

MEMORANDUM TO THE CABINET BY THE MINISTER OF INDUSTRIAL  
DEVELOPMENT AND TOURISM ON THE SUBJECT OF RELIEF FROM  
TAX ON THE "IMPORTED" INCOME OF FOREIGNERS WHO TAKE  
UP RESIDENCE IN THE MALTSE ISLANDS

As a result of the rundown in Service expenditure, an appreciable number of Service families have already left the Island and it is likely that many more will leave before very long.

2. This exodus has created a void which is already affecting the economy of the Island and causing serious hardship to various sections of the community. Those directly hit are importers, shop-owners, the labour market in general in its various strata and, perhaps more than anybody else, many property owners who used to lease furnished and unfurnished accommodation to Service families. The Government itself would, in the long run, experience a serious loss of Customs revenue on consumable goods and other articles which will not be as much in demand as in the past.

3. The economic void brought about as a result of the departure from Malta of Service personnel and their families could be filled in by attracting to the Island persons of independent income and pensioners from the United Kingdom and elsewhere who are finding it difficult to live in their own countries because of the income tax which tax on income makes on their earnings or pension and who would be prepared to take up residence in Malta if exemption from the payment of income tax were granted to them here. It should be stressed that, if this proposal is adopted, the Malta Government would not experience a loss of income tax revenue as these people cannot be prevailed upon to take up residence in Malta unless the concession suggested is offered.

4. On the other hand, the benefits which would accrue to the National Economy if enough people could be attracted to reside and spend their imported income in Malta are very real. These "visitor residents", as they may be described, could take on lease more than 4,000 furnished and unfurnished dwellings which are gradually becoming available, provide direct and indirect employment and, because they would spend the greater part of their income in Malta, would relieve the economic pressure which the sudden departure of the Services has brought about. The demand for accommodation would, furthermore, give a new lease of life to the building industry.

5. The following is only a rough indication of the economic effects which the implementation of the proposal described in para. 3 will bring about. The figures quoted in this paragraph and in subsequent paragraphs are based on average results of studies on "visitor expenditure" in ten countries. Money spent by visitors and in this particular case by "resident visitors" continues to circulate throughout the economy, to change hands and to be spent and respent. In the studies referred to above, the initial expenditure "multiplied" from 3.2 to 4.3 times. It would, of course, be necessary to examine a detailed model of the typical transactions in Malta over one year to arrive at a correct multiplier in the case of expenditure by the type of "resident visitor" it is possible to attract, but it is not likely that this figure would be below the lower limit quoted above or, say, three times - i.e. each £1 spent would create a National Income of £3 (\*).

6. It is reasonable to assume, furthermore, that it would be possible to attract to Malta "visitor residents" with an income (before tax) ranging between £800 and £1,200 per annum - an average of £1,000. Although different categories of visitor expenditure multiply to different extents, the following table represents a fairly typical allocation of visitor expenditure and "multiplication" in each category:

Based on an expenditure of £1,000 per annum

<u>Category of Spending</u>	<u>Amount</u>	<u>Multiplication by the end of one year</u>	<u>Multiplication Rate</u>
Accommodation £130			
Domestic Service <u>120</u>	£250	£ 854	3.42
Food & Drink	320	1,051	3.28
Purchases	250	787	3.15
Amusements and entertaining	100	336	3.37
Local Transport	50	153	3.06
Sundries	30	90	3.00
	<u>£1,000</u>	<u>£3,271</u>	<u>3.27</u>

(\*) Principal Government Statistician is of the opinion that the multiplier factor in Malta is 2.5

7. It emerges from the report on the 1957 Census of Population and Housing in the Maltese Islands that there were then 3,857 households with non-Maltese heads living in furnished flats or houses and 706 renting unfurnished accommodation. It would be fair to assume that the number of furnished dwellings has increased since 1957 - but even if calculations were based on the 1957 figures and on the average rental value then obtaining, 3,857 furnished flats/houses represent a potential income of £493,696 or approximately £½m. Payments for accommodation and domestic service alone would, therefore, account for an expenditure of £714,250, which represents a contribution of approximately £2½m to the National Economy.

8. It should also be pointed out that the "market" for the "product" offered is, as stated earlier on, "persons of independent income and pensioners" who would be prepared to live in Malta mainly because of the income-tax concession it is proposed to offer; but Malta has an edge on other countries offering a similar concession because of its equable climate, its geographic position and its low cost of living compared to that obtaining in the United Kingdom. Furthermore, Malta belongs to the Sterling Area and the transfer of funds from the United Kingdom is not, therefore, subject to control or restrictions. Apart from the United Kingdom market, however, it would also be possible to attract expatriates and others from the ex-Colonial Territories of Africa who would loathe to face the rigours of the British climate after living for years and years in tropical and sub-tropical countries.

9. Most of the people indicated above might have relatives in the United Kingdom and it is fair to assume that, even more than in the case of Service families, they would generate an appreciable "short stay" visitor traffic to the Island during the tourist season and at intervals during the off-peak period.

10. If the aim is to fill in the economic void brought about by the Service rundown, then the purpose of the exercise would be to attract approximately four thousand couples for whom suitable accommodation either is readily available or could be made available within a relatively short time. Four thousand households, each spending on an average £1,000 per annum would put £4m into the economy of the Island. To this should be added the expenditure

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which visiting relatives and friends would incur on the Island. Having regard to various factors, it is not possible to quote a figure to represent this category of spending motivated by the presence of "visitor residents" on the Island, but this additional benefit could be a significant recurrent income.

11. Similarly, it is not possible at this stage to indicate the extent of tax revenues accruing to the Government from all the above-mentioned sources, because it would be necessary to study what tax elements arise at every stage at which the initial money spent by "visitor residents" and others is passed on. However, in the ten countries referred to earlier on in this memorandum, it has been established that the tax revenue obtained from "visitor expenditure" was equivalent to 10 per cent of the National Income created. Thus, if the multiplier effect is 3, the tax revenue on £1,000 spent would be £300 (10% of £1,000 x 3).

12. To estimate the benefits on wage earners or the "job and wage creating effect", it is necessary to assess how much of the National Income created by visitor expenditure goes into wages. In countries which produce most of the consumable goods required internally, the wage element could be as high as 54%. In Malta this might be lower, but the percentage figure could still be an impressive one.

13. It is, therefore, proposed that the Income Tax Law be amended to grant exemption on the imported income of residents of the United Kingdom and elsewhere who, having been granted permission to reside in Malta actually live on the Island for a period of not less than nine months in any one calendar year. It is also proposed that residence permits should be granted only to applicants who (a) on their declaration are considered to possess an independent income and who, as a result, will not become a burden to the State, (b) undertake not to exercise their professions, take up any employment or give any service for which payment in cash or in kind is made in Malta, unless any payment made in Malta is due from sources abroad or in respect of services, gains from investments or the exercise of certain professions specifically allowed under the law (writers, printers, &c.).

14. Tax exemption will not be granted in the case  
of -

- (a) Meltese nationals, born in Melts and who have lived on the Island for ten years or more before the promulgation of the amendment suggested in para. 13; and
- (b) the nationals of any country who, at any time before the promulgation of the proposed amendment, have lived on the Island for five years or more.

15. Hon. Ministers are requested to state whether or not they agree with the proposal.

18th January, 1963.