THE MALTA CHAMBER OF COMMERCE, ENTERPRISE AND INDUSTRY

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PRESS RELEASE

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Property tax to have an adverse effect on market

The Malta Chamber of Commerce, Enterprise and Industry strongly disagrees with the new Property Tax announced by Government in the Budget for 2015. The Malta Chamber believes the new tax regime will have an adverse effect on the property market which has been recently showing signs of recovery, after a period of sluggish growth.

The Malta Chamber maintains that the proposed tax will have a negative impact on large projects currently being undertaken and which are destined to increase the quality of residential properties in Malta. Most of these projects have been financed through public bonds which bondholders have acquired on the basis of financials and projections which were based on the current tax rules. The proposed change in property tax rules is likely to affect the "legitimate expectations" of investors and bondholders who would have acquired their bonds under a different premise.

The Malta Chamber also notes that the proposed tax provides opportunity for abuse as it removes the incentive for buyers to declare the true value of the property. The proposed property tax incentivises vendors to under-declare the value of their property sales since the property tax amount paid would be lower and there would be no impact on a prospective purchaser as far as tax is concerned should the owner decide to resell the property.

The Malta Chamber also warns that the new tax regime, as proposed, encourages developers not to request fiscal receipts related to costs. This will result in lower tax income for the Government. Apart from not collecting VAT, Government also risks tax leakages from the sale of property and reduced tax revenues from the suppliers who will not declare the revenues from the transactions on which VAT was evaded.

If Government wants to be in a position to be able to "safely" project its revenues from tax on property, then the Malta Chamber proposes it should simply reduce the rate at which provisional tax is payable. Alternatively Government should consider replacing the new proposed tax with a Final Withholding Tax which will be paid on the Final Deed of Sale.

The Malta Chamber wholeheartedly supports the points raised by the Federation of Estate Agents in the media that the tax will have to be paid even in cases when the property will be sold at a loss. Though not the norm, these cases are not rare. The principle of charging a tax on a loss is not acceptable.

The proposed tax regime also appears to fall outside the ambit of double-taxation agreements, as it is defined as a sales or transaction tax, and would not therefore qualify for credit or relief under such agreements. This will lead to tax being paid twice in two different countries as the case may be, for the same sale.

The Malta Chamber urges Government to reconsider its position on the announced Property tax, in light of the points raised by the Malta Chamber.