

# Budget 2021

Malta Chamber of SMEs`  
**19 proposals for a Covid 19  
Budget Year  
August 2020**

## The SME Chamber Budget priorities for 2021

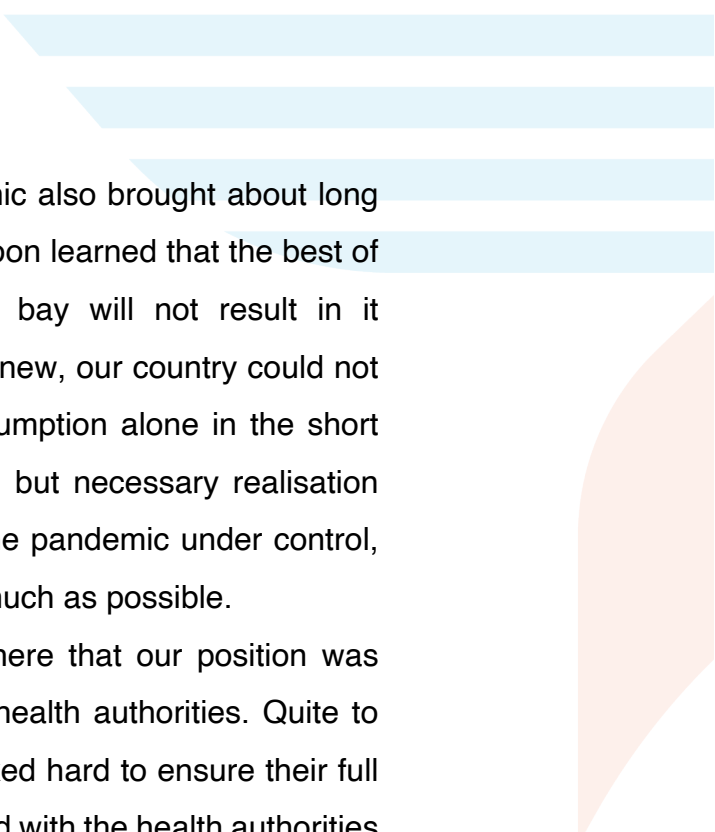
- **Reduction of Income Tax on Business Trading Income**
- **Lowering the VAT rates**
- **Removal of SISA**
- **Extend COVID Wage Supplement**
- **Relaunching the Voucher Scheme**
- **Graduating Banking support**
- **New Employment and Training Schemes**
- **eCommerce supplementary support schemes**
- **Extending MicroInvest benefits**
- **No Succession Duty on Family Business Causa Mortis transfers to Family Members**
- **Incentives for Gozo**

## Foreword



2020 was an exceptional year for all the wrong reasons, for the absolute majority of businesses. When considering the juncture businesses were at when the pandemic hit us - it was at a point of hope. This resulted from a study the SME Chamber carried out at the beginning of the year which showed that businesses did not close the year as well as had been projected, mainly due to the political instability our country was going through. Some areas and sectors were hit worse than others. With the change of the topmost government officials stability was partially restored and a feel good factor was created in the country and businesses that gave way to a positive and hopeful outlook.

This was unfortunately short lived since the new administration had barely settled in when news of the pandemic overseas had reached us shortly after. Within a few days the pandemic hit Malta and the impact was drastic, from one day to the next. No businesses could be prepared for what the drastic effects of the pandemic meant. The pandemic also came at a time when business needed a good economic term to complete plans and make up for previous problems experienced.



Unfortunately, the pandemic also brought about long term disruptions and we soon learned that the best of our efforts to keep it at bay will not result in it disappearing and, as we knew, our country could not survive on domestic consumption alone in the short term. This led to the hard but necessary realisation that we needed to keep the pandemic under control, whilst normalising life as much as possible.

I would like to point out here that our position was never against that of the health authorities. Quite to the contrary we have worked hard to ensure their full implementation and worked with the health authorities to make guidelines easily implementable. From the health front the SME Chamber gave its full support because health and economy do not go against each other, they actually work hand in hand and the best outcome is to balance each other.

Currently we are in the new norm and anxiously awaiting a vaccine that will put an end to this. The SME Chamber believes that better days are ahead of us but this will not come earlier than March 2021. Till then I am advising the government to keep up and increase its support measures so that most businesses will live to see the day. Bridging the gap pays better because it costs less to the government

than all that comes with business closures and both mass and long-term unemployment.

Unfortunately not everyone could make it and we also suffered business casualties, something that saddens me greatly. My team and I have done our best to assist the government and support our members in all ways possible. This is our vocation and it is something we will continue doing in whatever circumstance we find ourselves.

Moneyval and our country's reputation is a big concern for us. A lot of unmeasurable damage was done to our country and Malta is still to face the music in this sense. Public officials are also working around the clock to mitigate the effects of Moneyval. My Chamber and I note that the country is working towards a clean slate and this could not come any sooner since we will have a lot to rebuild to clean our country's name and that of the Maltese people and businesses.



**Paul Abela**

**Malta Chamber of SMEs President**

- **Reduction of Income Tax on Business Trading Income**

This is one proposal the SME Chamber has consistently been presenting to the government and this must be the year of its implementation. Previously, this request rested on the assurance that our country afforded it and we should have helped our businesses in being competitive. The additional funds collected by the government were an important component of the kitty that was reinvested in the businesses to help them stay afloat during Covid.

Today our proposals are presented within a context of a post-war situation where economic regeneration is needed. The government has done a lot for businesses but income tax levels cannot remain the same.

We envisage that in 2021 businesses will be on the recovery and nothing can give a bigger boost than encouraging businesses to strengthen their position and re-invest it in their business. One should keep in mind that the time is coming for businesses to start repaying their postponed bills. Deferred taxes will become due and banks loans will need to be repaid. Businesses cannot carry all this burden and they will falter under the weight of what has accumulated. To balance this out and accelerate economic recovery the Government needs to lower income tax on business. The balancesheet of the country will return back to health in a natural way as things pick up.

The SME Chamber proposed system will also introduce a greater level playing field and address the disparity with advantageous tax systems attracting foreign businesses where it hurts most.

### Proposal 1

Income tax to be reduced to 20% for the first Eur 100,000 in profits, to leave increased liquidity in the pockets of businesses. In addition, this would be considered as a FINAL WITHHOLDING TAX on which the beneficial owner would not be obliged to pay the difference and on which NO REFUND can be claimed back.

- **Lowering the VAT rates**

Numerous Member States have already taken action on reducing VAT rates in order to encourage economic activity. Even though the level of demand for most goods and services was low, this does not mean that prices could be reduced as a consequence in most cases. To the contrary, as a general rule, prices had to increase since, apart from having a number of costs accumulate – during business closures, the new health guidelines meant that operational costs would increase and the number of clients decrease due to limitations in capacity.

The pandemic has however in reality affected all businesses because of negative consumer confidence and reduced spending power. A reduction in VAT paid will boost consumption and make goods and services more affordable for the consumer. The SME Chamber therefore asks for the following reduction in VAT rates. This proposal is also reflective of the severity of the impact of Covid.

## Proposal 2

- A. General reduction in rate from 18% to 10% for business
- B. Special VAT rate of 7%
  - Restaurants and Catering establishments
  - Bars, coffee shops and clubs
  - Private Sea and Land Transport provision (Including rental and leasing sector)
  - Malta hand-made crafts
  - Tourist attractions
  - Diving centres
- C. '0' VAT rate
  - Events (incorporating linked business activities in line with the wage supplement)
  - Weddings (incorporating linked business activities in line with the wage supplement)
  - Travel Agencies and Tour Operators

- **Removal of SISA**

SISA is an unfair hidden tax. Unfair on businesses and unfair on consumers. SISA is ill-fitting in the current economic climate when consumption should be incentivised and not dis-incentivised.

When costing what SISA means for business, one not only needs to quantify the additional expense placed on the product that will make Maltese goods, when compared to online and undeclared goods uncompetitive, one also has to cost the intense bureaucratic process that this entails and the



situation is worse for goods that do not carry the identifying marker and therefore their illegality cannot be easily detected.

### Proposal 3

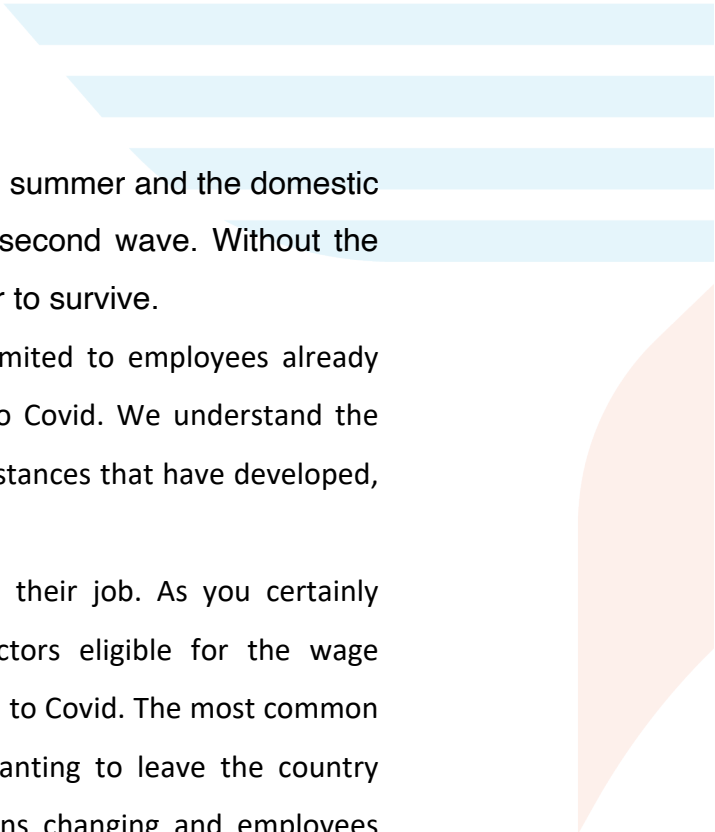
The SME Chamber calls for excise to be removed for all goods that do not carry the excise identifying marker.

- **Extending the COVID Wage Supplement**

The Covid Wage Supplement is the strongest measure that has kept businesses afloat. It is essential for this measure to stay in place till the effect of Covid subsidies. The absolute majority of members have in fact confirmed that removal of the Wage Supplement will lead to mass unemployment.

We envisage that as a minimum the Wage Supplement must be extended till March 2021. Businesses need predictability. Without a lengthier extension of the wage supplement businesses will not be in a position to plan ahead and seriously think about generating growth because their only focus will remain on retaining their employees and they need to ensure that they have sufficient funds to afford this.

In addition to this, the weaning off must be reconsidered. When the latest support brackets were announced nobody was envisaging a second wage hitting us again in what is the peak season for business. Businesses that peak during summer and are tourism dependent have once again lost too much on their best season and this usually gets them through the shoulder



months. There was practically no tourism during summer and the domestic market was hit by uncertainty because of the second wave. Without the Wage Supplement it will be a very difficult winter to survive.

Apart from this the Covid wage supplement is limited to employees already employed with the specific business entity prior to Covid. We understand the reasoning behind this, yet there are specific circumstances that have developed, which we believe should be seriously considered.

Different reasons have led to employees quitting their job. As you certainly appreciate those quitting within the specific sectors eligible for the wage supplement did so mainly because of reasons linked to Covid. The most common reasons we have encountered are either TCNs wanting to leave the country because of the uncertainty and personal conditions changing and employees moving into other sectors where job security is perceived as better.

These are employees that have not been made redundant and the relevant reasons behind the termination of employment is given to Jobsplus.

Some of these employees were in positions or form part of the critical capacity that the enterprise cannot function without and had to be replaced. The big difficulty the businesses are facing is that if the employees stayed on they would have been covered by the wage supplement. Now because their employees decided to leave, the business was thrown into an even bigger precarious situation with the that lack of help from this end. The relevant tools are also available to ensure that the system is not abused.

<b>Proposal 4</b>	Extension of the Wage Supplement till March 2021
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<p><b>Proposal 5</b></p>	<p>Reintegrate the following sectors on Annex A with the full wage supplement:</p> <ul style="list-style-type: none"> <li>• Weddings (incorporating linked business activities in line with the wage supplement)</li> <li>• Bars and clubs</li> <li>• Private Sea transport services</li> <li>• Tourist attractions</li> <li>• Diving Centres</li> <li>• Genuine crafts manufacturers</li> </ul>
<p><b>Proposal 6</b></p>	<p>Give the possibility to employers to integrate critical staff in the Wage Supplement system to replace employees that have left and not made redundant.</p>

- **Relaunching the Voucher Scheme**

The voucher scheme has worked very well and this is another main measure that has kept businesses afloat. Businesses have come across many vouchers and this has proven to be essential to boost consumer confidence. Having said this however businesses still feel that consumers have held back. Apart from the uncertainty, for which the voucher scheme was primarily aimed, the second wave hit consumer confidence hard again and this dwindled spending. Without the vouchers businesses confirm that the situation would have been much worse.

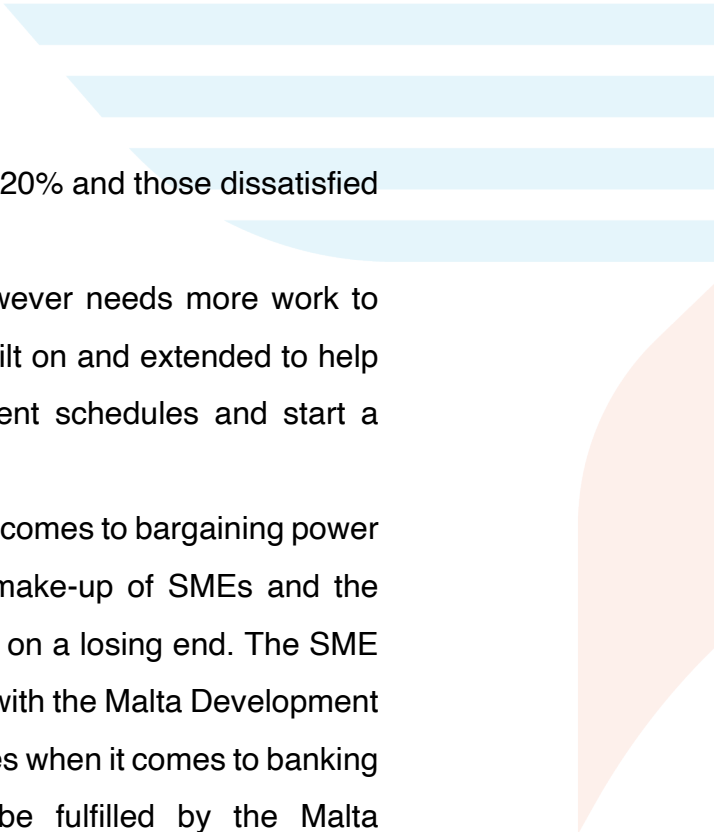
The winter season is however expected to be a hard one and we are therefore proposing a similar initiative with some tweaking and a campaign to sustain it.

<b>Proposal 7</b>	Redistribution of another round of Eur 100 vouchers. This time however the blue vouchers should be at a value of Eur 40 and the red vouchers Eur 60.
<b>Proposal 8</b>	A government campaign should accompany this relaunch targeting two outcomes <ul style="list-style-type: none"><li>• Encourage consumer spending in a safe manner to counter the strong health campaign that took place at the start of the pandemic</li><li>• Encourage consumers to shop local and support local businesses</li></ul>

- **Graduating Banking support**

SMEs` relationships with banks has been greatly facilitated with the positive role the Malta Development Bank and the Central Bank of Malta have played. Without the support of these two entities the situation would be markedly different and a negative one.

This is evidenced from the results of two studies that the SME Chamber has carried out, one prior to the launch of the MDB scheme and the other one after. In fact, even though the MDB scheme was still in its early days, those



satisfied with the service increased from 14% to 20% and those dissatisfied with the service decreased from 56% to 43%.

The challenges SMEs face with banks still however needs more work to overcome and the current support should be built on and extended to help SMEs ease into normal payment of commitment schedules and start a strengthening process for their business.

SMEs are at the bottom of the food chain when it comes to bargaining power and their positioning with banks. The natural make-up of SMEs and the dynamics of the market, places them constantly on a losing end. The SME Chamber suggests embarking on a joint project with the Malta Development Bank in order to assess the current market failures when it comes to banking services for SMEs so that such role can be fulfilled by the Malta Development Bank.

Moneyval and the increased regulatory requirements have limited the risk appetite of banks greatly and this is stifling business at a precarious juncture.

The SME Chamber would like to see the MDB offer complementary financing facilities to those offered by banks to provide expanded liquidity assistance that are affordable to access. This will give life time to companies that are struggling and are being made to choose closure over the possibility of accessing very difficult bridge-loans.

Apart from this the SME Chamber also registers multiple levels of dysfunctionality in the market with exorbitant charges on both physical and online payments, excessive bureaucracy and great difficulty to carry out basic processes such as opening of bank accounts. A project must be initiated in this sense on a national level.

<b>Proposal 9</b>	Extension of the moratoria on bank re-payment for an additional 6 months in the form of a partial moratorium.
<b>Proposal 10</b>	Interest rate subsidy of 2.5% to be extended to all loans linked to new investments.

- **New Employment and Training Schemes**

The employment market is a very volatile one at the moment and the going of business at the moment is not a rosy one. We do not exclude increase in unemployment levels as the situation does not improve. As already explained above, and costs continue to build on employers, including wage related costs and others. Employers are getting to a point where they need to cut their losses.

As such, the SME Chamber is proposing two measures, one targeting still employed and the other targeting re-employed for those that have lost their job as a result of Covid.

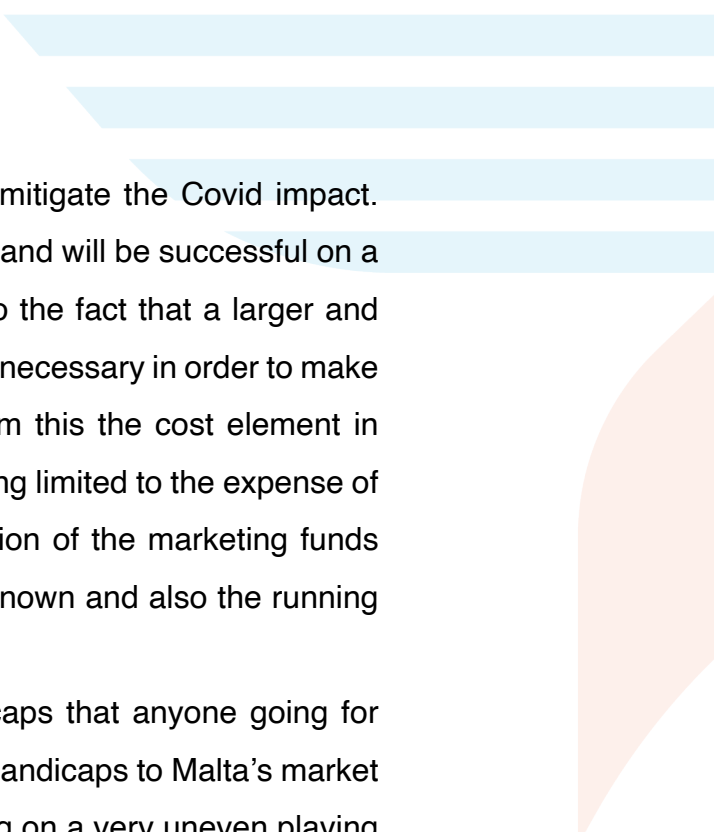
Apart from this, the SME Chamber also believes that the Get Qualified Scheme should also be widened in order to make it more attractive for private individuals to further their studies. This incentive will greatly help the private education providers that have been negatively hit by Covid in two ways, firstly because exam dates moved and therefore students had little interest in enrolling in courses before their exam results were out and

secondly because this industry could not adapt to online learning as quickly with courses having to be resubmitted to NCFHE for approval of new training methods.

<b>Proposal 11</b>	A full financed training scheme based on the training necessities of employers that will incentivise the business to keep employees on and rather than staying unproductive, turn this into precious time to come out of Covid stronger and be able to make up for lost time.
<b>Proposal 12</b>	A re-employment grant scheme where employers that employ someone who has over the last months been made redundant due to Covid would be assisted by covering Eur 500/month for one year. This is close to the unemployment benefit, which the state would still be covering. With this help however employers will be able to top-up the wage in order to give the individual a better standard of living and the government would get a return on taxes paid.
<b>Proposal 13</b>	<ul style="list-style-type: none"> <li>• Increase MQF 5 GET QUALIFIED TAX REBATE TO 100% from current 70% and capping of €5500 from the current €3500.</li> <li>• Increase MQF 6 GET QUALIFIED TAX REBATE TO 85% from current 70% and capping of €13,500 from €12,500.</li> </ul>

- **eCommerce supplementary support schemes**

It has never been clearer to businesses that eCommerce is the way forward. Enterprises have in fact, even in the constrained times of Covid, invested in



their digital presence in the hope that this will mitigate the Covid impact. Still, not everyone who invested was successful and will be successful on a longer-term. We attribute this problem mainly to the fact that a larger and better thought out plan and investment would be necessary in order to make the eCommerce site really attractive. Apart from this the cost element in many cases was possibly underestimated to being limited to the expense of the creation of the site and an under appreciation of the marketing funds that would be necessary to make the platform known and also the running costs involved to keep it up to speed.

Secondly, one must also recognise two handicaps that anyone going for eCommerce in Malta faces, which are inherent handicaps to Malta's market dynamic. eCommerce businesses are competing on a very uneven playing field with foreign sites and we want to overcome the following disadvantages:

- Possibility to apply a totally different business model where the only costs are of cheap warehousing and a delivery system
- Economies of scale having a larger market to depend on as a starting point
- A quarter of the postal charges (and outside the EU even none) when compared to what is charges to Maltese businesses that they would need to take into consideration in deliveries.

Being a small island economy, Malta has to sometimes get creative in order to help its own economy and we are asking policy makers to think outside the box and help Maltese eCommerce.

It is entirely in the interest of the state to reduce the billions of euros being exported outside our county by consumers purchasing online and directing



them to local online purchases in order to benefit from taxes collected and money reinvested in our economy.

<p><b>Proposal 14</b></p>	<p>A grant scheme that would help businesses cover costs linked to the successful execution of a website. This should include:</p> <ul style="list-style-type: none"> <li>- Building/updating/replacing of content which includes products or services for sale.</li> <li>- The optimization of client experience</li> <li>- Linking the site to stocks and having a fully fledged integrated system that can also include the upgrade of the point of sale system and backend functions</li> <li>- Marketing campaign</li> </ul>
<p><b>Proposal 15</b></p>	<p>A state-funded incentive for consumers, based on a refund system, to encourage online purchases through sites of Malta-based businesses. This might include the refund of VAT through a voucher related to the VAT paid on the online purchase, which voucher would be able to be spent on any website of the consumer's choice that accepts such voucher.</p>

- **Extending MicroInvest benefits**

The MicroInvest scheme is without a doubt a very valid scheme and its initial allowance for conversion into a tax grant is very important. We believe this incentive should be increased since we can see that profits will take longer to be registered and businesses are in dire need of help with their cashflow.

In line with this point the SME Chamber also notes a number of additional costs that businesses are having to endure on a regular basis and for the period covering Covid, the scope of MicroInvest should be widened to help cover these costs and encourage enterprises to invest in hygiene and Covid protection systems fully.

<b>Proposal 16</b>	Extending the cash conversion possibility of MicroInvest from 30% to 50% up to a maximum of Eur 5000 instead of Eur 2000 to for all enterprises
<b>Proposal 17</b>	Extend eligible costs covered by MicroInvest to cover Covid consumables including: <ul style="list-style-type: none"> <li>- Disposable and reusable masks</li> <li>- Disinfection and fumigation services</li> <li>- Sanitizers</li> <li>- Covid related cleaning products and services</li> </ul>

- **No Succession Duty on Family Business Causa Mortis transfers to Family Members**

Death is the cause that forces a Family to restructure business ownership. In fact, surveys show that when a family member passes away, this results in huge stress to the family and it's business alike. In addition to this, the current legislation, ready to claw succession duty from a family immediately one of the owners dies, makes this time more difficult to endure. It is unfair that grieving families have to put up with this unjust tax when the business is actually staying within the same family.

The family, for Succession Duty, must be regarded as a nucleus and no duty should be claimed from transfers within the same family members of Registered Family Business. Enterprises pay taxes throughout their lifecycle, and the value of business at the time of death is already net from Government's share, especially when this is paid on a regular basis. Family Businesses find Succession Duty to be the Government's opportunity to tax in a very difficult moment. A huge burden which sometimes, due to unavailable liquidity, forces the remaining members to sell!

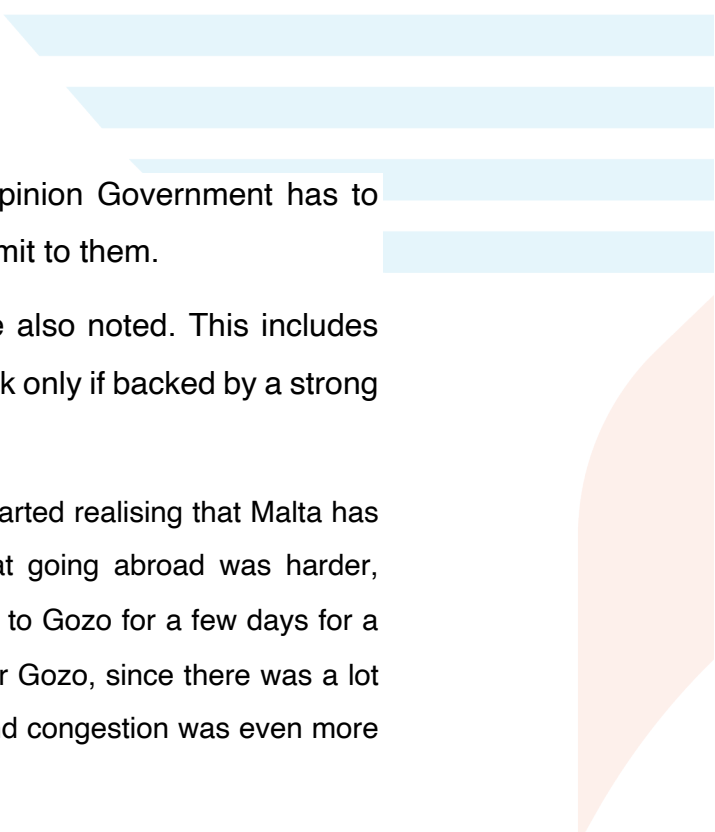
#### Proposal 18

No business succession tax on causa mortis when a business stays within the immediate family.

- **Incentives for Gozo**

The SME Chamber acknowledges progress made to-date on the permanent link, which is a very essential project for Gozo. The SME Chamber strongly believes that with the connection to the mainland, Gozo has the potential of becoming a more significant contributor.

Through the increased accessibility, the double insularity that is holding Gozo back from tapping certain important foreign direct investment, critical business and human resource capacity would be addressed. Concerns that have been voiced in relation to this project should however not be taken lightly. Increase in construction demand and traffic pressures are a reality. The SME Chamber is of the advice that the government will tackle these



two important issues from the outset. In our opinion Government has to come out with strong planning policies and commit to them.

Other important contributors to accessibility are also noted. This includes helicopter service which is a service that can work only if backed by a strong level of consistency to operate uninterruptedly.

Especially following the Covid situation, everyone started realising that Malta has very limited open spaces, and due to the fact that going abroad was harder, eventually, the Maltese population started migrating to Gozo for a few days for a 'holiday'. Economically, this makes a lot of sense for Gozo, since there was a lot of internal traffic. Nonetheless, the issue of traffic and congestion was even more profoundly highlighted.

Gozo is special for very specific reasons. This cannot be jeopardised and sustainability must be ensured to retain the Gozo we know today. Gozo has to keep its pristine nature without being flooded by cars and congestion. Towards this aim policies should be put in place to limit as many cars as possible on the island, whilst making sure that alternative and sustainable modes of transport on the island are readily available – the following should be considered in this sense:

- Dedicating a frequent and daily fast ferry/ferry only to those crossing the island without their car;
- Focusing more on bicycle sharing, scooter sharing, motorbike sharing;
- Promoting the efficient public transport in Gozo even more;
- Offering good TD Plus (minivan and booking seats) service in Gozo as well;
- Offering discounts to Maltese residents using electric vehicles when crossing;
- Promoting the use of motorcycles in Gozo rather than private cars;

- Using smaller buses or minivans rather than buses especially in frequently congested areas on the island;
- Incentivising the use of pedelec bicycles

The above suggestion would however still only solve part of the problem and in certain areas congestion has always been there and is unavoidable. The capacity within the capital city needs to increase. During the week parking facilities are becoming always more limited with the result of loss of business for the retail community in Victoria. The present parking in Victoria should be changed into a multi-level car park. This investment is a necessity. The centre of the city has to remain accessible to people.

Apart from this, the SME Chamber also proposes extending the stamp duty incentive. The reduction of stamp duty on transfer of property has created a demand for property in Gozo. In the SME Chamber's opinion this was an excellent decision that has put the property market in Gozo on an elevated level. This scheme should be increased for another year.

#### Proposal 19

##### Proposals for Gozo

- Extending stamp duty of property transfer in Gozo
- Improve accessibility into and within Gozo