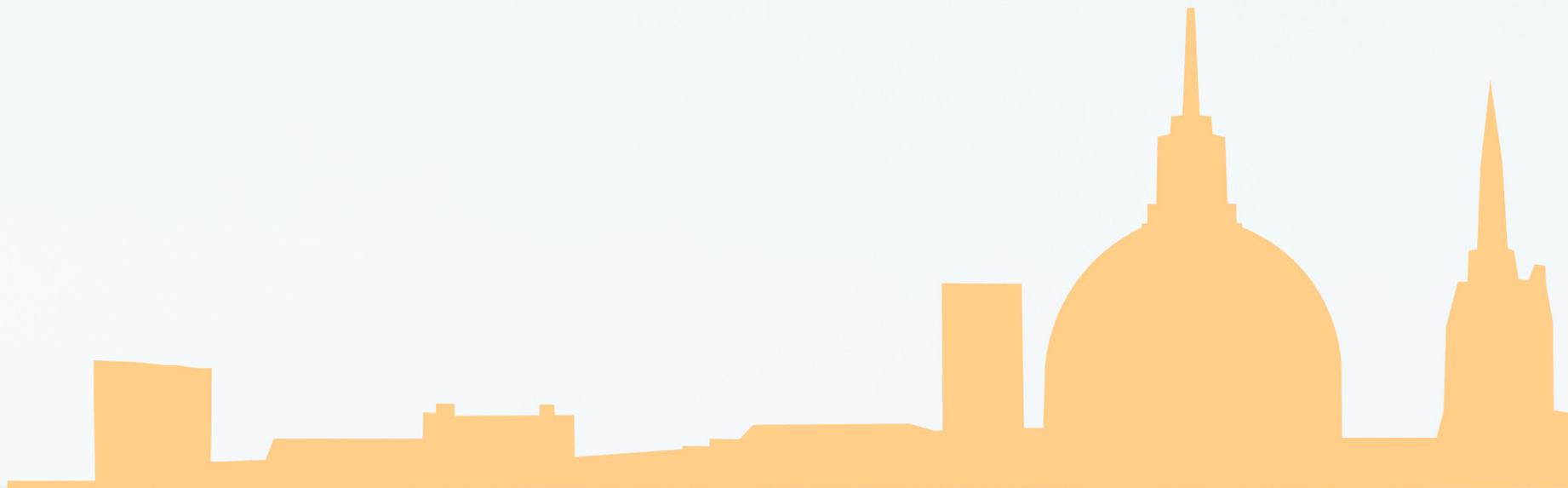




**pwc**



# 2021 Malta **BUDGET**

# Highlights



*Weekly cost of living  
adjustment of €1.75*



*Vacation leave  
entitlement increased  
by one day to 28 days*



*Exempt pension income  
up to €14,058*



*Introduction of 15%  
final withholding tax  
on royalty income from  
literary works*



*VAT exempt threshold  
increased to €30,000*



*Long term implementation  
plan towards achieving a  
'Net Zero, Carbon Neutral'  
environment for the  
tourism industry*



*Social security pensions  
increase by €5 weekly*



*Extension and  
enhancement of reduced  
stamp duty on donations  
& property transfers*

# Performance of the economy

The cost of living increase for 2021 is €1.75 per week. In line with recent years, this increase will be granted in full to employees and pensioners and pro-rated to students.

**€1.75**

Estimated tax revenue for 2020 is expected to be €4bn (down from an original estimate of €4.9bn) and is expected to rise to €4.6bn by 2021.

**€4bn**

The deficit for 2020 is expected to amount to around 9.4% of GDP (down from an expected surplus of 1.4% of GDP). For 2021, this is expected to fall to 5.9% of GDP.

**9.4%**

The unemployment rate as at August 2020 stood at 4.1%. The unemployment rate remains below the EU average rate which stands at 8.1%.

**4.1%**

The labour supply from 2015 to the start of 2020 increased by 30%. The total number of persons available in the workforce in January 2020 stood at around 231k.

**30%**

During the first 8 months of 2020, €950m Government Stocks were issued on the primary market.

**€950m**

The 12-month moving average rate of inflation in August 2020 stood at 1.1%.

**1.1%**

Government debt at the end of first quarter of 2020 amounted to around 44.4% of GDP and is expected to increase to 55% of GDP by the end of 2020.

**55%**

GDP for 2020 is expected to be €12.5bn, representing a decrease of 7.4% in real terms from 2019.

**€12.5bn**

Inbound tourists up to July 2020 amounted to 419k, down from 1.5m for the same period in 2019.

**€419k**

The Maltese average household income for 2019 increased from 2018 and stands closer to the EU average.

**€17k**

Malta ranked 5th out of all EU Member States in 2019 in the Digital Economy and Society Index 2020 Ranking.

**5th**



# Income Tax and other taxes

## Income Tax

### Tax refund to individuals

- The tax refund paid in the previous 3 years will be granted again to individuals earning less than €60,000. The refund will vary between €45 and €95, depending on the level of income and tax status of the individual.

### Exemption on pension income

- The maximum amount of exempt pension income will be increased to €14,058. Furthermore, persons claiming married rates will be entitled to a further €3,600 tax free amount in respect of income from other sources.

### Further exemption on private pension schemes

- The maximum amount of tax credits on private pension plans and voluntary occupational pension schemes are being increased. Fiscal measures providing for a further maximum tax saving of €1,500 for single individuals and €2,250 for married couples (where only one of the spouses is in employment) who contribute towards Voluntary Occupational Pension Schemes and Personal Retirement Schemes.

### Tax on assignment or cessation of rights over property

- From 1 January 2021 up to 31 December 2021, any profits or gains (previously capped up to €100,000) arising on the assignment or cessation of any rights acquired under a promise of transfer of immovable property or any rights thereon will be subject to a tax at the rate of 15%.

### Reduced tax rate on certain royalty income

- The introduction of a final withholding tax of 15% on royalty income derived from the publication of literary works.

### Exemption on certain profits of voluntary organisations

- Exemption on certain profits derived by registered voluntary organisations where the annual income thereof does not exceed €50,000 (subject to the satisfaction of conditions).

### Transfer of business property and securities

- The reduced 1.5% duty rate on certain intra-family donations of business property and securities in companies has been extended by a further year.

### Taxation of property

- First-time buyers of immovable property will now be exempt from stamp duty on the first €200,000 of the value of the property (previously €175,000).
- Continued reduction of stamp duty on the purchase of a residential home for “Second-Time Buyers” in Gozo (reduction from 5% to 2%) and in Urban Conservation Areas (reduction from 5% to 2.5%).
- A reduced stamp duty rate of 3.5% will be applicable for non-first time buyers on the first €200,000 relative to the purchase of a residence. This rate will also be applicable on the first €200,000 of the value of the immovable property (previously €175,000) on inherited immovable property being the residential property of the heirs.
- No stamp duty shall be charged on the first €250,000 (previously €200,000) of donations of immovable property from parents to their children where the immovable property being donated is used for the children’s residential purposes. The additional value of the immovable property is to continue being charged at 3.5%.

- Extension of the reduction of stamp duty on the acquisition of property to 1.5% on the first €400,000 and an extension of the reduction of property transfer tax on the sale of property from 8% to 5%. This is applicable to promises of sale being signed until March 2021 with the final deed of transfer being signed until 31 December 2021.

## VAT

- Persons whose annual turnover does not exceed €30,000 (previously €20,000) may be registered as small businesses, in order not to charge VAT on the supplies that they make. On the other hand, such persons are not entitled to claim back VAT that they incur.



# Social Measures

## Cost of Living

- The cost of living increase for 2021 amounts to €1.75 per week. This increase will be granted to all employees, to pensioners and to those receiving social benefits. Students' stipends shall be increased pro-rata.

## Measures relating to employment

- One additional day of leave shall be added to all employees' yearly leave balance.

## Pensions

- Social security pensions shall be increased by €3.25 per week. Thus, together with the cost of living adjustment of €1.75, the increase for pensioners should be €5 per week (€260 per year).
- For the purposes of calculating eligibility for a national minimum pension, persons born before 1962 and who do not qualify for a contributory pension will be entitled to add to their total number of contributions any contributions paid prior to the attainment of 19 years of age.
- Amendments shall be made to the definition of a widow/er within the Social Security Act to align it to the provisions of the Civil Union and Cohabitation laws.
- Similar to previous years, the portion of any service pension which is not to be reduced from the social security pension is being increased by a further €200.

## Other Social Measures

- A yearly increase in children's allowance amounting to €70 per child granted to families having annual income of less than or equal to €25,318. Families having annual income of more than €25,318 will be entitled to a yearly increase of €50 per child.
- Increase in applicability thresholds for the in-work benefit. For couples in gainful employment, the threshold will increase to €35,000, for single parents, €23,000 and for a couple where only one person is in gainful employment the threshold will increase to €26,000.
- Foster Care allowance increased by €520 for a total allowance of €5,720 per year.
- A grant of €1,000 will be given to couples who adopt a child locally.
- An increase of between €70 to €108 per annum in the supplementary allowance shall be granted to persons who are 65 years and over. The additional supplementary allowance of €150 which was granted to persons who are 65 years and over and who are at risk of poverty, shall be extended to persons within the same age group who qualify for the supplementary allowance.
- The bonus for persons who are not entitled to receive a pension will increase by €50 per annum.

- Continuance of the grant scheme providing for a €300 grant to persons aged 75 years and over and the €350 grant for those aged 80 years and over, and who live in their home or a private residential home.
- Increase in the Carers Allowance from €5,291 to €6,000 per year, together with the widening of the eligibility criteria for the Carers Allowance and the Increased Carers Allowance.
- Introduction of a new additional assistance amounting to €300 per year for parents who have to stop working in order to care for children with severe disabilities.
- Allocation of €9 million for the continuation of the fund created to cater for inequalities suffered by certain persons in the past (such as port workers).
- Re-issue of Savings Bonds for pensioners who are over 62 years of age.



# Other Measures

## Government Vouchers

- Additional €100 Government vouchers to be issued of which €60 to be used for accommodation, hotels and restaurants and remaining €40 at other shops.

## Governance and Security

- Further reforms to strengthen good governance and the rule of law to ensure national stability, trust in Malta's institutions and economic growth.
- The newly formed Cabinet Committee on Governance has been charged with ensuring that Malta follows recommendations regarding good governance and the rule of law proposed by the Venice Commission, GRECO and Moneyval;
- The Constitutional Convention, led by the President of Malta, will continue.
- The offices of the Attorney General and the State Advocate will be strengthened further, with the creation of additional internal structures, new administrative procedures and added organisation.
- Addressing the Moneyval report published in July 2019, Malta presented its reply report to Moneyval on the 5th of October. This shows how Malta has addressed all of the 58 recommendations that were included in the original Moneyval report.
- Judicial Reform initiatives will continue to be undertaken.
- Programme for the modernisation of the Offices of the Notary to Government and the Notarial Archives which will include the digitisation of notarial records.

## Innovation and ecommerce

- Various measures and investment geared towards the digital sector including investment in cybersecurity, innovative technologies, e-sports and video game development and in 'upskilling' and 'reskilling'.
- Introduction of a framework to make Malta an ideal jurisdiction for start-ups.
- Initiatives to facilitate Maltese business to go online.
- Malta Enterprise to maintain, improve and introduce measures to assist businesses operating in Malta and to attract new investment.
- Malta Enterprise to introduce a new scheme for companies which employ less than 50 people to undergo transformation projects. The scheme will cover a maximum of 50% of the investment capped at a maximum of €200,000 per company. Such aid will be increased by €35,000 in case of collaboration with research institutions.

## Health

- The Maltese Government, in agreement with the European Union and the European Commission, will procure the COVID-19 vaccine as soon as it is made available in order to safeguard the public health of the community.
- The establishment of a Pandemic Reserve to supply resources to help manage the COVID-19 spread in Malta - in particular, financial resources will be allocated for the hiring of additional healthcare facilities to ensure that certain acute care does not cease to be provided.
- Introduction of Clinic Management Systems and Telemedicine Client Support Centre. This will facilitate communication between the healthcare professionals and their patients.
- Investment in a new blood transfusion centre and a specialised centre to process and store tissue and stem cells.

### Sports

- The establishment of a new authority, Malta Sports Integrity Authority, to ensure fair play and prevent corruption in competitive sports.
- The publication of a new act to regulate EquistriMalta.

### Art and Culture

- Continued investment to restore archeological sites.
- Various measures will be introduced to help individual artists and operators in the cultural and ancillary sectors to produce high-quality exhibitions, concerts, productions and similar initiatives.
- Exploring and opening new underwater sites.

### Education

- A strategy for the educational system to reduce the rate of early school leavers and increase the educational levels of adults within the 30 to 34 years bracket.
- Free internet subscription for a full year to students continuing their studies after secondary school.
- Launching accredited and higher educational online courses for adults and employees to further improve their skills.
- Investment in Autism Units in Secondary Schools to create an environment which caters for the needs of students with autism.



### Gozo

- Further measures to support Gozo to diversify its economy and reduce its dependency on the public sector and tourism. Various measures to generate further work and employment in Gozo.
- Various infrastructural measures including the rebuilding of roads, introduction of smart parking systems and the construction and embellishment of sport facilities.
- Measures to improve the connectivity between Malta and Gozo including the introduction of the Fast Ferry service.

### Construction Industry

- Set up of a new Building and Construction Authority (together with an appeal tribunal) aimed at improving professionalism in the construction industry and to reduce the risk of construction related incidents.
- Licensing framework requiring real estate agents, brokers and consultants to be authorised to work in the industry.

### Infrastructure

- Continued investment on the upgrading road network project (in particular the completion of the Central Link Project and Swieqi junction and new projects including the Luqa Junctions Project, Msida Creek Junction, Hal Kirkop tunnels and Airport Intersection Project), and the introduction of the “Safe Cycle Routes Project”.

- Completion of various ongoing port infrastructure projects, together with the commissioning of new projects, including the maintenance of existing piers.
- Launching of the Grand Harbour Clear Air Project which should help reduce the air pollution at Grand Harbour with the support of a shore side electricity system.
- Investment of €450 million over a seven year period to upgrade the industrial infrastructure and creation of new office spaces for business.
- Completion of the regeneration plan of the Ta’ Qali Artisan Village.
- Investment aimed for further growth in the aviation industry, in particular the renovation of the taxiway Lima project.
- Continued investment in healthcare services facilities, including the building a new Outpatients area, underground parking at Mater Dei, modernisation of a number of wards at Mount Carmel Hospital and Public Health Centers.

### Equality and Reforms

- Incentives to be granted to employers to offer their employees a better work life balance as well as incentives for men to participate further in family life.

### Citizenship

- Malta will continue to form part of the “Smart Borders” initiative with other European States, to safeguard the European frontiers against organised crime and terrorism. In this respect, Malta is developing new technology infrastructure to keep a record of all individuals entering and leaving Malta.
- Efforts to review and renew the criteria applied for the acceptance of individuals into programs relating to residency or citizenship by investment, to ensure that the individuals are worthy of citizenship or residence. Further details about this initiative should be available when the new programs are launched.

### Tourism

- Government will be launching a strategy for the tourism sector which will include measures to incentivise digital transformation, the promotion of conference and incentive travel and the setting up of a Safe City concept.

### Housing

- The equity sharing scheme options and the measures relating to social housing and affordable housing will be continued.
- The introduction of a scheme intended to enable individuals to regularise their ordinary residence or garages in cases where there are discrepancies between the contract plan and the actual building, thereby removing current obstacles hindering the transfer of such properties.

### Agriculture and Fisheries

- The introduction of grants equivalent to the tax paid on the sale of products by fishermen and farmers at the fish and vegetable markets.

### Vehicles used on public holidays and weekends

- Vehicles which are registered with Transport Malta to be used solely on weekends and public holidays will benefit from a reduction of 35% of the annual motor licence.

### Wheelchair accessible taxis

- A grant of €10,000 upon the registration of new wheelchair accessible taxis.



# Sustainability and the Environment

## Main measures

- Long-term implementation plan towards achieving a 'Net Zero, Carbon Neutral' environment for the tourism industry. The plan is for every tourism establishment to have its operations generating green energy and to target a lower consumption of energy through innovative technology.
- Continued studies on the possibility and the feasibility to build a light railway network in Malta.
- Improvement on the water production and distribution systems - including the building of reservoirs in the south of Malta, which will produce tertiary level water, a reverse osmosis plant in Gozo and a tunnel that will link the Pembroke plant to the reservoirs in Ta' Qali.
- Distribution of water saving kits to households, improving the quality of tap water and the handling of water leaks.
- An attractive package will be offered to investors to issue "Green Bonds" which will finance projects which promote renewable energy and which reduce air pollution.
- A waste management plan including the building of plants for electricity generation from non-recyclable waste (reducing the need for landfills), for the disposal of clinical waste and organic waste for composting purposes.
- As from January 2021, the importation of single-use plastic will be banned. As from January 2022, the sale of these products will also be banned.
- Schemes will be introduced in order to incentivise owners of private residences and commercial establishments to install Green Walls.

## Incentives for the use of renewable energy

- Schemes for the installation of solar panels, heat pump water heaters, solar water heaters and renewable energy storage batteries will be extended.
- A feed-in tariff for electricity generated by solar photovoltaic installations will continue to be established.
- Studies on the possibility of switching to electric-powered vehicles within the public transport service.
- Schemes for the restoration of wells in residential homes, the appliance replacement scheme in vulnerable households and the grant for the purchase of reverse osmosis will also be extended.
- More charging pillars for electric vehicles will be installed and made available to the general public.
- Five "Eco-Intermodal Hubs" will be installed in strategic locations around the Maltese islands, where the public will be given access to all information on means of transport, rental of e-scooters and e-bikes, as well as facilities where one can charge their phones and use WIFI.

## Vehicle scrapping schemes

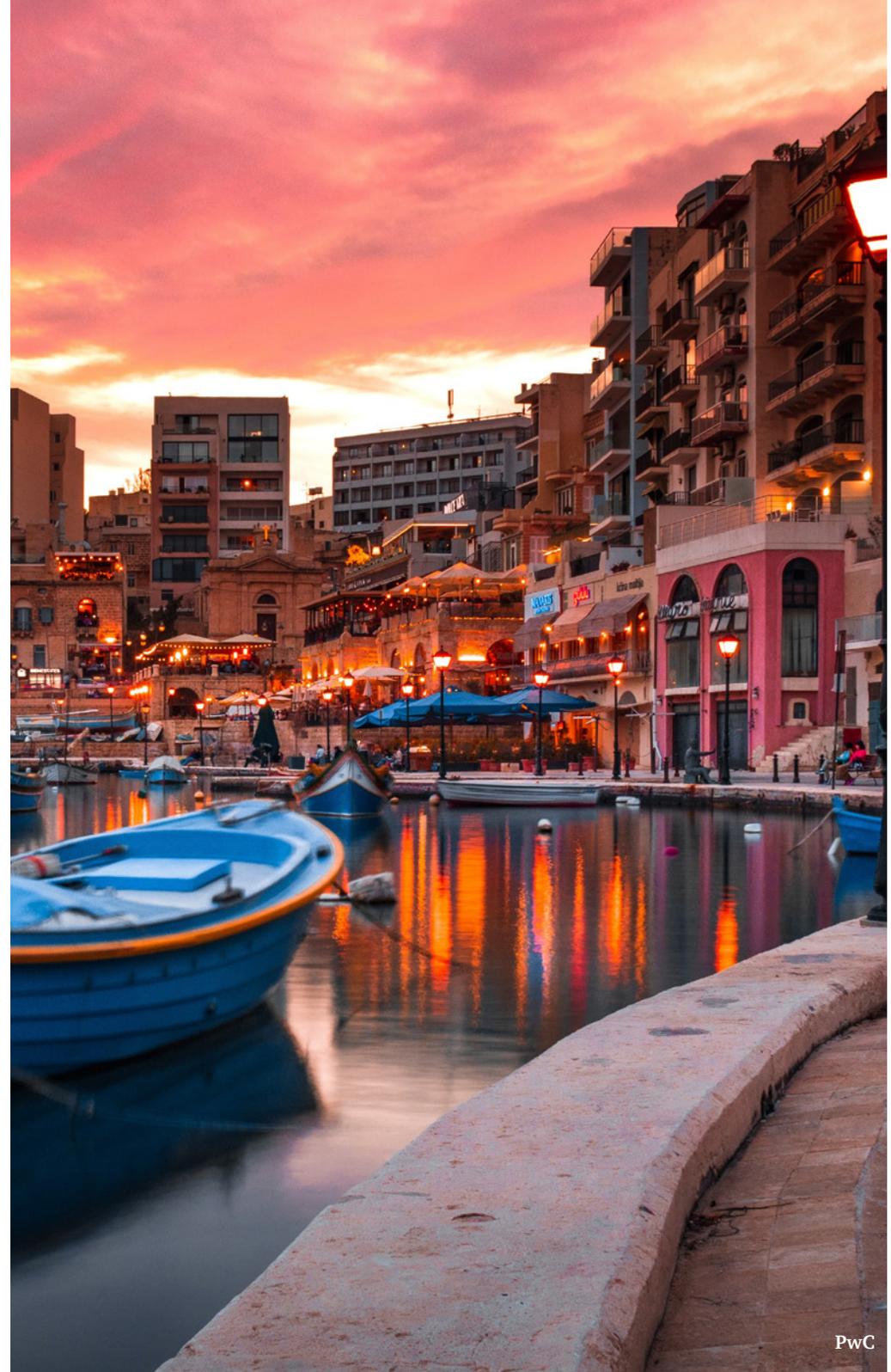
- Grants will be awarded when one scraps a vehicle which has been in circulation for more than a decade, and which is replaced by a less polluting vehicle. The grant will vary depending on the emissions of the new vehicle and the highest grant amounts to seven thousand euro (€ 7,000).

### Alternative transportation

- The measures for exemption from registration tax and from the payment of the annual road license on electric vehicles and plug-in electric vehicles for a period of five years from the date of first registration will be extended.
- The special rate applicable to residential homes owned by individuals who have an electric vehicle and who charge their car overnight will remain in force.

### Other schemes

- The scheme awarding a full VAT refund on bicycles and electronic bicycles will be extended. The same applies to the scheme that incentivises the purchase of electric motorcycles, scooters and bicycles by awarding a VAT refund up to a maximum of €400.
- A grant of €400 will be awarded to those who convert their vehicle to run on gas instead of fuel, if the reduction of the CO2 emissions of the vehicle is reduced by 25%. This scheme will also apply to all passenger and freight transport vehicles, in which case the grant will amount to a maximum of €800.
- The annual license of motorcycles with a cubic capacity between 125cc and 250cc renewed in 2021 will be reduced from €65 to €25.





The notes are designed to keep readers abreast with financial and tax developments. They are not intended to be a definitive or comprehensive analysis of the subject and should not be acted upon without prior consultation with the Partners or Senior Consultants of the firm. For further details please do not hesitate to contact:

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