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New schemes to replace the Permanent Residents Scheme

A number of new schemes, aimed at different nationalities and specific sectors, will replace the Permanent Residents Scheme (PRS), Finance Minister Tonio Fenech told Parliament this evening.

He said the new schemes will cater for old and new sectors according to needs that had been shown up by experience. A consultation process will be launched next week.

An indefinite High Net Worth Individual Scheme, which would be the closest to the old PRS, would specifically apply for EU, Swiss and EEA citizens.

Another scheme would be more expensive for non-EU residents but effectively give participants freedom of movement and eventually EU residence status.

The Global Mobile Permanent Scheme would be for non-EU citizens, for four years and non-renewable. It would cover foreigners working in North Africa on three-year contracts who would want to bring their families to nearby Malta. It would be cheaper but participants would know they would not get the benefits of EU citizenship, although it should have beneficiary effects on the sale of property.

Another scheme would be indefinite and would give Schengen Area benefits.

Two other schemes, for EU and non-EU citizens, would be intended to incentivise artistes, singers and professionals who were also high-network individuals but would not participate in another scheme.

Mr Fenech said he would like to have the necessary legislative amendments to financial legislation pass through all stages before the House rose for the summer recess, even though the workload had suddenly become rather heavy, so that the new schemes would quickly come into effect.

He acknowledged that the sector had had to wait for the PRS or kindred schemes to be given life, but Malta would now be able to boast a much more comprehensive package compared to those of competing states.

At the start of his speech the minister sought to dispel any notion that real estate business was in any way dependent on the PRS. The number of properties that had been sold under the scheme was only a small percentage of the total, he said.

The PRS had been established in 1998 to attract high-network residents who would come to Malta, buy property and live here with all the beneficial spin-off effects on the economy. But it had not achieved the desired results because it had in-built weaknesses, such as not obliging participants to reside in Malta and therefore not leaving the benefits.

The criteria establishing the old scheme 25 years ago had not been updated. Participants had been expected to remit to Malta more than €23,000 a year, buy a permanent residence of more than €69,000 for an apartment or €116,000 for a house, or rent for €4,000 a year. Even Maltese families could fit into such brackets.

It was true that a number of people in Malta used to depend on the scheme, but Malta had been selling itself too cheaply. This had been sending a negative image of the country, with the effect that the desired high-network individuals stayed away because it was too cheap.

Mr Fenech said that before deciding to suspend the PRS, necessarily abruptly, the government had considered raising thresholds and reviewing the scheme, but wider-ranging problems had stopped it doing so. In accepting participants under the old scheme the government would have had to incur much greater expenses than revenue, effectively subsidising the high-network individuals.

Analysis showed that the government would have been obliged to give what it had never intended to through liabilities that would have to be paid.

Especially in 2010 advertising had done a lot of damage because it had been sold for ulterior motives, such as according EU or Maltese citizenship. Some properties had actually been sold under these false pretences. This gave participants legitimate expectations which the government would not have been able to change without facing expensive lawsuits.

Other schemes had been creating confusion which the government wanted to avoid. One of the main issues was that any person working in Malta for more than four years, such as nurses, would be eligible for residence. Even if sustainable, this could not be considered in the first five years.

There had also been conflict with other schemes, such as when a foreigner registered a work contract in Malta, paid taxes and therefore acquired certain rights. All this had had to be addressed so that the state would be clear on what it was giving for what. It had never been intended that participants buying into the scheme would think they were also buying to the EU and Schengen.

Mr Fenech said it was true that the construction industry was important for the economy, but not that it had been shaken by the suspension of the PRS.

The old scheme's main intended benefit, fiscal, had dropped drastically because most participants were yielding an annual revenue of just €4,000 when they should be bringing significant remittances into the country and paying 15 per cent thereon. Additionally, all their importation for their residences was certified duty-free.

He said he agreed with comments made earlier by Jesmond Mugliett that the administration should have done better monitoring to ascertain that participants were really physically coming to Malta.

With Malta's access to the EU a substantial number of benefits had become applicable. Direct taxation from the scheme in 2010 had amounted to €5.6 million, but these had come mainly from a small number of high network individuals.

The scheme's much bigger potential had had to be drastically reviewed.

Mr Fenech said that some countries sold their citizenship very expensively, such as €4 million in Switzerland. Even at EU level there were a number of important thresholds.

In 2010, 313 non-EU and 90 EU people had applied for the scheme, as against 86 non-EU and 344 EU in 2005. The 2010 applicants came predominantly from China, South Africa and Russia, with some buying property in Malta as insurance against having to leave their countries. They had no real intention to reside and spend.

So long as the government certified participants for tax reasons without them staying and spending, but only buying, Malta had been giving them permanent status after five years, placing unsustainable burdens on the government. Another shortcoming was that the certification was being given without the physical presence being checked.

Permanent residence allowed foreign resident equal treatment for employment and conditions of work, grants for education, social assistance and insurance and any other public service, including health. If a 50-year-old foreigner came to Malta with wife and two children, normal health care cost an estimated €100,000 – nowhere near the contribution the country was receiving. The participant could be obliged to get health insurance cover, but this would no longer be compulsory after five years.

Mr Fenech said the government appreciated the scheme's importance, but must be careful that incentives for positive discrimination did not get out of hand. Foreigners were desired to buy, stay and spend, but not at the cost of the Maltese taxpayer.

One possibility would have been to insist on an up-front contribution that would be kept by the state if the individual stayed on longer than five years, but would be reimbursed if they left before five years.

Up to 2010 there had been 1,042 permanent residents, of whom more than 50 per cent paid less than €4,000 and 90 per cent paid less than €10,000. And only 14 had bought residences in that year.

It had also been found out that some buyers of real estate achieved permanent residence status and then sub-let to others when they moved on.

A relatively-new but very welcome phenomenon was the majority of foreigners among the 6,000 employed in online gaming, who needed to rent or buy property. All EU citizens could buy their first property without restriction, while non-EU citizens could be given a permit to buy.

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