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Tax harmonisation prospects alarm Maltese businesses

Commission reiterates benefits for all EU member states

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Business leaders in Malta are at odds with the European Commission's push to reform tax legislation, despite what some in Malta see as the lack of clarity on the "exact effect and magnitude" such changes would imply.

Perit David Xuereb, President of the Malta Chamber of Commerce, Industry and Enterprise, reiterated the entity's position in favour of Malta's fundamental right to defend its taxation regime, stating that while it is a strong believer in the European project, it believes a "one-size-fits-all principle cannot be applied."

> *"The EU formula for the distribution of taxes among member states, derived from a multinational company's global taxes, does not favour smaller markets." – Simon de Cesare, President, Malta Business Bureau (MBB)*

Echoing the views already put forward by Malta's MEPs, Perit Xuereb said that Malta's fiscal policy was not "simply a way of collecting revenue" but a tool to attract investment, stimulate growth and overcome its disadvantages of smallness and peripherality. He underlined the need for Malta to be "more positive and decisive in arguing for our cause" when it comes fiscal policies, adding that the entity was prepared to "mobilise its expert members" in the face of growing international pressure.

Malta Business Bureau (MBB) President Simon de Cesare concurred, stating that Maltese business is against EU tax harmonisation "because this erodes fiscal competitiveness" for smaller and peripheral countries, and works against Malta's interests. He expressed the belief that the Commission proposal removes flexibility, while restricting intra-EU competition and creat-

Continued on page 3

INTERVIEW

Malta Business Bureau CEO Joe Tanti believes small EU member states can play an active role in the EU's legislative process and maximise on EU funding opportunities to the benefit of business.

see pages 5, 6 >

ANALYSIS

The number of new hotel beds in Malta could reach up to 20,000 in the next two to three years, creating unnecessary challenges for the local tourism industry, according to the MHRA.

see page 9 >

NEWS

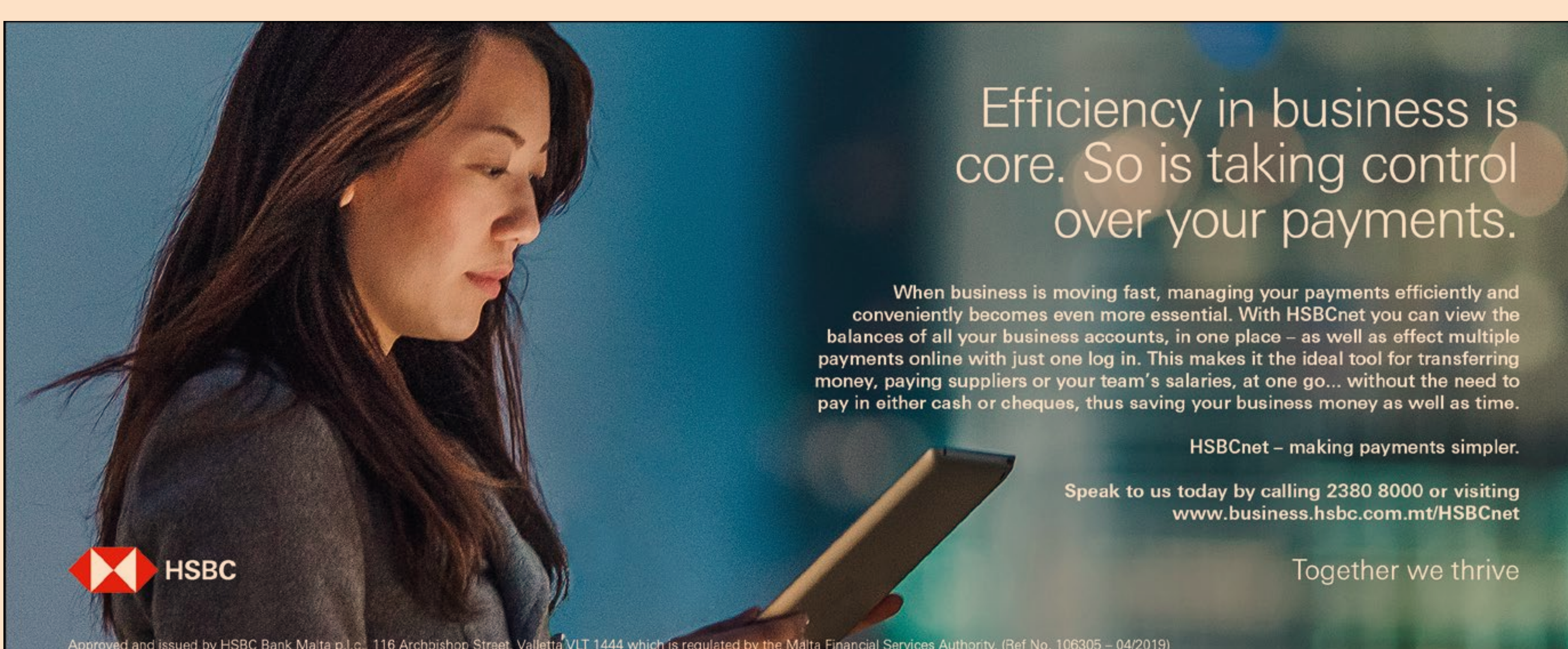
The current labour skills shortage and the increasing amount of competition for employees is leading to the increasingly-frequent adoption of flexible hours.

see page 13 >

STOCK MARKET REVIEW

Earnings reporting season is a very important period for the local investing community as it provides indications of the immediate outlook and financial prospects.

see pages 25, 26 >



NEWS

Substantial opposition to decision-making reform in the arena of EU taxation policy

"It would eliminate the mismatches and loopholes between national tax systems, which companies can currently exploit, while easing the administrative burden and cost on companies operating in the EU." – Spokesperson, European Commission

Continued from page 1

ing a disadvantage when competing with non-EU tax regimes in the global economy.

"The EU formula for the distribution of taxes among member states, derived from a multinational company's global taxes, does not favour smaller markets," Mr de Cesare stated.

He said that Malta can expect to lose out if tax systems are harmonised across all member states, since it would be less able to "attract foreign companies to set up a physical presence here."

Yet, in comments to this newspaper, a European Commission official highlighted the benefits of a "pooled sovereignty" when meeting the challenges of the global capitalist system, in which multinational companies have taken advantage of the rules, to the detriment of the European pocket. "When certain business activities threaten member state revenues, it is only logical that swift, decisive and timely action be taken – together," the official underlined, while noting that the Common Consolidated Corporate Tax Base (CCCTB) meets two key objectives of the Juncker Commission, namely fighting tax avoidance and boosting jobs and growth.

"It would eliminate the mismatches and loopholes between national tax systems, which companies can currently exploit, while easing the administrative burden and cost on companies operating in the EU. It would create more transparency around each member state's tax system and effective rates. This means fairer tax competition – no hidden rulings or special regimes – and a level-playing field for all businesses in the Single Market," the official said.

When confronted with the concerns expressed by local business entities, the Commission official emphasised that the impact for small countries "should be the same as for all member states: a positive boost for the economy, as a result of a fairer, more business-friendly and pro-growth system." A coordinated system will also "create a better business environment and help to attract foreign investment," particularly for SMEs, since they would be able to "expand where previously they may not have been able to, which is crucial for growth." These benefits would not "be limited to one or two member states. They are shared by all, objectively," the Commission official stated.

However, details on exactly how these aims would be achieved were lacking. And, it is this uncertainty which – perhaps ironically – lies at the heart of some optimism expressed by Paul Giglio, Tax and Assurance Partner at international audit and advisory firm Mazars. "Whereas the introduction of tax harmonisation could be problematic to a country like Malta, it is hard to determine the exact effect and magnitude that this would have on the Maltese economy," he said.

Mr Giglio listed the island's regulatory system, its pool of professionals who are able to give a personalised service to their clients; the euro currency; economic stability; as well as less bureaucracy in the manner in which business is established as key selling points which would be retained even if the EU voted to implement tax harmonisation rules. He underlined the need for Malta to continue "providing different advantages and areas of specialisation, not merely tax advantages", saying that any changes could be best countered by thinking "in terms of different products and ideas to sell, which are not tax-driven."

These, in his view, should include "value-added services, which allow for remote global working"; innovation hubs focused on developing cutting-edge products; renewable energy systems and new international financial products. "If our authorities start to give this direction now, it is possible that Malta will again reinvent itself even in the face of this new challenge," he said.

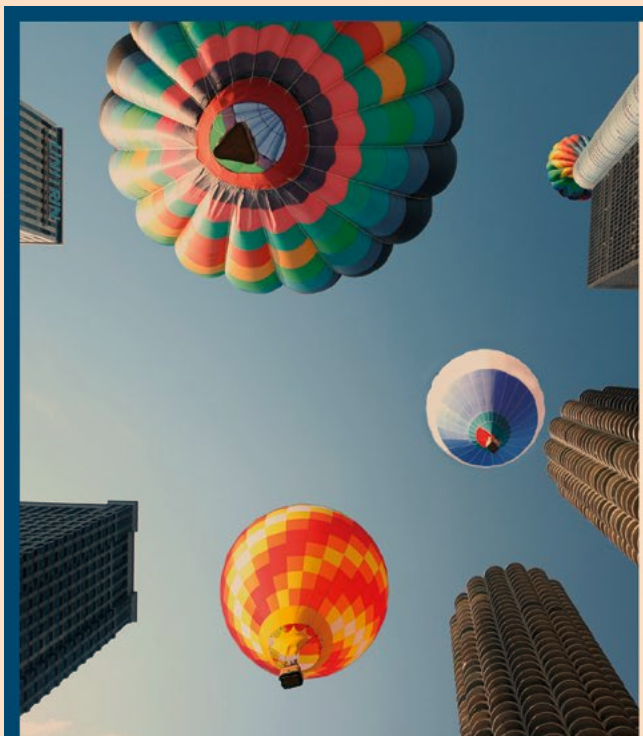
Moreover, in order to be at the forefront of any developments – "managing change rather than allowing it to manage us" – Mr Giglio stressed the need to improve the island's reputation as a financial centre, in the wake of recent criticisms which have led to the European Parliament's recent ruling labelling Malta as having the characteristics of a tax haven. This could be achieved by strengthening regulators; eliminating false advertising in the financial sector; ensuring that businesses which set up in Malta comply with tax substance standards and practicing judiciousness when it comes to client onboarding.

Yet, despite the controversy the contentious proposals on tax harmonisation have created locally, it may be some time before any modifications to the current system are implemented. While some of the "steps to a fairer and more tax efficient environment in Europe" have passed, many of the sticking points have been in discussion since 2016.

Indeed, in order to speed up the process of decision-making in the arena of taxation, the EU Commission this year launched a debate to remove the current system of unanimity – in which all member states must agree to new laws before they can be implemented – and replace it with a scheme based on a qualified majority. The changes, known as the Passarelle Clause, would require 55 per cent of member states, representing at least 65 per cent of the EU population, to approve any new legislation – a system which is already employed for some decisions in the Council. The Commission noted that the proposed amendments "would usher in a new dynamic and revitalise decision-making in this area."

Yet, there has been substantial opposition to these proposals, particularly from small member states, with the Institute of International and European Affairs (IIEA), an Irish think tank on European and International affairs, underlining the challenges the new clause faces. Locally, MBB President Mr de Cesare has also expressed concern, saying that "any compromise achieved as a result of unanimous adoption would surely reflect a much fairer outcome catering for the interests of all member states." He also stressed the need to retain the current balance of power in matters of taxation, pointing out that "unanimity has not prevented the EU from making important decisions in the area of tax policy." This was also echoed by Malta Chamber's Perit Xuereb, who stated that "Europe must listen to small peripheral countries such as Malta which by their geographical characteristics remain vulnerable irrespective of their current economic well-being."

These views reflect some of the issues noted by the IIEA in their report, which stated that "the likelihood of qualified majority voting being introduced for any new policy area, particularly an area that is so traditionally tied to national sovereignty such as foreign policy or taxation, is close to nil." This would result in the process towards tax harmonisation stretching out for much longer, until all member states are on board with the changes.



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