduce the financial burden on project developers. This should establish uniform guidelines for grid connection costs and eliminate discrepancies and unpredictability in project expenses, which over the years have deterred many investments in renewable energy.
- 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.

## Proposal 10: Commercial renewable energy schemes

### Initiative: Incentivising investment in large scale energy storage

**Context:** The Current domestic battery scheme is a resounding success. At a more strategic level, the Maltese Government should prioritise commercial and industrial scale energy storage systems for grid stability and energy security. These can be complementary installations to the clean energy generation, and would encompass energy storage units and electric vehicle charging stations in designated regions.

Energy storage schemes: A scheme similar to the domestic one is being recommended to incentivise industrial investments in energy storage as a means to strengthen the grid, act as back-ups in cases of outages and as an alternative to the temporary diesel generators which have recently been installed across the islands. Similar to the generator funding structure, the additional grid infrastructure funding required for these projects should be mainly undertaken by Enemalta, thereby facilitating private sector investments in project generation.

## Proposal 11: Good governance in Public Procurement

### Initiative: Creating a fairer and transparent system

**Context:** 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 prechosen, pre-advised and have tenders tailored to their specifications

#### Public Procurement fairness:

Public Procurement Ombudsman 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.

Issue a percentage amount of tenders for all governmental entities that would need to be adjudicated following the MEAT system.

Remove tender financial requirement. 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.

Should include a focus on safeguarding basic employment rules.

Using smaller lots for tenders for smaller investors. Incentivising and rewarding green initiatives by bidders to promote environmentally friendly products and services

# Pillar 3: Self-Employed and Micro-Enterprises

## Initiative: Assistance for the Self-Employed, Micro and Small Businesses

### Context:

The self-employed, micro and small businesses constitute a significant portion of the Maltese economy, with more than 98% of businesses falling into this category. These enterprises play a vital role in driving economic growth, creating employment opportunities, and fostering innovation. However, they often face unique challenges and require tailored support to thrive. Recognising the importance of self-employed, micro and small businesses, we propose a series of targeted initiatives aimed at addressing their specific needs and empowering them to succeed in the competitive business landscape.

### [Proposal 12: Establishment of a Parliamentary Secretary for Self-Employed and Micro-Businesses](#)

### Context:

At present, the specific needs and challenges of Self-Employed individuals and Micro-Businesses are often under-represented in the current parliamentary framework, leading to a lack of tailored policies and support. Through its vast experience in representing SMEs and specifically specialising in the representation of the smallest business units – self-employed, micro and small businesses, the SME Chamber is sensitive to the fact that SMEs are a very important area of focus, yet the role of the self-employed and micro enterprises is significantly undermined. The while all-encompassing, is far from homogeneous and the smaller the business unit, the higher level of support that is necessary.

To address this gap, we propose the creation of a dedicated Parliamentary Secretary for Self-Employed and Micro-Businesses. This position would ensure that the unique concerns and interests of self-employed individuals and micro-enterprises are effectively

represented within Parliament, ensuring their voices are heard and their needs are addressed at the highest level of policymaking. This role would facilitate the development of targeted policies and initiatives that support the growth and sustainability of these vital economic contributors.

**Mechanism:**

- A dedicated Parliamentary Secretary position tasked with overseeing policies and initiatives aimed at supporting the self-employed and micro-enterprises.
- This dedicated role would ensure that the unique needs and concerns of self-employed and micro-businesses are effectively represented at the policymaking level and receive the attention they deserve.

### [Proposal 13: Enhanced Grants for Self-Employed and Micro-Enterprises](#)

**Context:**

- Micro-enterprises often lack the resources to invest in employee training and development programs. To address this challenge, we propose making training grants more attractive and accessible to self-employed and micro-businesses.

**Mechanism:**

- This could involve increasing the funding allocation for training grants specifically earmarked for self-employed and micro-enterprises, as well as streamlining the application process to reduce administrative burdens.

### [Proposal 14: Expansion of MicroInvest Threshold](#)

**Context:**

The MicroInvest scheme provides valuable financial support to micro-enterprises for investments in equipment, technology, and other essential assets. To better cater to the needs of micro-businesses, we recommend a number of adjustments.



### Mechanism:

- Increasing the MicroInvest aid intensity from 45% to 65% for micro-enterprises, whilst for small enterprises the threshold for the maximum credit to be claimed would be increased from €50,000 to €70,000.
- The scheme will remain subject to presenting a clean compliance certificate.
- This expansion would enable micro and small businesses to access greater financial assistance for investment projects, thereby enhancing their competitiveness and growth prospects.

## Proposal 15: Coaching Grants for Self-Employed and Micro-Businesses

### Mechanism:

- The Self-Employed and Micro-businesses often lack the internal resources and expertise to implement strategic initiatives and business development strategies. To address this gap, we propose introducing coaching grants that would allow micro-enterprises to tap into external resources and expertise.
- These grants would enable micro-businesses to access coaching and mentoring services, helping them develop sustainable growth strategies, improve operational efficiency, and navigate challenges effectively.

### Outcomes

- **Skilled Workforce Development:** Micro-Enterprises will benefit from a better skilled workforce, where employees will have access to continuous development opportunities, enabling them to remain competitive and innovative in the market.
- **Streamlined Application Processes:** This will reduce time and effort spent on accessing training grants, allowing businesses to focus more on core operations.
- **Dedicated Advocacy and Representation:** The establishment of a Parliamentary Secretary for Micro-Businesses will ensure that the unique needs and challenges of micro-enterprises are effectively represented and addressed at the policy-making level, leading to more tailored and effective support programs.

- **Financial Relief Through Tax Benefits:** Making national insurance contributions tax deductible and introducing tax credits will alleviate the financial burden on micro-businesses, enhancing their cash flow and enabling further investment in growth and job creation.
- **Expanded Financial Support:** By increasing the MicroInvest aid intensity and thresholds, micro-enterprises will have greater access to financial assistance for essential investments, boosting their competitiveness and capacity for growth.
- **Strategic Growth and Efficiency:** The introduction of coaching grants will provide micro-businesses with access to external expertise and resources, helping them develop sustainable growth strategies, improve operational efficiency, and navigate business challenges more effectively

## Proposal 16: Export Guarantee Scheme

The SME Chamber believes that in order to incentivise exports, an export guarantee scheme can play an important role in this. Exports play a vital role in international trade, and the associated macroeconomic risks and benefits are frequently examined and debated. In today's global economy, promoting exports is crucial because of their significant influence on domestic production and economic stability. Additionally, it is essential for economic growth indicators and income distribution in a nation to be closely linked with export growth. Amidst the ongoing global economic crisis and its repercussions, export promotion has emerged as a critical tool for fostering worldwide economic progress.

Export support mechanisms are increasingly becoming instrumental in promoting global economic development. One such tool, the export credit guarantee, is a relatively new instrument that offers exporters numerous advantages by mitigating the risks of entering foreign markets. In recent years, export credit guarantees have gained popularity as a means of promoting exports, with studies underscoring their importance in supporting small and medium-sized enterprises (SMEs). These guarantees ensure reimbursement for unpaid invoices, enabling firms to better manage their credit.

This approach would empower Malta to expand its export of goods and services by minimizing the risks involved in exporting. Furthermore, it would establish a framework

for other entities, such as insurance companies, banks, and investment funds, to participate in financing export credit, thereby earning revenue through the provision of guarantees for Maltese exports. An export guarantee scheme was touted as part of the COVID 19 response but was never implemented.

# Pillar 4: Anticipating the Future of Work

## Initiative: Digitalisation and its impact on the Future of Work

### Context:

As digitalisation continues to transform various sectors, it presents both significant opportunities and challenges for the future of work. To navigate this evolving landscape and ensure that Malta remains competitive, it is crucial to adapt our systems and processes to embrace technological advancements. This includes investing in digital infrastructure, fostering a culture of continuous learning, and updating educational curricula to focus on digital skills and competencies. Embracing digital transformation can drive productivity, create new job opportunities, and enable businesses to innovate. However, it also necessitates proactive measures to address potential job displacement and ensure that the workforce is equipped with the skills needed for the jobs of the future. By prioritising digital literacy and supporting workers through reskilling and upskilling initiatives, Malta can build a resilient and adaptable economy that thrives in the digital age.

One key initiative is the introduction of "Making Tax Digital" (MTD) in Malta, which would modernise our tax administration by integrating digital solutions to streamline tax reporting and compliance.

Additionally, financial incentives such as grants, tax credits, and low-interest loans should be introduced to encourage businesses to invest in digital tools and technologies. This would serve to set the basis on which a MTD project can be implemented in the years to come.

### [Proposal 17: Taskforce Dedicated to Devising a Vision for the Future of Work](#)

### Context:

The impact of digitalization on the world of work is both immediate and evolving, presenting challenges and opportunities that will persist into the foreseeable future. While the significance of these changes is recognised in various policies, there seems to

be a lack of alignment and involvement of the various stakeholder representatives. To address this gap, it is crucial to establish a taskforce comprising all relevant stakeholders, including social partners.

### **Mechanism:**

This taskforce would be tasked with developing a bipartisan vision for the future of work, ensuring that all perspectives are considered, and that comprehensive, forward-looking solutions are crafted to navigate the complexities of digital transformation effectively.

### **Outcomes:**

- **Comprehensive Strategy Development:** The taskforce will produce a well-rounded and actionable strategy that outlines how to effectively manage and adapt to the changes brought about by digitalization. This strategy will include recommendations for policies and practices to support businesses and workers during the transition.
- **Improved Support Systems:** The taskforce will identify and propose new support systems, such as training programs and digital literacy initiatives, aimed at equipping workers and businesses with the skills and tools necessary to thrive in a digitally-driven economy.
- **Strengthened Collaboration:** Through its inclusive approach, the taskforce will foster stronger collaboration between government bodies, industry leaders, and social partners. This collaborative effort will facilitate the sharing of best practices and resources, leading to more effective and cohesive implementation of digitalisation strategies.
- **Informed Decision-Making:** The taskforce's findings and recommendations will provide valuable insights for policymakers, enabling informed decision-making that balances the needs of businesses, workers, and the broader economy. This will help to create a more resilient and adaptable workforce, capable of navigating the ongoing disruptions caused by digitalisation.
- **Anticipating Change:** By being proactive and anticipating change, we can make this an opportunity for our nation to lead the way. This could also serve as an opportunity to transition away from the current economic model that is proving to be unsustainable.

## [Proposal 18: Introducing Making Tax Digital in Malta](#)

## Context:

Making Tax Digital (MTD) is a UK government initiative designed to simplify tax administration by making it more effective, efficient, and easier for taxpayers to get their tax right. The primary aim of MTD is to modernise the tax system, helping individuals and businesses to maintain accurate records and submit timely, accurate tax returns.

Malta should consider adopting similar measures, laying the groundwork for a future implementation of Making Tax Digital. By doing so, Malta can ensure its tax system remains modern, user-friendly, and capable of meeting the demands of the digital economy, thereby enhancing compliance, reducing administrative burdens, and improving overall tax governance.

## Mechanism:

To successfully execute the above proposal, Malta needs to implement a comprehensive and coordinated approach. This includes developing a robust digital infrastructure to support seamless online tax submissions and real-time data exchange between businesses and the tax authorities. The government should also launch extensive awareness and training programs to ensure that businesses, particularly SMEs, understand the benefits and requirements of MTD and are equipped to transition smoothly.

## Outcomes:

- **Enhanced Tax Compliance and Efficiency:** Improved accuracy and timeliness in tax submissions, reducing errors and administrative burdens for both businesses and tax authorities.
- **Streamlined Government Services:** Improved interaction between businesses and government through digital platforms, enhancing service delivery and reducing processing times.
- **Data-Driven Policymaking:** Enhanced data collection and analysis capabilities, enabling more informed and effective decision-making by policymakers.
- **Faster Refunds:** Automated processes enable quicker processing of tax refunds, benefiting businesses and individuals by improving cash flow and financial stability.
- **Facilitates Innovation:** Adopting digital tax solutions paves the way for further innovations in financial technology and reporting, keeping Malta at the forefront of global trends in digital transformation.

## Proposal 19: Incentivising Business Digitalisation

### **Context:**

Incentives for business digitalisation are vital for Malta as they align with the country's national priorities of fostering innovation, enhancing competitiveness, and ensuring sustainable economic growth. The Maltese government's strategic vision, outlined in documents such as Digital Malta 2022 – 2027 Strategy and the National eSkills Strategy 2022-2025, emphasises the importance of digital transformation in driving economic development.

Current schemes have proven effective and the formula of a more streamlined approached which is also less bureaucratic has worked well. The digitalisation scheme for Micro Businesses is an example to continue building on by creating a wider scheme for micro and small businesses to go beyond the very basic but still limit the bureaucracy and intensity of the investment into an accessible one.

### **Mechanism:**

- To enhance the support available for smaller businesses undertaking digitalisation, we propose introducing a more attractive and wholistic digitalisation scheme. This scheme would extend the current grant allocation to €40,000 over 3 years, distributed across three distinct phases to align with the key stages of digital transformation:
  - **Analyse (€5,000):** This phase involves assessing current processes and identifying opportunities for digital improvement.
  - **Digitise (€30,000):** This phase focuses on implementing digital solutions, including technology adoption, system upgrades, customisations and subscriptions.
  - **Educate (€5,000):** This phase supports training and skill development to ensure effective use of new digital tools and technologies.
- To ensure the success and sustainability of the digitalisation project, the grant would support the implementation process over a period of 2-3 years, providing ample time for planning, execution, and adjustment.

### Outcomes:

- **Digital Advancement:** The scheme would help the enterprise move beyond its own knowledge and capabilities and advance through support by professionals which will help it advance its digital position.
- **Increased Adoption of Digital Technologies:** Higher uptake of digital tools and software among businesses, leading to greater efficiency, productivity, and innovation across various sectors.
- **Strengthened Competitiveness of SMEs:** Small and medium-sized enterprises (SMEs) equipped with modern digital capabilities, enabling them to compete more effectively in the global market.
- **Economic Resilience and Adaptability:** Businesses better able to adapt to market changes and external shocks, such as economic downturns or pandemics, through enhanced digital capabilities.
- **Creation of a Digital Business Ecosystem:** Development of a supportive ecosystem that fosters innovation, attracts investment, and positions Malta as a leading hub for technology and business digitalisation.

## Proposal 20: Grants to Attend International Conferences

### Context:

At present, there is a significant lack of funding available for self-employed individuals, micro, and SMEs to attend international conferences unless they are participating as exhibitors. However, attending conferences, which are mainly content driven as opposed to trade driven, holds substantial value as it fosters the exchange of ideas, promotes innovative thinking, and provides insights into global industry trends amid the digital revolution. This exposure is crucial for local businesses as it enables them to gain valuable international perspectives, network with global peers, and prepare more effectively for the future of work, ensuring Malta's business community remains competitive and well-informed in the global market.

### Mechanism:

- A series of grants should be made available to self-employed, micro and SMEs, with a straightforward application process and requesting details on how the conference will benefit their business and contribute to their industry. Malta Enterprise would be ideally placed to administer such a grant.



## Outcomes:

- **Enhanced Innovation and Competitiveness:** Exposure to global best practices, new technologies, and emerging trends will empower these businesses to implement innovative solutions, thereby enhancing their competitiveness in both local and international markets.
- **Improved Business Growth and Development:** Attending international conferences provides businesses with opportunities for growth through networking, partnerships, and potential collaborations, leading to new business ventures, expansion opportunities, and increased market reach.
- **Economic Impact and Job Creation:** As small businesses grow and innovate, the broader economy stands to benefit. Successful implementation of new ideas and expansion can lead to job creation and increased economic activity. This positive economic impact will contribute to Malta's overall economic resilience and sustainability.

**Strengthened International Presence:** By participating in international conferences, Maltese businesses can establish and strengthen their presence on the global stage. This visibility can attract foreign investments, create export opportunities, and enhance the reputation of Malta as a hub for innovation and business excellence.