

MALTA BUDGET 2021

A General Overview



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INTRODUCTION

In his Budget speech for 2021, Finance Minister Prof. Edward Scicluna provided a review of the key macroeconomic indicators for the current year and an analysis of the COVID-19 impact on the Maltese economy.

MACROECONOMIC CONDITIONS

- **Gross Domestic Product (“GDP”)**: The real GDP in 2020 is expected to decrease by 7.7%. In 2021 this is expected to increase by 5%.
- **Debt to GDP Ratio**: This is estimated to increase to 55% by the end of 2020, with the forecast for 2021 being 58.6%.
- **Rate of Inflation**: The national rate of inflation is expected to be around 1.3%.
- **Estimated Tax Revenue**: This is expected to be €4 billion in 2020, down from an estimated €4.9 billion. In 2021 it is estimated that it will increase by 11%. The actual tax revenue in 2019 was €4.4 billion.
- **Unemployment**: Malta’s unemployment rate as at August 2020 stood at 4.1%. This remains below the EU average of 8.1%.
- **COVID-19**: The real economic activity has decreased by 16.2%, with retail, transport logistics and tourism related activities being the hardest hit.

TAX MATTERS

Fiscal Measures

- Income Tax & VAT
- Pensions & Schemes

Property Related Measures

- Stamp Duty
- Income Tax

FISCAL MEASURES

INCOME TAX & VAT

- **Royalties:** A final reduced tax rate of 15% will be applicable on any royalty income derived on the sale of books by authors and co-authors.
- **Voluntary organisations (“VO”):** Registered VOs whose annual income on certain profits does not exceed €50,000 may be exempt (subject to conditions).
- **Employees tax refund:** All full-time and part-time employees earning up to €60,000 will benefit again from a tax refund ranging between €45 to €98 depending on the income and applicable tax rates.
- **VAT:** Annual turnover threshold for VAT exemption (Article 11) applicable to small businesses providing services shall increase from €20,000 to €30,000.

FISCAL MEASURES

PENSIONS & SCHEMES

- **Exemption on pension income:** The exemption has been increased to €14,058 with persons on the married rates being entitled to an additional exemption of €3,600 on income derived from other sources.
- **Third Pillar Pension Scheme and Voluntary Occupation Pension Scheme:** The maximum tax benefit for a single person shall increase to €1,500 on an annual contribution of €3,000 for both schemes. This is further increased to €2,250 for married couples where only one person works, subject to an annual contribution of €6,000 and €3,000 respectively.

PROPERTY RELATED MEASURES

STAMP DUTY

- **First time buyer's exemption:** Extension of one-time exemption from payment of duty on the first €200,000 (previously €175,000).
- **Inherited residential property:** The reduced rate of 3.5% shall be extended to €200,000 (from €175,000 in 2019).
- **Acquisition of residence for non-first time buyers:** A reduced rate of 3.5% shall be applicable on the first €200,000 of the value of the immovable property.
- **Donations of residential property:** Exemption from payment of duty on the first €250,000 (previously €200,000). The additional value of the immovable property is charged a 3.5% rate.

PROPERTY RELATED MEASURES

STAMP DUTY & INCOME TAX

- **Extension of refunds and reduced rates of duty:**
 - Second-time buyers;
 - Properties on Gozo and Urban Conservation Areas;
 - Intra-family transfers of business property and securities.
- **Economic Regeneration Plan:** The reduced income tax rate of 5% (from 8%) and duty rate of 1.5% on the first €400,000 of the value of the immovable property shall continue to apply in respect of promises of sale registered until 31 March 2021 and in respect of which the contract is signed by 31 December 2021.
- **Transfer of a promise of sale:** Any profits or gains arising on said transfers during 2021 will be subject to a final income tax rate of 15%.

SOCIAL MEASURES

**Other Social
Measures**



SOCIAL MEASURES

- **Cost of Living Adjustment (“COLA”):** The COLA for 2021 will increase by €1.75 per week, applicable to all workers, pensioners and social benefits beneficiaries. Pro-rata increases will be given to students in their stipend.
- **Leave entitlement:** Additional day of leave to be granted to all employees, bringing the total leave entitlement to 28 days annually.
- **Pension increase:** Contributory and non-contributory pensions are being increased by €3.25 per week (over and above the COLA), resulting in a total increase of €5 per week.

SOCIAL MEASURES

- **Eligibility of persons born before 1962:** Contributions paid prior to the attainment of 19 years of age will be entitled for the purposes of calculating eligibility for a pension. Applicable to persons born before 1962 and who do not qualify for a contributory pension.
- **Supplementary allowance:** Persons who are over 65 years of age shall be granted an increase of between €70 to €108 per annum. The €150 which was granted to persons who are over 65 years of age and who are at risk of poverty, shall be extended to persons within the same age group who qualify for the supplementary allowance.

SOCIAL MEASURES

- **Vouchers:** Vouchers totalling €100 to be given to persons over 16 years of age. These shall consist of €40 to be used in shops and services with the remaining €60 to be used in accommodation, hotels and restaurants.
- **COVID-19 wage supplement:** This will be extended until the end of March 2021. The Economic Regeneration Plan shall be evaluated after consultation with social partners during the first quarter of 2021.
- **Children's allowance:** A yearly increase of either €50 (families earning up to €25,318) or €70 (families earning more than €25,318) per child.

SOCIAL MEASURES

- **In-work benefit:** The threshold for eligibility shall increase to €35,000 for working couples, €23,000 for single working parents and for couples with only one person in employment this will increase to €26,000.
- **Grant for elderly:** Extension to the grant of €300 given to elderly over 75 years and €350 given to elderly over 80 years, who either live in their home or a private residential home.
- **Savings bonds:** Re-issue of savings bonds for pensioners who are over 62 year of age.

OTHER SOCIAL MEASURES

- The bonus for persons who are not entitled to receive a pension will increase by €50 per annum.
- New grant of €300 per year for parents who must leave work to take care of a disabled child over 16 years of age.
- A grant of €1,000 will be given to couples who adopt a child locally.
- Foster care allowance will be increased by €520.
- Elderly who employ carers shall have the annual subsidy increase from €5,291 to €6,000.

OTHER MEASURES

**Business
Incentives**

Environmental

Investment

Other Measures



BUSINESS INCENTIVES

- A new Malta Enterprise scheme for companies employing less than 50 employees undertaking **innovation and transformation projects**. The scheme will cover 50% of the costs up to a maximum of €200,000. May be increased by €35,000 if in collaboration with research institutions.
- **Fisherman and farmers** selling products at the fish and vegetable markets will have a grant introduced equivalent to the tax paid on these sales.
- A new framework for **start-ups** which want to operate in Europe.
- **Malta Enterprise** to maintain, improve and introduce measures for existing businesses and to attract new investments.

ENVIRONMENTAL

- Long-term implementation plan towards achieving a 'Net Zero, Carbon Neutral' environment for the **tourism industry**. The plan is to have tourism establishment operations generate green energy and to have innovative technology to target a lower consumption.
- A **Low Carbon Development Policy** to be released, encompassing strategies for clean energy and transport, waste management and energy efficient buildings.
- The **importation of single-use plastics** will be **banned** from 01 January 2021, while sale of such products shall be prohibited from 01 January 2022.

ENVIRONMENTAL

- Investors looking to finance projects which promote **renewable energy and reduction of air pollution** will be offered an attractive package for '**Green Bond**' issuances by the Malta Stock Exchange.
- **Vehicle scrappage schemes** shall be extended, with the maximum available **grant** amounting to €7,000.
- A **grant of €400** will be available for persons who **convert their vehicles to gas engines**, if the reduction in CO₂ emissions is reduced by 25%. The grant shall increase to a maximum of €800 for all vehicles used in passenger and freight transport.

ENVIRONMENTAL

- **Renewal of various measures:**
 - Exemption of electric/hybrid vehicles registration tax and night time tariff for residential homes;
 - Grant on purchase of motorcycles, scooters and electric bikes;
 - VAT refund on purchase of bicycles and electric bicycles.
- New **wheelchair-friendly taxi vehicles** may be eligible for a **€10,000 grant** upon registration, subject to certain conditions.


INVESTMENT

- Investment of €450 million over 7 years for the purpose of changing **Malta's industrial infrastructure** and creating spaces and new offices for business.
- Investment of €11 million over 3 years on **new sport facilities** as part of Malta's preparations to host the Small Nations Games.
- Investment in **cybersecurity** and encouraging private investment in **innovative technologies**.
- Investment aimed for further growth in the **aviation industry**.
- Continued investment on the **upgrading road network project** and the **healthcare services facilities**.



OTHER MEASURES

- A new **Building and Construction Authority** will be set up to enable the construction industry to operate more professionally and reduce risks associated with the industry.
- Incentives for **employers** shall be introduced to assist employees in achieving a **work-life balance** and to support male participation in family life.
- Various measures shall be introduced for **artists and operators in the cultural and ancillary sectors** to produce exhibitions, concerts, productions and similar initiatives.



This update summarises the measures announced during the Budget Speech on 19 October 2020. As such, many of these measures are still to be clarified by the publication of the relevant legislation and/or guidelines. Readers should seek professional advice by contacting directly any one of the professional advisors indicated below before acting upon any of these measures for any business transaction or for any action that may be affected by such measures announced in the Budget Speech.



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