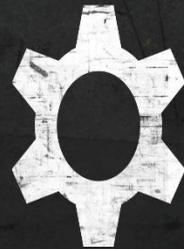




BUDGET 2021



2021 BUDGET: KEY HIGHLIGHTS

CAMILLERI PREZIOSI

ADVOCATES

CELEBRATING 50 YEARS IN THE PRACTICE OF LAW

Overview

Economic Performance

Direct Tax

Indirect Tax

Pensions

Immovable Property

Incentives for Domestic Businesses

Social Incentives

A Greener Economy

Other Measures

OVERVIEW

On 19 October 2020 the Budget for the 2021 legislature was presented to the Parliament of Malta.

Although no major changes to Malta's tax regime have been proposed in the Budget Speech 2021, a number of measures are being considered which are principally geared at softening the blow of the COVID-19 pandemic which yet stifles the global economy. In this respect, the overall focus is towards improving the quality of life, incentivising economic growth and safeguarding employment.

Various social incentives were introduced to support those in need, as can chiefly be seen through the several pension related measures aimed at the elderly and other family related bonuses.

Other measures introduced aim at securing a smooth transitioning into an ever-greener economy, developing the island's infrastructure and constantly improving the level of education, public health services, safety and good governance.

Strengthening the economy & increasing employment post-COVID-19

Various Social Incentives

Focus on developing a Greener Economy

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Indirect Tax

Pensions

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Social Incentives

A Greener Economy

Other Measures

ECONOMIC PERFORMANCE

Gross Domestic Product

It was reported that a reduction in the GDP of 7.4% in real terms is expected by closing 2020. Nevertheless, a recovery is expected in 2021, with growth of 5% in real terms and 6.4% in nominal terms.

Inflation

The rate of inflation is expected to be 1.3%, decreasing by 0.3% from last year.

Government Debt

It is anticipated that the Government Debt should rise to 58.6% of GDP, an increase of 18.2% in 2021. The projected deficit for 2021 is of 5.9% of GDP.

Unemployment rate

It is expected that the employment rate will increase by 2.3% in 2021, whilst the unemployment rate will remain relatively low at 4.0%.



Inflation rate of 1.3%

Government debt 58.6% of GDP

2.3% increase in the employment rate



15% FWT on income arising from the assignment of rights on a promise of sale extended to full value of property

Increase in tax exempt amount for property donated to children

Registered Voluntary Organisations tax exempt on profits up to €50,000

DIRECT TAX

- The 15% withholding tax on income or profits arising from the assignment of any rights held in terms of a promise of sale agreement will be extended to the full value of the rights, and not solely on the first €100,000.
- The current reduced rates of 1.5% stamp duty and 5% transfer tax will remain applicable with respect to properties with a promise of sale agreement registered till the 31 March 2021, insofar as the sale contemplated therein takes place by 31 December 2021.
- The exemption from tax payable on the donation of immovable property by a parent to their children with the intention of the latter residing therein will be increased from €200,000 to €250,000 with any amount in excess remaining taxable at 3.5%.
- The 1.5% favourable stamp duty rate on the transfer of business to be retained for a further year.
- A reduction in the withholding tax on royalties from the sale of books.
- Registered Voluntary Organisations shall be exempted from tax on annual profits not exceeding €50,000.
- The €40 to €68 tax refund bracket has been widened and now stands between €45 to €95, with low income earners being entitled to the highest rates.

Overview

Economic Performance

Direct Tax

Indirect Tax

Pensions

Immovable Property

Incentives for Domestic Businesses

Social Incentives

A Greener Economy

Other Measures

Overview

Economic
Performance

Direct Tax

Indirect Tax

Pensions

Immovable Property

Incentives for
Domestic
Businesses

Social Incentives

A Greener Economy

Other Measures

INDIRECT TAX

- Extension of the scheme whereby persons who purchase bicycles or electric bikes can apply to receive a full VAT refund. The scheme for the refund of up to €400 for the purchase of motorcycles, scooters and electric bikes is also being extended.
- With a view of assisting small business and those self-employed, there will be an increase in the threshold for those who are exempt from VAT from €20,000 to €30,000.



**VAT refund for
certain bikes**

**Increase in
threshold for VAT
exempt
businesses**

Overview

Economic Performance

Direct Tax

Indirect Tax

Pensions

Immovable Property

Incentives for Domestic Businesses

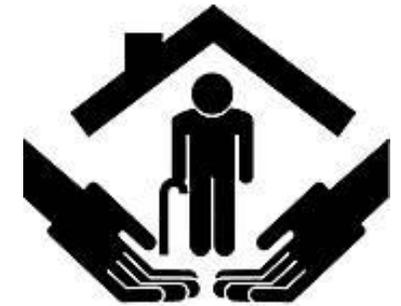
Social Incentives

A Greener Economy

Other Measures

PENSIONS

- Pensioners will be granted an additional €3.25 per week, which is exclusive of the additional increase in the €1.75 per week COLA, therefore resulting in an overall increase of €5 per week for pensioners (€260 per annum).
- The tax-free bracket for pension income will be increased to €14,058. Pensioners under the joint computation will have other income of €3,600 exempt from tax.
- Elderly persons who did not qualify for a pension owing to a long period spent out of employment and who did not pay enough Social Security contributions, may avail of an additional bonus of €50, thus bringing the bonus up from the current €200 to a total of €250 per year. The total bonus is further increased to €350 for those elderly persons who have paid NI for more than five years.
- The investment amount which is exempt from tax under the Third Pillar Pension Scheme has been increased by €1,000, reaching a total of €3,000 per year.
- Elderly people living at home or in care homes shall remain entitled to a grant of €300 if 75 or older, and to €350 if 80 or older.
- Government savings bonds similar to the *Savings Bonds 62+* will be re-issued for a further year.



↑ tax-free bracket pensions

€5 increase to pensioners

Pensioner Government Savings Bond

Overview

Economic
Performance

Direct Tax

Indirect Tax

Pensions

Immovable Property

Incentives for
Domestic
Businesses

Social Incentives

A Greener Economy

Other Measures

IMMOVABLE PROPERTY

- The First Time Buyers' scheme and the Second Time Buyers' scheme shall both be extended by another year, with the stamp duty exemption on First Time Buyer's increasing from the first €175,000 to the first €200,000.
- Individuals who are purchasing a residential property other than their first home or inheriting the property in which they reside also benefit from a reduced rate of 3.5% on the first €200,000 of the transfer price.
- The current scheme on the purchase of immovable property situated in an Urban Conservation Area and in Gozo will be extended, together with the refund on the restoration costs.

**Extension of 1st
and 2nd Time
Buyers' Schemes**

**3.5% reduced
rate for purchase
of property other
than first home
and on
residential
property being
inherited**

**Extension of
scheme for
purchase of
property in UCA
and Gozo**



Overview

Economic Performance

Direct Tax

Indirect Tax

Pensions

Immovable Property

Incentives for Domestic Businesses

Social Incentives

A Greener Economy

Other Measures

INCENTIVES FOR DOMESTIC BUSINESSES

- Malta Enterprise shall introduce a new scheme which will aid companies employing less than 50 employees to invest in technology which promotes their operational efficiency and allows them to tap into new markets. The proposed scheme shall be covering 50% of expenses up to a maximum of €200,000 per company.
- In order to strengthen the economy further, Malta Enterprise will additionally continue to extend the current schemes in place aimed at attracting new investment, such as Micro Invest, the Business Development & Continuity Scheme, the Research & Development Scheme; the R&D Feasibility Study Scheme and the Business Start Scheme.
- The various COVID-19 measures introduced to promote business liquidity, such as the tax deferrals and the moratoria on business and personal loans, will be retained up until the end of March 2021.
- A new framework will be developed with a view of increasing Malta's appeal to start-ups wishing to set up shop in Europe.
- The Government's efforts will additionally be directed at assisting Maltese businesses in establishing an online presence and transitioning to e-commerce.



Retention of Malta Enterprise Investment Schemes

Assisting Maltese businesses to transition to E-commerce

Tax Deferrals and moratoria on loans to be retained

Overview

Economic Performance

Direct Tax

Indirect Tax

Pensions

Immovable Property

Incentives for Domestic Businesses

Social Incentives

A Greener Economy

Other Measures

SOCIAL INCENTIVES

- The distribution of a second round of €100 vouchers to all Maltese residents to stimulate some of the businesses which are suffering the most as a result of the pandemic.
- An increase in children's allowance, whereby households with an income of under €25,318 may avail of a €70 increase in the allowance per child, whilst a €50 increase will be available for households earning above €25,318.
- A greater number of working parents to qualify for an in-work benefit in view of the increased benefit thresholds, up to €35,000 for couples where both adults work, and up to €26,000 where only one parent works.
- Extension of the COVID-19 Wage Supplement up until March 2021.
- Parents who must terminate employment to take care of their disabled children will be entitled to a €300 benefit per year.
- Couples who adopt locally may avail of a grant amounting to €1000 to help alleviate costs relating to the adoption process.
- All persons above 65 years of age qualifying for Supplementary Help will be entitled to additional supplementary income amounting to €150, and not just those classified at risk of poverty.
- An additional day of leave entitlement shall be introduced in 2021, resulting in a total amount of annual leave at 28 days.

Extension of €100 Voucher Scheme

Increase in children's allowance and in-work benefit

Extension of COVID-19 Wage Supplement



Overview

Economic Performance

Direct Tax

Indirect Tax

Pensions

Immovable Property

Incentives for Domestic Businesses

Social Incentives

A Greener Economy

Other Measures

A GREENER ECONOMY

- Malta Stock Exchange to issue “Green Bonds” throughout 2021 providing financing to those projects promoting renewable energy and the reduction of emissions.
- Importation of single-use plastics banned from 1st January 2021 and the sale of all single-use plastic products will be banned in 2022.
- Low Carbon Development Strategy to be finalised by end of year, the primary aim of which is to reduce emissions by promoting cleaner energy, recommending action on the use of cleaner means of transportation and the adoption of environmentally friendly waste management systems.
- Government is working on a long-term implementation plan aimed at easing the transition of tourism operations to ‘net zero carbon neutral’.
- The vehicle scrappage scheme will be retained, however, the quantum of the grant will vary according to the level of pollution of the vehicle. Where a vehicle is replaced with a less polluting one, the nature of the grant will depend on the level and category of the vehicle, with the maximum grant being of €7,000.



**Green Bonds
issued by Malta
Stock Exchange**

**Importation of
single-use plastic
to be banned**

**Tourism Industry
to shift to ‘net
zero carbon
neutral’**

Overview

Economic
Performance

Direct Tax

Indirect Tax

Pensions

Immovable Property

Incentives for
Domestic
Businesses

Social Incentives

A Greener Economy

Other Measures

OTHER MEASURES

- The Cost of Living Allowance (COLA) will be increased by €1.75 per week in 2021, and is applicable to employees, pensioners and individuals receiving social benefits. The COLA increase will also be reflected in students' stipends.
- Public transport is to be free of charge to persons over 70 years of age.
- Continued investment in the digital sector, including cybersecurity, and an increased focus on new technologies such as virtual reality, augmented reality, immersive technology, 3D printing, and quantum and high-performance computing. Projects focusing on Artificial Intelligence will continue to be implemented across the education, health and transport sectors.
- Free internet access to be given for one year to students opting to further their post-secondary education.
- Government has also expressed renewed commitment to the aviation sector which is positively welcomed in particular in light of the negative effects this sector is particularly suffering as a result of the COVID-19 pandemic.



**Continued
investment in the
digital sector**

**Public Transport
free to persons
over 70 years**

**Free Internet to
students
furthering post-
secondary
education**