



Ministry for Finance and Employment
An Analysis on Revenue Collection
Financial Year 2020

Report by the Auditor General
May 2022

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List of Abbreviations

ARR	Arrears of Revenue Return
CfR	Office of the Commissioner for Revenue
CTD	Capital Transfer Duty
EU	European Union
FSS	Final Settlement System
ICTU	International and Corporate Tax Unit
MFE	Ministry for Finance and Employment
NAO	National Audit Office
SSC	Social Security Contributions
TOR	Traditional Own Resources
VAT	Value Added Tax

Executive Summary

Scope

To collate and assess the procedures in place, as well as the revenue collected by the Office of the Commissioner for Revenue and Customs, during 2020.

To report on the level of enforcement procedures in relation to the collection of revenue.

Revenue Analysis

The revenue collected by the Ministry for Finance and Employment during 2020 was composed as follows:



€1,537 million
Income Tax



€1,064 million
Social Security Contributions



€122 million
Capital Transfer Duty



€780 million
Value Added Tax



€267 million
Customs

Methodology

The National Audit Office conducted a follow-up on the analysis reported upon in 2016, focusing on the changes that occurred during the subsequent four years.

Detailed research was conducted on the composition and collection of the different types of revenue. Questionnaires were then compiled and sent; two to the Office of the Commissioner for Revenue with respect to Income Tax and Value Added Tax, and another one to Customs.

Meetings were held with Senior Management from the Ministry for Finance and Employment, the Office of the Commissioner for Revenue and Customs, during which the questionnaires, as well as the scope of this analysis, were discussed.

The figures and information provided were analysed by the National Audit Office. Information from the Financial Estimates, Budget Speeches and various Annual Reports, was also used.

Enforcement Action

In order to collect the money due, various enforcement actions were applied, including remission of interest agreements and legal action.

Staff Complement

The need of staffing relocation in various areas responsible for revenue collection needs to be addressed.

Chapter 1 | Introduction

1.1 Background

The Office of the Commissioner for Revenue (CfR) within the Ministry for Finance and Employment (MFE), is responsible for the administration and collection of taxes, through three income generating laws: the Income Tax Act (Cap. 123), the Value Added Tax Act (Cap. 406) and the Duty on Documents and Transfers Act (Cap. 364), amongst others. The total estimated income from these three revenue streams for the year 2020 amounted to €3,235,042,000. Furthermore, the Ministry is in charge for the collection of Social Security Contributions (SSC) which, for the year 2020, had an estimated revenue of €1,149,000,000¹.

The Ministry is also responsible for Customs, which is another important revenue generator. Customs is entrusted with the control of imports and exports of goods, as well as with the collection of the respective taxes and duties, including import and excise duties. For the year 2020, Customs estimated total revenue amounted to €353,817,000.

The aim of the Ministry is to collect the fair amount of taxes in a timely and efficient manner, to ensure that funds are available for the required public services. The Commissioner for Revenue Act (Cap. 517), enacted on 20 January 2012, established that the role of CfR is to oversee the integration and management of the revenue-generating Departments. The aim of merging these Departments under the remit of one Office was to strengthen the revenue streams and consolidate the Maltese fiscal structure, thereby increasing sustainability, which is essential in the rapidly changing economic scenario.

On 11 March 2020, the World Health Organisation officially declared the COVID-19 outbreak, a global pandemic, that is, a severe public health emergency for citizens, societies, and economies. The pandemic put national health systems under severe strain, disrupting global supply chains, causing volatility in financial markets, triggering consumer demand shocks and having negative effects across various sectors. It has delivered a major economic shock that had serious repercussions in the European Union (EU) and beyond. As expected, Malta was not immune to the aforementioned situation.

1.2 Scope

The scope of the analysis was to collate, as well as assess, revenue collected by CfR and Customs during 2020. The level of enforcement procedures in place, in relation to the collection of revenue, was also reported upon.

¹ Estimated revenue from SSC is reported in the Financial Estimates under the Ministry for the Family, Children's Rights and Social Solidarity.

1.3 Methodology

The National Audit Office (NAO) had conducted a similar analysis in 2016. Thus, this analysis served as a follow-up on the information previously obtained and to examine the changes that occurred during the subsequent four years.

This Office prepared a total of three questionnaires, two to CfR with respect to Income Tax and Value Added Tax (VAT), and another one to Customs. A meeting was held with Senior Management within MFE, CfR and Customs, wherein this Office explained the scope of this analysis and the questions included in each questionnaire which were due to be sent to the foregoing. Following receipt of the respective feedback, NAO asked for clarifications as necessary, and held various other meetings in order to corroborate the information submitted before the response was analysed.

Information from Financial Estimates, MFE Annual Reports and Budget Speeches pertaining to various years were also used in this exercise, the results of which have been portrayed throughout this Report. Unless otherwise stated, all the figures quoted in the tables throughout this Report were provided by the respective sections within CfR and Customs.

This Office was also in receipt of statements of Arrears of Revenue of CfR and Customs, an analysis of which was presented in the Report by the Auditor General – Public Accounts 2020.

1.4 Financial Estimates 2020

Revenue projections, required as part of the 2020 budget preparatory process, were initially prepared by CfR and Customs as per MFIN Circular No. 1/2017 – ‘2018 – 2020 Business and Financial Plans’. Each Department provided its three-year revenue projections to the Budget Office, in response to the said circular. However, information collected by this Office showed that although the different Departments duly prepared their revenue projections, the ultimate revenue targets were those set by MFE, which at times differed considerably, as shown in Table 1.

Table 1: Analysis of Projections against Financial Estimates for 2020

Department	Actual Revenue	Projected by Department	As per Financial Estimates	Variance between Amounts projected by Department and Financial Estimates	
	€	€	€	€	%
CfR	2,438,628,527	2,905,562,000	3,235,042,000	329,480,000	11
Customs	267,359,444	345,740,000	353,817,000	8,077,000	2

(Source: Financial Estimates: 2020 pages 133-135, 2022 pages 318-320)

It was confirmed with CfR and Customs officials that while projections were usually submitted to MFE annually in the first quarter, the official budgetary estimates for 2020 were finalised later in the year. In normal circumstances, the projections are adjusted once the Budget Office has a better picture of the relevant revenue trends, including any planned budgetary measures and their impact on projected

revenue. In such cases, it is important to ensure that any one-time events occurring in the prior years are eliminated. During 2020, due to impact of the COVID-19 pandemic, these estimates had to be revised again to take into account new projections, the macroeconomic impact, as well as new budget measures introduced by the Government throughout the year.

The Economic Policy Department within MFE confirmed that throughout the year, ongoing discussions are held between the Budget Office and the respective Government Departments, following which the respective projections are updated to reflect any performance fluctuations.

1.5 Integration of the Revenue-generating Departments

In mid-2006, an Inter-departmental Working Group was set up, reporting to the Ministry responsible for Finance, with the aim to examine the three main revenue-generating Departments, being the Inland Revenue, VAT and Customs, and recommend the best framework of establishing a closer working relationship, as well as to create increasing synergies between the three Departments concerned. The result was intended to ensure that compliance costs were reduced, the system was fair, and taxes were collected on time through better enforcement, as well as ultimately providing a better service to the businesses and public in general. Work on this integration was an on-going process, with the implementation date set for December 2018 since due to its inherent complexity, this amalgamation involved considerable work.

According to CfR, from a collection point of view, the main benefit following this integration was that when discussing repayment terms for VAT, taxpayers were also being regularly reminded about their debts relating to the Final Settlement System (FSS) and Income Tax and vice versa. Hence, large debtors were being tackled to cover different taxes. Communication regarding collection also improved drastically since Income Tax and VAT have been housed within the same building.

In terms of the Commissioner for Revenue Act (Cap. 517), the Customs falls under the responsibility of CfR. However, unlike Income Tax and VAT functions, owing to its various distinctive roles, Customs was never administratively integrated within CfR. In this regard, both CfR and Customs have retained separate Budget Votes.

Chapter 2 | Commissioner for Revenue

2.1 Revenue Generation

The Financial Estimates for the year 2020 presented the below revenue figures for CfR.

Table 2: Financial Estimates for 2020 in relation to CfR

Revenue Category		Estimate 2020 €
Licences, Taxes and Fines		
0232 (1270)	Duty on Documents	195,000,000
0243 (1280)	Death and Donation Duty	10,000
Income Tax		
0171 (1360)	Income Tax ²	1,936,000,000
Value Added Tax		
0163 (1400)	Value Added Tax	1,099,000,000
Fees of Office		
0304 (1470)	Legal Costs and Fees	10,000
0309 (1510)	Fees for Permits for the acquisition of Immovable Property by Non-residents	70,000
0338 (1735)	Eco-contribution	75,000
0349 (1640)	Miscellaneous Fees	12,000
0354 (1745)	Environmental Contribution	4,500,000
Interest on Loans made by Government		
0679 (2170)	Others	5,000
Miscellaneous Receipts		
0999 (2350)	Miscellaneous Receipts	360,000
Total		3,235,042,000

(Source: Financial Estimates 2020 page 133)

The above figures show that the main revenue-generating votes within CfR relate to the collection of Income Tax and VAT, as well as Duty on Documents; the latter within the Licences, Taxes and Fines category.

2.2 Income Tax

Figures presented by CfR showed that during 2020, the gross revenue actually collected from Income Tax amounted to €1,625,033,787, out of which, the amount of €88,183,057 was paid out as refunds, leaving

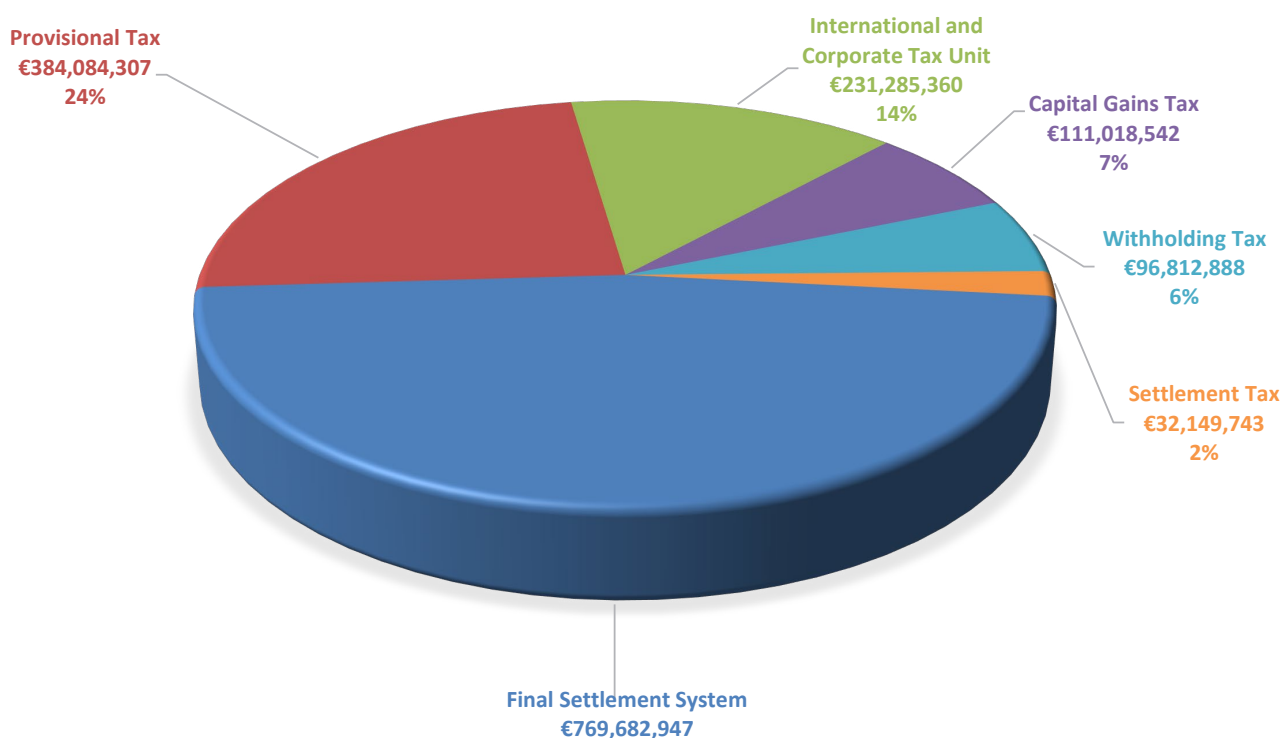
² This figure is net of refunds amounting to €100 million.

a net revenue balance of €1,536,850,730³; thus, a substantial decrease of 21% when compared to the budgetary estimates of €1,936,000,000 made by MFE for the same year. Income from SSC, including the State Contribution, totalled €1,064,132,321, resulting in an aggregate net collection of €2,600,983,051.

When preparing its own projections of expected revenues, CfR takes account of a number of considerations, including past results and trends, as well as changes in legislation and the knowledge of business, such as timeframe for payments. Although a Business Plan is presented by each Department to the Budget Office at the beginning of the year in line with relevant circulars, the respective projections are usually rather complicated given that there are many factors that can affect the actual revenue outcome, which is even more difficult to predict since CfR does not have economists, statisticians, data analysts or other specialised officers at its disposal. It transpired that the budgeted Income Tax collection estimated by both the Budget Office (€1.936 billion) and CfR (€1.72 billion) were both overstated when compared to that actually collected (€1.537 billion).

Chart 1 portrays a breakdown of the main revenue-generating categories for gross⁴ Income Tax collected, which for 2020, amounted to €1,625,033,787.

Chart 1: Gross Income Tax Categories for 2020



(Source: Office of the Commissioner for Revenue)

The largest portion of revenue was generated from FSS, which is a tax payment methodology designed to produce accurate deductions from employees' emoluments. It accounted for 47% of the gross revenue generated by CfR during 2020.

³ The updated figure quoted by CfR on 22 November 2021 as per the Corporate Financial Management Solution amounted to €1,536,851,025. The difference amounted to €295 and was considered immaterial for analysis purposes.

⁴ Net figures were not available for each category, while the refunds were one whole figure.

Another 24% of the yearly gross revenue was generated from Provisional Tax, paid by companies and self-employed individuals. In line with Maltese legislation, three Provisional Tax payments must be made every year, in April, August and December, based on the prior year's earnings. This category also includes payments for Self-Assessments, Tax at Source, Payments in terms of Article 73⁵ and Agriculture Produce Scheme⁶. Same category also includes Company Tax, Tax at Source, Payment in terms of Article 73, profits taxed at 32.5% topping-up, as well as tax on dividend from untaxed account in relation to companies.

The International Tax Unit, known as the International and Corporate Tax Unit (ICTU), accounted for 14% of CfR's gross revenue for the year 2020. The amount of over €231 million was transferred to the Consolidated Fund, net of the tax refunds paid by the respective companies⁷. Details on the functions of this Unit is given hereafter.

Other categories of income include Capital Gains Tax, Withholding Tax⁸ and Settlement Tax⁹, which collectively represented 15% of gross revenue.

2.2.1 International and Corporate Tax Unit

This Unit within CfR is made up of four sections. The aim of ICTU is to support the development of Malta as an international financial and business centre.

The Legal and Technical Section participates in the drafting of local tax legislation, including the transposition of EU Directives, issuing tax rulings and confirmations, and replying to technical queries. Its functions also include participation in international fora, including EU-related matters, as well as the administration of special tax programs applicable to high net worth individuals¹⁰.

The Operations and Refunds Section is involved in the registration of company share transfers through a mini one-stop shop, ensuring compliance with company tax matters and issuance of tax refunds under the refundable tax credit system for foreign investments. Mutual agreement procedures and advanced pricing agreements are also dealt with by this Section.

⁵ Article 73 of the Income Tax Act (Cap. 123) obliges persons who make a payment of income which is chargeable to tax, to a person not resident in Malta, to withhold tax at specified rates and remit it to CfR.

⁶ These payments refer to the tax that payors of agricultural produce are required to withhold on the sale of produce in terms of Sale Agricultural Produce Rules (S.L. 123.80).

⁷ Relating to revenue collected with respect to companies that have acquired a determination in terms of Article 47 of the Duty on Documents and Transfers Act (Cap. 364) and companies, the shareholders of which are registered to benefit from the refundable tax credit system.

⁸ Includes BOV Pension Arrangement (as per signed agreement with CfR), Final Withholding Tax on Rental Income, as well as Withholding Tax on Entertainment Activities, Filming in Malta, in terms of the Investment Income Provisions and on surrendering or maturity of Insurance Policies.

⁹ Includes settlement tax receipting, that is, payments on behalf of individual or company tax balances after the printing of a tax statement, interest payments, as well as additional tax on FSS, Late submission of Income Tax Returns and Omission.

¹⁰ Beneficiaries under these personal schemes are either non-domiciled individuals or non 'long-term residents' in terms of the Status of Long-term Residents (Third Country Nationals) Regulation (S.L. 217.05).

As the name implies, the Exchange of Information Section, is responsible for the efficient and effective cooperation between its foreign counterparts in Member States and third countries when requesting for assistance during tax investigations, pursuant to EU Directives and double taxation treaties.

The remit of the remaining Section, dealing with Risk Management and Finance is to assess and address risks arising from the activities of ICTU. It also carries out due diligence checks on companies using a risk-based approach. It receives tax payments and issues refunds triggered upon the distribution of imputed dividends, as well as the filing of a valid refund claim form and is also in charge of the bank accounts in the name of ICTU.

The revenue generated by ICTU during 2020 is actual income tax collected, net of refunds.

2.2.2 Variance Analysis

The actual amounts collected by CfR, including SSC, during 2020 differed from the estimated revenue as analysed in Table 3.

Table 3: Variance Analysis of Estimated against Actual Revenue for 2020

Revenue Category	Estimated	Actual Revenue	Variance	
	Revenue €	collected €	€	%
Income Tax Revenue net of Refunds	1,936,000,000	1,536,850,730	(399,149,270)	(21)
SSC ¹¹ including State Contribution	1,149,000,000	1,064,132,321	(84,867,679)	(7)
Totals	3,085,000,000	2,600,983,051	(484,016,949)	(16)

(Source: Financial Estimates 2020 pages 133 and 295, Financial Report 2020 pages xix and xxii)

As reported in MFE's Annual Report for 2020, the Maltese economy was estimated to grow by 5.7% in real terms during 2020. This was expected to be triggered through the increase in employment. However, as a result of the severe economic impact of COVID-19 and the ensuing restrictions to mitigate the spread of the pandemic, the anticipated economic growth did not materialise. Obviously, this situation impacted the forecasted revenue, including the collection of income taxes.

Subsequent Government measures to mitigate the associated economic, social and health risks, particularly those aimed at sustaining employment, lessened the severity of the pandemic on the labour market and sustained revenue from taxes on income and wealth, which, as quoted by MFE, declined by 8% in 2020, primarily from lower profits and corporate tax.

CfR confirmed that the Gross Domestic Product decreased substantially in 2020 when compared to the previous years. In order to improve business liquidity pressures on cash flow and to encourage the retention of employees, the Government provided additional fiscal assistance through the Tax Deferral

¹¹ Both SSC Class 1 and Class 2 are included in the figures.

Scheme that was issued during the year in question and extended to 2021. Taxes eligible to be deferred included VAT and Provisional Tax, which fell due in August 2020 up to and including December 2021. SSC of self-employed persons could also be deferred. These had to be settled as from May 2022.

By end 2020, a balance of around €66 million in income taxes was due to Government. This had an effect on the cash-based Consolidated Fund performance against targets.

Further analysis into the Income Tax revenue variance was carried out by NAO. This was based on the unofficial projected figure prepared by CfR, since the estimated income figure as per Financial Estimates was amalgamated with other revenue streams. This amounted to €2,036,000,000 before refunds. Thus, for comparison purposes, actual revenue collected was also taken gross of refunds. Table 4 refers.

Table 4: Variance Analysis of Estimated against Actual Revenue for 2020 - Income Tax

Revenue Category	Estimated Gross	Actual Gross	Variance	
	Revenue €	Revenue €	€	%
FSS	802,200,000	769,682,947	(32,517,053)	(4)
Provisional Tax	516,865,000	384,084,307	(132,780,693)	(26)
ICTU	381,800,000	231,285,360	(150,514,640)	(39)
Capital Gains Tax	181,250,000	111,018,542	(70,231,458)	(39)
Withholding Tax	116,935,000	96,812,888	(20,122,112)	(17)
Settlement Tax	36,950,000	32,149,743	(4,800,257)	(13)
Totals	2,036,000,000 ¹²	1,625,033,787 ¹³	(410,966,213)	(20)

(Source: Office of the Commissioner for Revenue)

According to CfR, it is difficult to attribute such variances to any event or circumstance, even though COVID-19 played a major part.

Revenue from FSS was the least effected by COVID-19 essentially due to the Wage Supplement paid by the Malta Enterprise on behalf of Government to those employees who experienced difficulties in their line of work. The supplement was paid net of tax and SSC which was in turn directly paid to CfR by the Malta Enterprise. However, even though these employees received this supplement as a fiscal incentive, they still had a reduction in their earnings, compared to what they had been earning before the pandemic. This was also reflected in the income tax paid. Notwithstanding this, as reported upon further down in this Report, FSS was the only category that increased over the previous periods, even though at a decreasing rate. According to CfR, while in Malta there was a period whereby unemployment increased; however, this was short-lived. A number of employees were not impacted by the effect of COVID-19, while others, whose work was temporarily suspended, returned back to the working force by the end of June 2020. Others even regularised their employment position, in order to benefit from the wage supplement, which amounted to around €800 (gross) every month.

¹² This amount is gross of Income Tax Refunds amounting to €100 million.

¹³ This amount is gross of Income Tax Refunds amounting to around €88 million.

Actual Provisional and Settlement Tax experienced an aggregate decrease of 39% over the estimated gross revenue. This drop was also attributed to the COVID-19 pandemic, possibly due to a decrease in companies' profits and earnings.

Another decrease of 39% pertaining to ICTU is highly likely to be also attributed to the impact of the pandemic on global corporate profits for international companies registered in Malta. Furthermore, international companies have an 18-month time window in order to settle their tax payments. Thus, as stated by an Economic Policy Department official, in order to try and recover from their cash flow issues during 2020, these companies resorted to delaying their payments to 2021, once this was possible. This mechanism for deferral of payments was already in place since 1994.

The reduction in the stamp duty on all property purchases (from 5% to 1.5%), lower tax for those selling property (reduced from 8% to 5%), as well as a wider coverage of the First Time Buyers Scheme and extension thereto, were estimated to have cost the Government around €12 million in forfeited tax on capital gains in 2020.

Moreover, the drop experienced in rental rates for those in the rental market, coupled with the vacated property, also as a repercussion of the COVID-19 pandemic, partly explains the reduction in revenue in the Withholding Tax category.

Table 5 below shows the variance analysis with regard to SSC.

Table 5: Variance Analysis of Estimated against Actual Revenue for 2020 - SSC

Revenue Category	Estimated Revenue	Actual Revenue	Variance	
	€	€	€	%
SSC – Class 1	715,000,000	648,700,061	(66,299,939)	(9)
SSC – Class 2	49,000,000	58,571,011	9,571,011	20
Additional SSC (Penalty)	3,000,000	2,817,551	(182,449)	(6)
State Contribution	382,000,000	354,043,698	(27,956,302)	(7)
Totals	1,149,000,000	1,064,132,321	(84,867,679)	(7)

(Source: Department of Social Security)

Between March and June 2020, the Ministry for Social Justice and Solidarity, the Family and Children's Rights issued four benefits¹⁴ to assist individuals during COVID-19 pandemic, comprising the Medical Benefit, the Disability Benefit, the Parent Benefit and the Unemployment Benefit, all of which applied to persons who, due to the several impacts of COVID-19, could neither go to work nor work from home.

Individuals eligible for any of the four schemes were entitled to have their SSC paid by Government on their behalf; thus, their future contributory pension rights were safeguarded. However, since most of the respective employees still experienced a reduction when compared to their normal salary, this was also reflected in the amount of SSC collected.

¹⁴ The COVID-19 benefits amounted to €166.15 per week if an employee works full-time or €103.85 per week if the employee works part-time.

2.2.3 Trend Analysis

An analysis of the 2020 gross income by category, was also carried out by NAO. This was compared to the respective income generated in the previous four years, as shown in Table 6¹⁵.

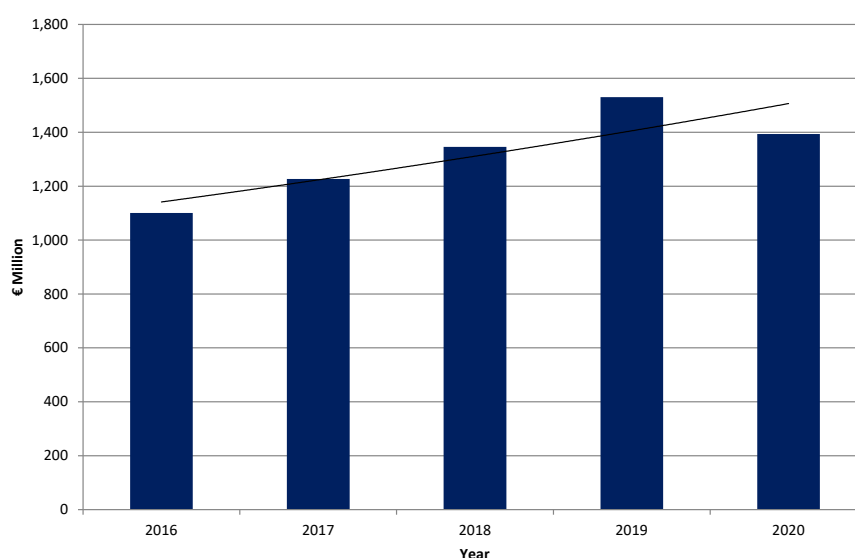
Table 6: Trend Analysis of Gross Income Tax (2016 - 2020)

Revenue Category	2016	2017	2018	2019	2020
	€	€	€	€	€
FSS	508,691,463	576,018,994	661,286,214	742,095,103	769,682,947
Provisional Tax	401,611,029	418,732,742	411,890,173	481,353,904	384,084,307
Capital Gains Tax	106,974,431	125,131,148	156,850,229	167,609,033	111,018,542
Withholding Tax	58,924,723	75,257,041	86,726,351	105,325,855	96,812,888
Settlement Tax	24,170,475	31,772,934	29,221,968	34,080,596	32,149,743
Totals	1,100,372,121	1,226,912,859	1,345,974,935	1,530,464,491	1,393,748,427

(Source: Office of the Commissioner for Revenue)

The above figures are also presented in Chart 2 below which shows a trend line extracted from the ensuing analysis.

Chart 2: Trend Analysis of Gross Income Tax (2016 - 2020)



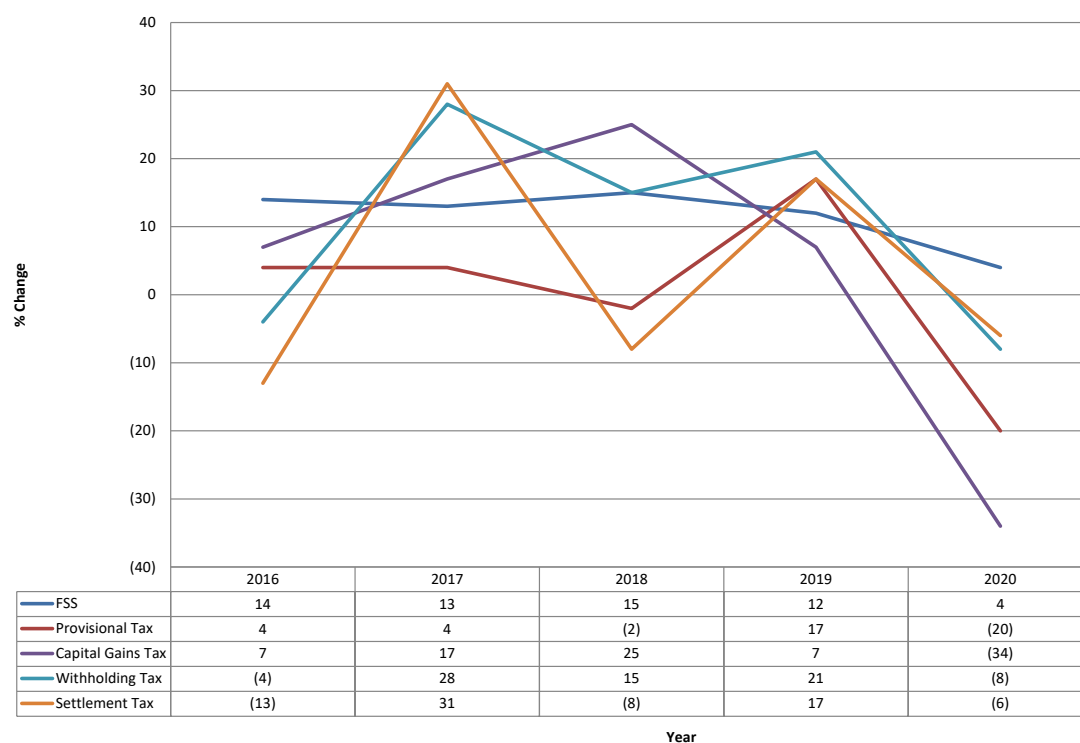
(Source: Office of the Commissioner for Revenue)

The chart indicates an upward trend in the collection of Income Tax over the period 2016 to 2019, where the increase in absolute terms amounted to €430 million. However, a 9% decrease, amounting to around €137 million, was then registered between 2019 and 2020.

Chart 3 shows the percentage movement for the Gross Income Tax categories when compared to the prior year.

¹⁵ Excluding revenue generated from ICTU.

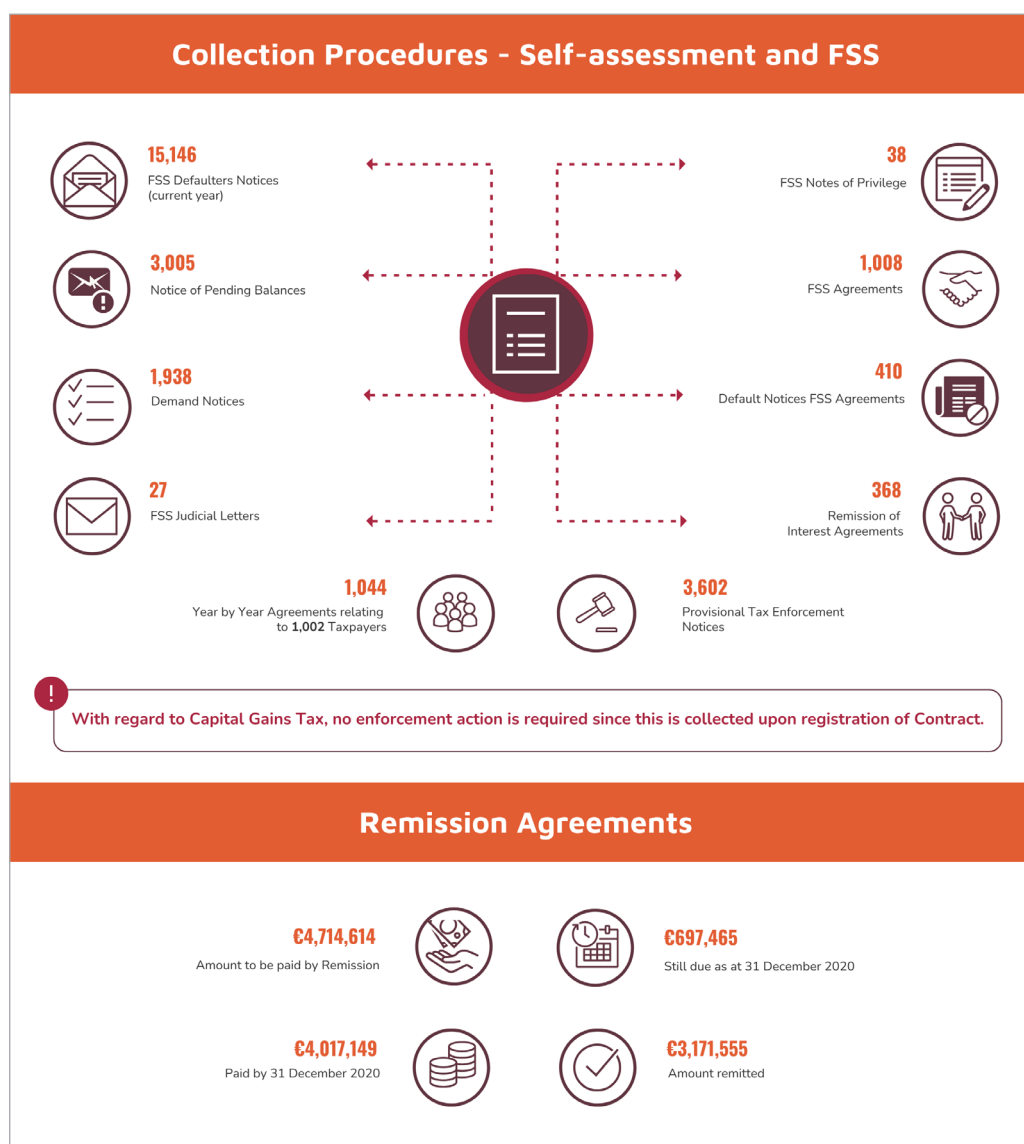
Chart 3: Analysis of Gross Income Tax (2016 - 2020)



(Source: Office of the Commissioner for Revenue)

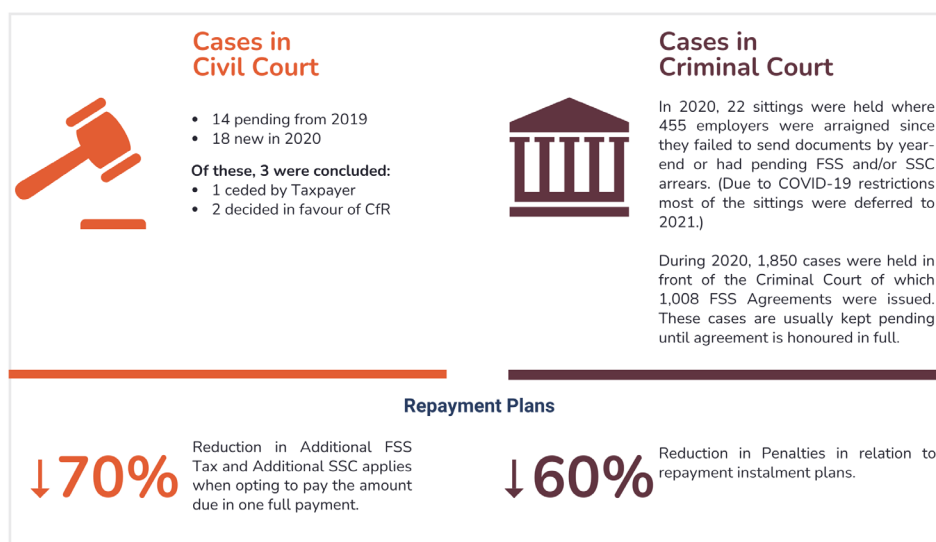
2.2.4 Collection Procedures

The following are the enforcement actions which were taken by CfR during 2020 in order to pursue the collection of the amounts due under the various revenue categories.



Furthermore, according to CfR, the Statement of Accounts can be viewed online, making it more efficient for all taxpayers to confirm what is due by them.

There were a number of cases in Court during 2020, relating to FSS and SSC, as is further portrayed on the next page.



This Office was informed that due to several restrictions brought about by the pandemic, the number of inspections that could be carried out during 2020 by the Investigations Section within CfR was limited. However, it managed to carry out 1,467 investigations, amongst which 120 were full audit investigations (following which €29 million in assessments were raised), 307 audit investigations¹⁶ in specific areas and 564 cases which were referred to by the Financial Intelligence Analysis Unit (from which €8.2 million was recouped). Another seven cases were referred to the Police Department since they related to tax evasion. The Joint Enforcement Unit within CfR also performed a total of 532 inspections to construction sites and businesses, amongst others, which triggered criminal action against 180 taxable individuals.

2.2.5 Arrears of Revenue

The Arrears of Revenue Return (ARR) as at year-end 2020 showed newly accrued arrears of €803,035,499. The closing amount estimated as not collectable totalled €1,177,520,292. No amounts related to income tax due were written off during the year; thus, leaving a net collectable balance of €364,951,185.

The methodology behind the estimated uncollectable amounts is based on specific percentages according to the ageing of the receivables. This has been in place for quite a number of years, presumably following an arrangement with the then Commissioner for Inland Revenue, whereby the older the debts are, the progressively higher the percentage was deemed as uncollectable. The Income Tax Act does not provide the CfR powers to write off amounts, without the prior approval from MFE. Consequently, old uncollectable debts have been accumulating, which is in turn reflected in the amounts estimated as uncollectable.

¹⁶ CfR was not in a position to determine the aggregate amount recouped as a result of these audit investigations.

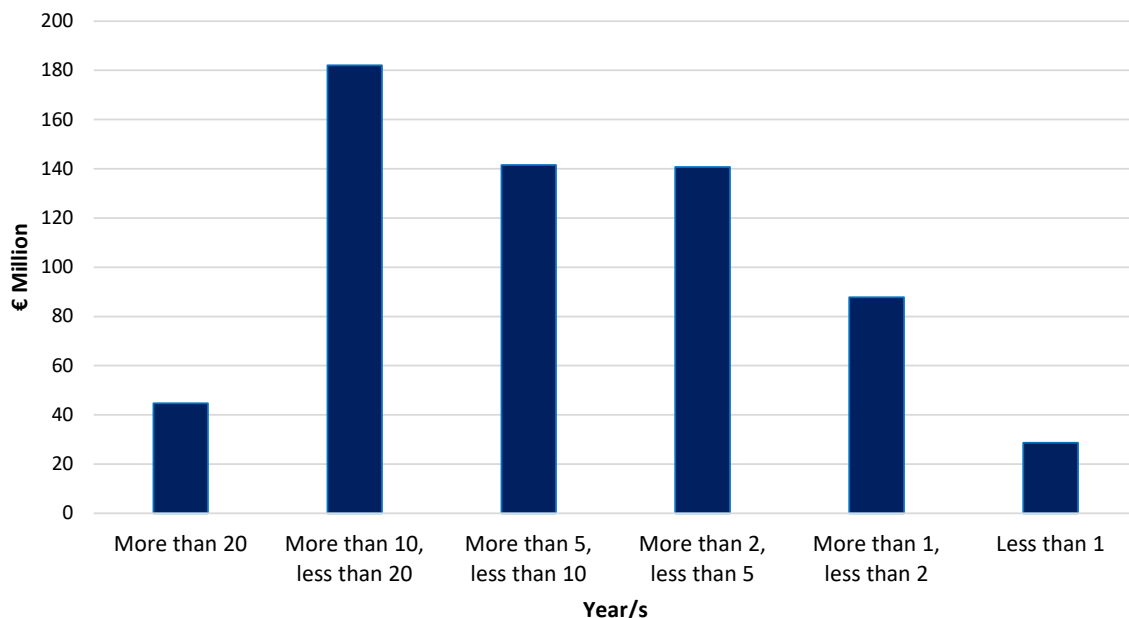
Balances relating to the Pre 1999 System, in aggregate amounting to €153,478,217, had a 90% probability of not being recovered. According to CfR, remission agreements are not entered into unless taxpayers accept to pay pending Pre 1999 balances, if any. Balances from the previous system are included in the remission amount payable. This approach enabled CfR to collect the amount of €307,912 from long outstanding balances during 2020.

The amount of more than €84 million, due for the years 1998 up till 2014, and pertaining to SSC Class 2 self-employed taxable persons, was estimated as not collectable. CfR estimated the probability of amounts remaining uncollectable will be 75% of the gross balances due for the year 2015, 60% for the year 2016 and 55% for 2017. A 40% non-collectability was taken for the years 2018 to 2020, being the most recent balances; thus, the possibility of payment is higher.

Any unpaid balances relating to FSS employees since 1998 were calculated as having a 70% chance of not being recouped, irrespective of the ageing of the amounts involved. As a result, out of a total gross arrears of €217 million, €152 million was deemed as not collectable. A similar approach was taken for SSC for the same Class of employees, but with approximately 48% chance of not paying.

The highest instance of non-collectability related to the Self-assessment System, with €625,302,697 estimated as uncollectable out of gross arrears of €719,236,648. CfR takes a flat rate to calculate the doubtful receivables which, for the year 2020, was estimated at 86.94%. The chart below shows the ageing of such balances.

Chart 4: Ageing Analysis of Self-assessment System - Amounts Estimated as not Collectable



(Source: Office of the Commissioner for Revenue)

CfR cannot distinguish between the different types of debtors, mainly dues from Government Departments and entities, and amounts outstanding from other third parties. Thus, according to CfR, a query in the system to classify the amounts due would be futile. This reporting limitation in the ARR is providing misleading information with regard to classification of intra-Government balances, and also hinders NAO during arrears testing.

2.3 Capital Transfer Duty

As portrayed in Table 2 (page 10 refers), estimated revenue from Duty on Documents for the year 2020 was €195 million. Officials within the Capital Transfer Duty (CTD) Section confirmed that there was no one who could provide accurate figures; those presented to the Budget Office were always based on past performance, taking into consideration budget measures announced by the Government.

Total revenue actually collected from Duty on Documents and Transfers during 2020 amounted to €122,074,921, i.e., 63% of the estimated amount. This included €1,306,192 that was settled against past arrears.

Budgeted estimates for 2020 were prepared during the prior year, when no one was aware of the COVID-19 pandemic. Consequently, the respective targets could not be met. As a matter of fact, the partial lockdown, between March and June 2020, had a negative impact on the sale of property sold and, as a result, no new contracts were formally entered into between buyers and sellers. This explains the adverse variance of 37% on revenue from Duty on Documents and Transfers.

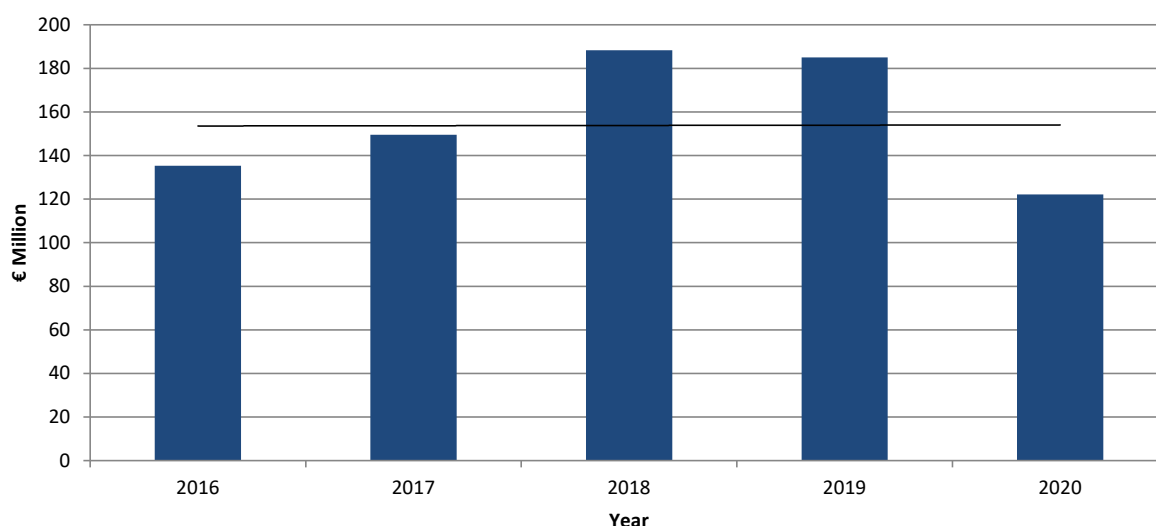
To make up for the decline in the number of properties transacted (from over 19,000 in 2019 to around 16,000 in 2020), Government introduced a number of beneficial schemes, aiming to boost the economy and encourage property sales. One of such schemes was the Regeneration measure, being the 1.5% reduced rate on property duty. This measure was introduced in June 2020; thus, the majority of the respective agreements were still at promise of sale stage by the end of that year.

Other measures included lower tax on capital gains for those selling property and a revision of the First Time Buyers Scheme, which was introduced in 2013 and created a substantial increase in revenue over the years. The reduced rate on duty for property purchased in Gozo in 2020 saved buyers more than €5.3 million, while the scheme on Urban Conservation Areas resulted in aggregate savings of around €1 million for the beneficiaries. Another scheme related to property for Second Time Buyers which, in 2020, was taken up by 263 individuals and who were refunded the sum of around €660,000. All these measures encouraged the buyers of property, even before the pandemic, and triggered a greater turnover of promises of sale and contracts, and likewise requests for refunds from those already paying the respective duty in full.

2.3.1 Trend Analysis

An analysis of income collected over the past five years (2016 to 2020) in relation to Duty on Documents was also conducted by this Office. Charts 5 and 6 further refer.

Chart 5: Trend Analysis of Duty on Documents and Transfers (2016 - 2020)



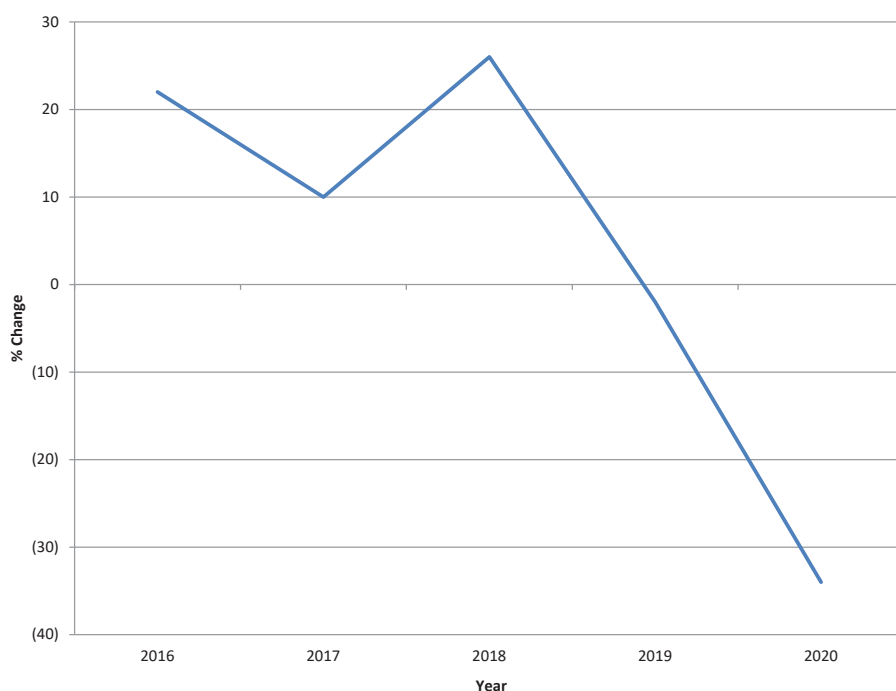
(Source: Financial Estimates: 2016 page 153, 2017 page 145, 2018 page 133, Financial Report 2020 pages 6, xxiii)

Even though there was an upward trend with respect to revenue attributable to Duty on Documents collected from 2016 to 2019, as expected, this trend was not maintained in 2020. The four-year increase was mainly attributed to the First Time Buyers Scheme, enacted in 2013, which saw a steady growth in the number of immovable property-related contracts registered every year. Through this Scheme, property transfers made since 5 November 2013 were subjected to an exemption on the amount of Duty on Documents due on the first €150,000 of the property's value, given that said immovable property was the first to be acquired inter vivos by the transferee.

Besides the other schemes, certain positive economic factors were also considered as additional factors contributing to the increase in contracts, and thus to the growth in revenue, until 2019.

Chart 6 shows the percentage movement for revenue from Duty on Documents and Transfers when compared to the prior year.

Chart 6: Analysis of Revenue from Duty on Documents and Transfers (2016 - 2020)

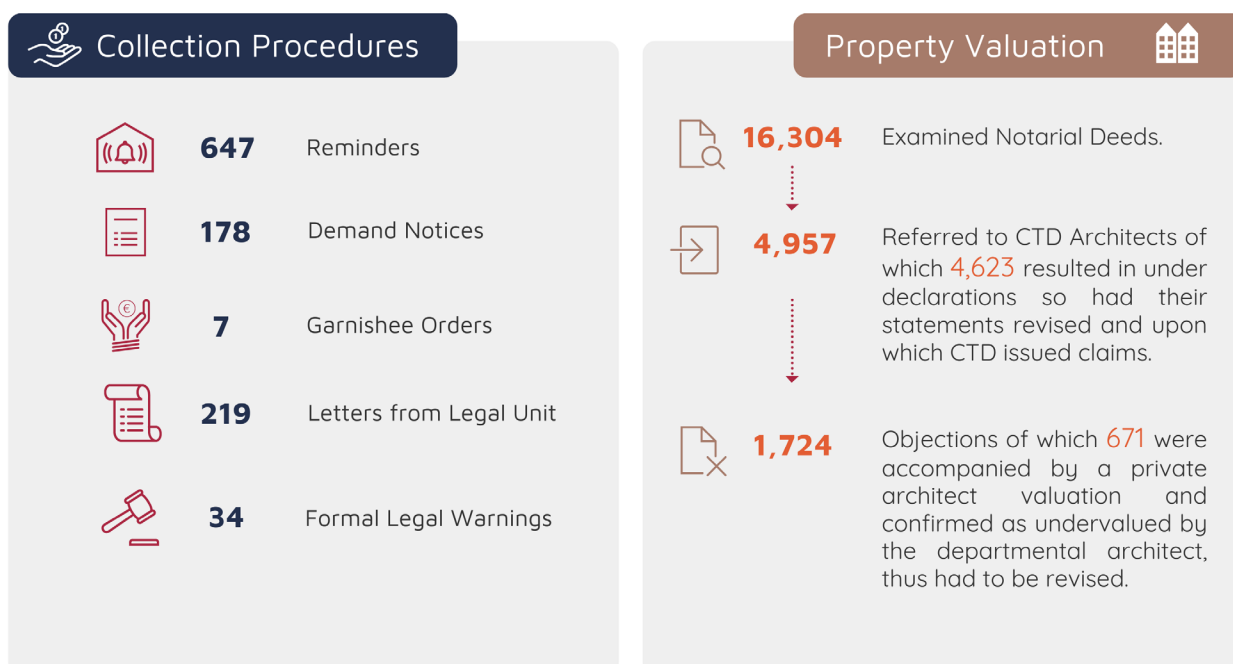


(Source: Financial Estimates: 2016 page 153, 2017 page 145, 2018 page 133, Financial Report 2020 pages 6, xxiii)

A noticeable spike was present in 2018 due to the various stamp duty relief schemes availed of. On the other hand, the impact of COVID-19 pandemic in 2020 can be seen in the drastic drop in Chart 6 above.

2.3.2 Collection Procedures

Collection procedures in relation to CTD are mainly automated, controlled and targeted to ensure that necessary action is taken in a timely manner.



2.3.3 Arrears of Revenue

When a notary registers a contract of sale with CTD, the payment of duty and capital gains tax is made instantly; thus, such amounts should not fall in arrears. Outstanding dues under this category pertain to interest on late filing of deeds by notaries. Once the contract agreement reaches CTD, it is vetted by means of an electronic system. When a residential property is deemed as being undervalued, CTD's architect visits the site in question to give an independent valuation. Should there be a difference in valuation given by the buyer in the contract agreement, the extra duty is billed accordingly together with a penalty of 20% each which is payable by both buyer and seller, which amount may eventually be featured under arrears of revenue until it is eventually paid.

The gross arrears of revenue from Duty on Documents amounted to slightly more than €29 million as at end 2020. However, an amount of almost €19.7 million was considered as not collectable. According to CTD, most of these relate to additional duty imposed on the buyer and seller, 45% of which have been due for less than one year while 31% related to amounts outstanding between 15 and 20 years.

When introduced in 1993, this additional duty was significantly higher as it amounted to 10 times as much as the additional duty that had to be paid. This was imposed on both the buyer and the seller, intended to discourage them from declaring a lower price on the property being sold. However, in many instances the duty was duly paid, but they did not pay the additional duty. Hence, most of these dues are statute-barred.

Information obtained from CTD showed that in 2020, claims for undervalued properties were issued for a total of €7,772,348 (including the respective penalty). Following objections and independent evaluation, the total amount due to CTD was revised to €4,330,392, consisting of duty of €3,268,260 owed by buyers and additional duty of €1,062,132 to be paid by sellers and buyers, as applicable, within a four-month timeframe. Out of these, a total amount of €1,916,990 was actually paid during 2020 while the remaining was still pending.

2.4 Tax Compliance Unit

NAO was informed that out of 176 audits initiated in 2020 by the Tax Compliance Unit, 87 cases, comprising both companies and individuals, were closed by the end of the year. Fifty-six cases, amounting to €5,367,469 in tax collected, were concluded by means of an agreement whilst the remaining thirty-one, having an aggregate tax value of €8,669,119, were concluded by means of an assessment. These comprised cases from different sources, mainly from internal risk exercises, as well as those flagged or initiated by third party intelligence.

A pre-audit is carried out on each case that is identified by the Risk Analysis Unit, to establish whether such case warrants a full audit or investigation or whether work is to be carried out only on a particular risk area. Once the pre-audit is approved by the Director General Compliance and Investigations, the taxpayer is formally notified by means of a letter which will also include a request for documentation.

During full audits or investigations for individuals and partnerships, a capital accretion exercise is carried out, whereby the accumulated wealth of the taxpayer over a period of time is compared to the taxpayer's declared income. On the other hand, audits or investigations on companies will involve an analysis of bank deposits, profit and loss declarations and other balances, such as shareholders loans. Cases are usually investigated for both Income Tax and VAT or as merited by the nature of the case in question.

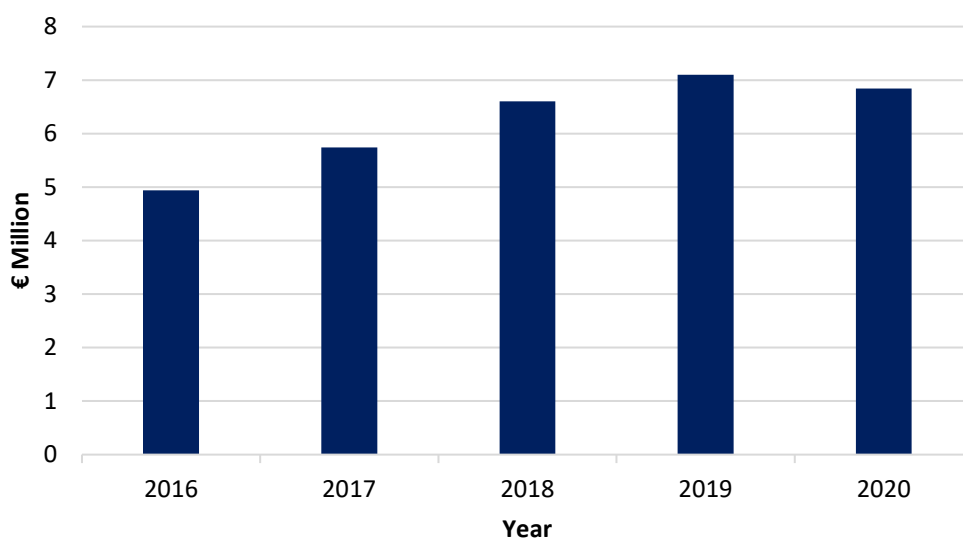
In instances where the taxpayer does not cooperate and submit the necessary documentation, the Directorate will obtain all relevant information from other institutions, as allowed by the Income Tax and VAT Acts. When the exercise is concluded, the respective taxpayer is given the opportunity to adjust the declarations based on the findings of the Directorate. If the declaration is not adjusted, the Directorate proceeds with the issue of assessments accordingly, to which the taxpayer would have the right to object as per standing provisions of the legislation.

2.5 Maternity Leave Trust Fund

Since July 2015, CfR has been collecting maternity benefit contributions from employers, in accordance with the established rates, irrespective of the gender. These contributions are subject to the necessary reconciliations and verifications. The collected amounts are periodically transferred to a Board of Trustees, which is independently managing the Maternity Leave Trust Fund. Since inception a total of €32,824,323 was collected in this respect up to end of December 2020, €6,841,373 of which was contributions collected in 2020.

By way of enforcement, FSS Section rejects end-of-year returns which do not include details of the maternity benefit contributions due. Compliance Certificates¹⁷ are being issued online, which service is amalgamating FSS, VAT and Income Tax.

Chart 7: Maternity Benefit Fund (2016 - 2020)



(Source: Office of the Commissioner for Revenue)

¹⁷ A Compliance Status Certificate is an official document showing the liabilities due (if any) and the Returns not submitted (if any), thus presenting a holistic picture of the taxpayer's situation with regard to amounts due. This can be downloaded or requested by taxpayers, who typically use these certificates when they are requested by Government Contracting Authorities for the award of a tender, when they need to apply for EU funding, and also in the case of bank requests.

2.6 Value Added Tax

2.6.1 Variance Analysis

The total revenue actually collected by the VAT Section during 2020 amounted to €779,611,870. This was predominantly made up of VAT collected, which totalled €777,281,299. Moreover, an amount of almost €1.9 million was collected with regard to Environmental Contribution, around €73,000 on behalf of Eco-contribution and another €376,717 collected from Other Revenue.

Table 7: Variance Analysis of Estimated against Actual Revenue for 2020 from VAT

Revenue Category	Budgeted Revenue	Arrears collected	Actual Revenue Collections arising from 2020	Total	Variance	
	€	€	€	€	€	%
VAT ¹⁸	1,099,000,000	96,885,083	680,396,216	777,281,299	(321,718,701)	(29)
Environmental Contribution	4,500,000	187,515	1,693,245	1,880,760	(2,619,240)	(58)
Eco-contribution ¹⁹	75,000	24,555	48,539	73,094	(1,906)	(3)
Other Revenue ²⁰	360,000	-	376,717	376,717	16,717	5
Totals	1,103,935,000	97,097,153	682,514,717	779,611,870	(324,323,130)	(29)

(Source: Financial Estimates 2020 page 133, Office of the Commissioner for Revenue)

A comparison of the actual amounts collected against the respective estimated figures revealed adverse variances with respect to VAT and Environmental Contribution of €321,718,701 and €2,619,240 respectively, as shown in Table 7 above.

According to CfR, the substantial adverse variance of €321,718,701 in the collection of VAT reflects the negative economic impact of the COVID-19 pandemic, as well as Government measures aimed at mitigating the crisis, particularly the tax deferral schemes, as mentioned further up in this Report under Income Tax. Initially, the tax deferral scheme covered VAT returns that fell due between March and August 2020 but was then extended to cover up to and including December 2021. Consequently, during the year under review, only returns due in January and February were to be submitted by the original deadline. The computerised system of the VAT module was modified in order to ignore the generation of interest and fines where such extension was given.

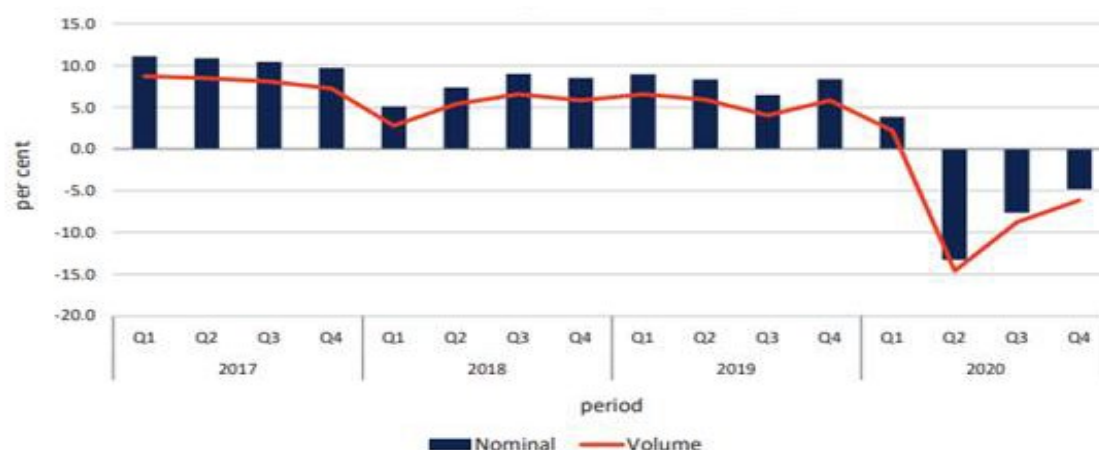
As can be seen from Chart 8, the Gross Domestic Product in volume terms also fell by around 13% in Quarter 2 of 2020 alone, and by an average of 5.8% across the whole year.

¹⁸ This includes VAT (1995), VAT (1998), as well as Customs and Excise Tax.

¹⁹ Tax on electronic and white goods.

²⁰ Due to the merge between VAT and the Inland Revenue Departments, which in line with the applicable legislation came into force in 2012, the Other Revenue figures for both Departments have also been amalgamated. Other Revenue is mainly made up of net application fees in respect of various residence programmes, compromise fines and other fees.

Chart 8: Gross Domestic Product Growth Rate (year-on-year)



(Source: National Statistics Office - Gross Domestic Product 2020 News Release dated 1 March 2021)

As a tax which is directly related to tourist arrivals, revenue from Environmental Contribution also registered a substantial decrease, commensurate with a fall in inbound tourist during 2020. In fact, as from March 2020, all flights to and from all destinations, cruise liner calls, as well as the fast ferry service between Malta and Sicily, were suspended. Restrictions started being lifted as from July 2020.

Table 8: Variance in VAT Figures between Financial Estimates and Projections for 2020

Revenue Category	Projected by Department €	As per Financial Estimates €	Variance €
VAT	990,000,000	1,099,000,000	109,000,000
Environmental Contribution	5,000,000	4,500,000	(500,000)
Eco-contribution	60,000	75,000	15,000
Other Revenue	400,000	360,000	(40,000)
Totals	995,460,000	1,103,935,000	108,475,000

(Source: Budget Affairs Division, Financial Estimates 2020 page 133)

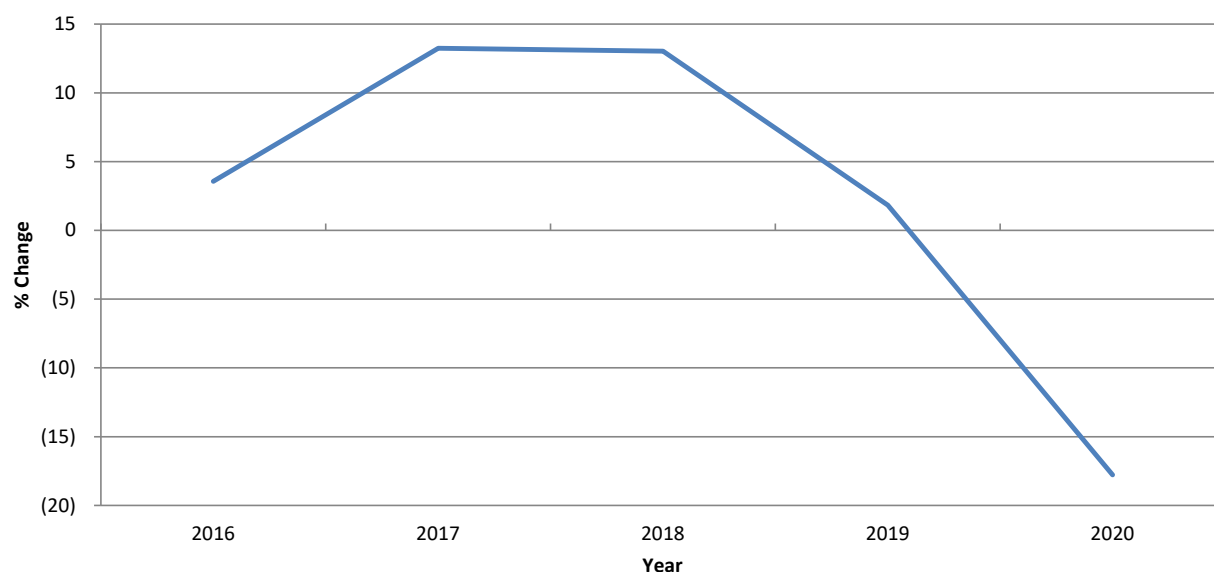
It was noted that CfR's projections on the amount collectable for VAT was underestimated by €109 million when compared to that forecasted by the Budget Office whose budgeted amount was €1.099 billion. Table 8 above refers.

From 2017 onwards, the actual revenue invariably exceeded the forecasted amount, with the exception of the year 2020; this was mainly due to the Tax Deferral Scheme as explained above. The most substantial increase was in 2018. Table 9 refers.

Table 9: Variance Analysis of VAT Revenue (2016 - 2020)

Revenue Category	2016	2017	2018	2019	2020
	€	€	€	€	€
Budgeted Revenue	729,000,000	774,830,000	835,500,000	944,000,000	1,099,000,000
Actual Revenue ²¹	724,798,345	821,160,061	927,969,568	944,741,377	777,281,299
Variances	(4,201,655)	46,330,061	92,469,568	741,377	(321,718,701)

(Source: Financial Report: 2016 page xviii, 2019 page xix, 2020 page xix, Financial Estimates: 2016 page 153, 2017 pages 145 and 180, 2018 page 133, 2019 page 324, 2020 page 318)

Chart 9: Variance Analysis of VAT Revenue (2016 - 2020)

(Source: Financial Estimates: 2018 page 153, 2019 page 145, 2020 page 133, 2021 page 324, 2022 page 318)

As shown in Chart 9, aggregate net revenue collected as VAT by CfR, increased over the previous year in absolute terms, except in year 2020; with 4% in 2016, 13% both in 2017 and 2018 and 2% in 2019. These were followed by a sudden drop of 18% in 2020, as expected.

2.6.2 Trend Analysis

Figures in relation to the four revenue categories collected by the VAT Section were analysed against the income generated in the prior four years, as shown in Table 10 and Chart 10 on the next page.

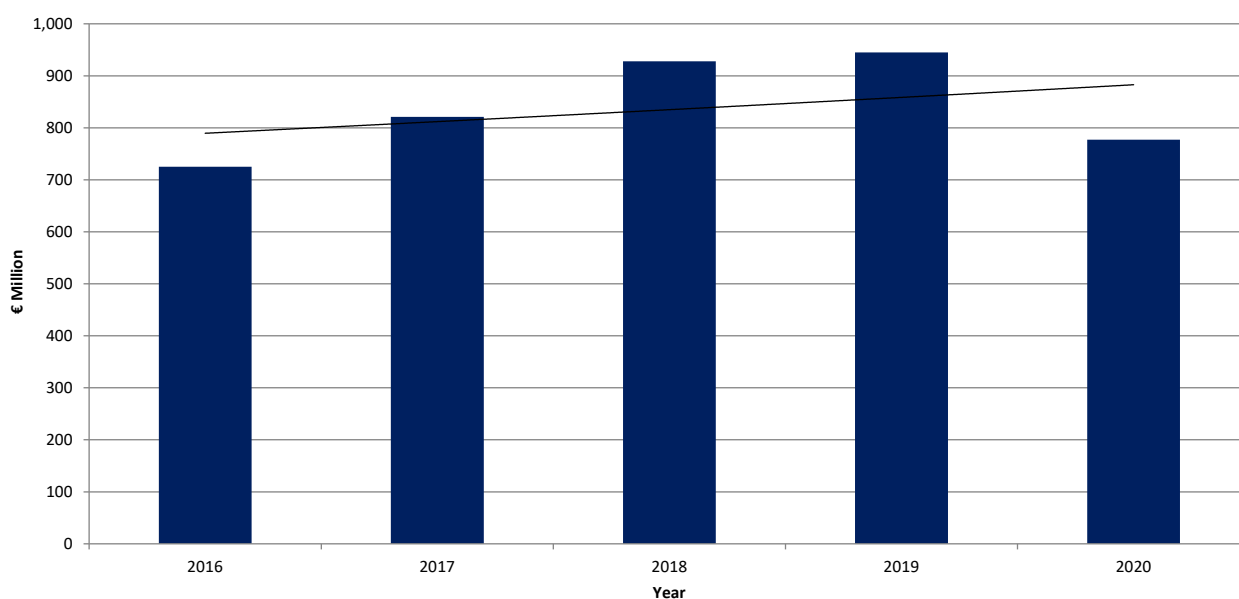
²¹ This figure is net of refunds.

Table 10: Trend Analysis of Revenue Categories (2016 - 2020) - VAT

Revenue Category	2016	2017	2018	2019	2020
	€	€	€	€	€
VAT	724,798,345	821,160,061	927,969,568	944,741,377	777,281,299
Environmental Contribution	248,224	3,395,097	4,002,758	4,197,977	1,880,760
Eco-Contribution	1,461,494	563,991	199,090	211,353	73,094
Other Revenue	20,679	591	807,026	459,944	376,717
Totals	726,528,742	825,119,740	932,978,442	949,610,651	779,611,870

(Source: Financial Estimates: 2018 page 153, 2019 page 145, 2020 page 133, 2021 page 324, 2022 page 318)

Chart 10: Trend Analysis of VAT Revenue (2016 - 2020)



(Source: Financial Estimates: 2018 page 153, 2019 page 145, 2020 page 133, 2021 page 324, 2022 page 318)

2.6.3 Refunds

According to CfR, VAT registered persons applying for VAT refunds (when input VAT is higher than output VAT) are on the increase every year, at a higher rate than the growth in revenue from the same source. This increase absorbs a substantial amount of the increase in gross revenue. For instance, during the year under review, while revenue decreased by almost 18%, refunds increased by more than 19% over the previous year. Table 11 on the next page refers.

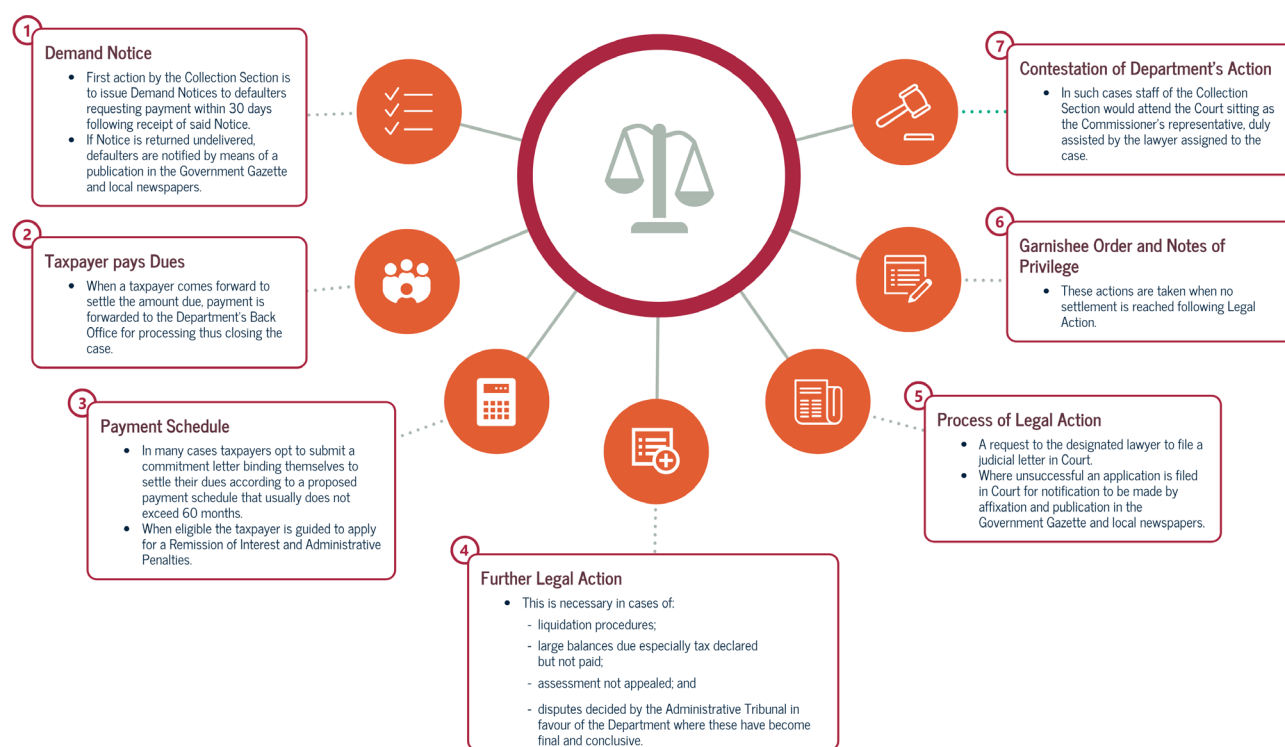
Table 11: Refunds issued during 2016 to 2020 by CfR

Year	Refunds	Increase or (Decrease) over previous Year
	€	%
2016	172,278,134	22
2017	162,695,493	(6)
2018	189,991,725	17
2019	270,425,821	42
2020	322,918,576	19

(Source: Office of the Commissioner for Revenue)

2.6.4 Enforcement during 2020 at a glance

Enforcement Measures taken for VAT

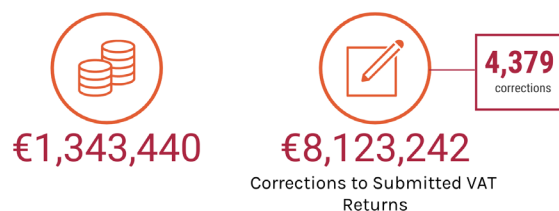


Collection Section



! Total Tax collected from all Actions amounted to €23 million

Inspectorate Section



CfR - VAT

Legal Section



! None were charged in front of the Criminal Court and nothing was collected through this measure.

Remission Process

106 Requests for Remission, out of which 18 were impossible to process

46 Taxpayers who benefitted an amount of €1,380,081



! As from March 2020, the interest and penalties, eligible for a remission was extended to include, still unpaid, interest and penalties, for tax periods due in 2019 or before.

2.6.5 Court Sitings

- During 2020, there were 105 Civil Court sittings relating to VAT. Civil Court cases are filed by taxpayers after enforcement action is initiated by CfR. These cases are discussed in detail with the legal officers within the same Section and outcome communicated with the individuals concerned, to file replies, submissions, and providing their testimony.
- The Collection team regularly meets taxpayers to discuss repayment programmes for outstanding VAT amounts and enter into remission agreements.
- Tax Compliance Certificates (replacing the prior VAT Compliance Certificates), that are available online or through Taxpayer Services with effect from Quarter 2 of 2020, show the balances due by a taxpayer for VAT, Income Tax and FSS in the same document and thus the system is more efficient.
- On an annual basis, the Legal Section within CfR is provided with a list of defaulters and the Commissioner of Police is requested to prosecute on behalf of CfR. Up to the year 2018, an average of 200 cases per week were being held. However, as from 2019, this was drastically reduced to around 150 cases every two months. As from 2020, all sittings were stopped due to the COVID-19 pandemic.

2.6.6 Enforcement Action

- The staff complement at the Collection Section is considered inadequate. During 2020, this comprised a Director, who had a joint role in both VAT and Income Tax, an Assistant Director, and three other officers. A Senior Manager was employed as from June 2020.
- All enforcement efforts are mainly focused on collection of VAT.
- Importance is given to short term arrears, that is, arrears of the same year since, the longer a debt is due, the more difficult it is to collect. Given that most VAT returns are due every quarter, the respective VAT registered persons must submit four returns in a year. VAT not paid by the due date is accounted for as arrears.
- An additional exercise conducted by the Anti-Fraud Section was the verification of over 4,330 new applications for a VAT number. From these, 390 applications were investigated before a VAT number was issued, while in 48 cases, an investigation was held after VAT number was issued. On the other hand, the Credit Control Section carried out 191 verifications on VAT refunds.

2.6.7 Outcome from Enforcement Action during 2020

- When a taxpayer is contacted, all dues up to that date are discussed and repayment agreements are drawn up accordingly.
- It is often the case that the Demand Notices include estimated tax, which is relatively high, and in most cases this is significantly reduced once the actual returns are submitted.

2.6.8 Remissions

- The actual effects on revenue, resulting from the remissions of additional tax, interest and/or penalties given to defaulters during 2020, have never been analysed, primary due to the lack of human resources.
- The remission process requires detailed preparatory work that is done by the Collection team. This includes keeping the database updated with new applications, checking that they are filled in correctly, contacting the taxpayer and discussing the options of repayment. Moreover, given that the taxpayer does not always reply as to what option will be taken up, some cases are never finalised.

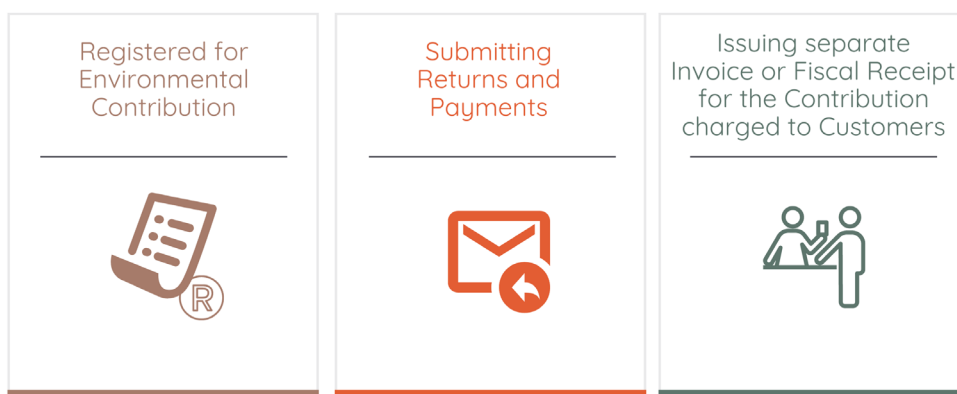
As per Value Added Tax (Registration as a single taxable person) Regulations (S.L. 406.21), any two or more legal persons established in Malta who are closely bound to one another by financial, economical and organisational links, can be registered as a single taxable person, referred to as VAT group. In 2020, the VAT Grouping Section received 14 of such applications, out of which 12 were accepted. During 2020, this Section was administering a total of 57 VAT groups.

2.6.9 Enforcement Measures taken for Environmental Contribution

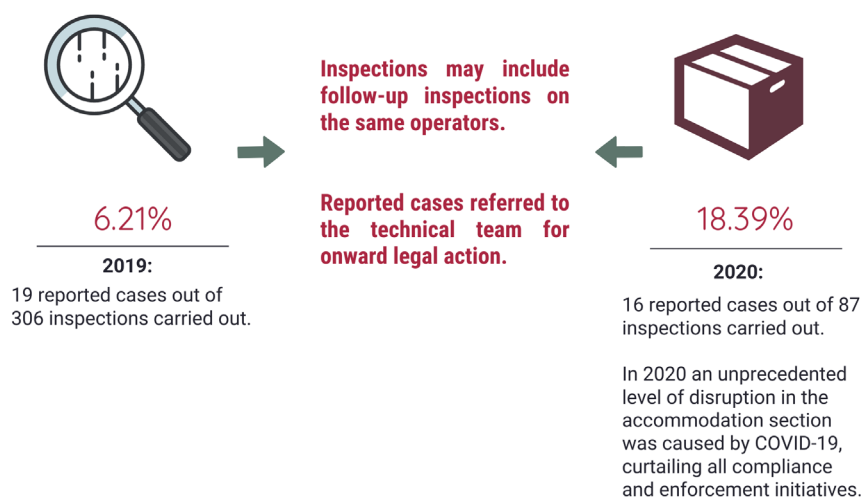
Enforcement Measures taken for Environmental Contribution

The Compliance and Investigations Directorate, within the Office of the Commissioner for Revenue, has for the last years carried out a number of inspections on operators involved in the accommodation sector mainly hoteliers and owners of guest houses.

Inspections were intended to ensure that the necessary compliance requirements are being fulfilled, mainly that operators are:



The Directorate also contacts taxpayers who have discrepancies between their VAT returns (7%) and their Environmental Contribution declarations. They are requested, by means of notifications and also on-site inspections, to regularise their position.



2.6.10 Arrears of Revenue

Newly accrued arrears at end of 2020 as reported in the respected ARR amounted to €1,975,883,791. The gross outstanding balance as at year-end amounted to €4,547,125,235, of which, around 94% of the estimated tax and related interest are deemed as not collectable. The estimated assessments are generated when a return is not submitted by the taxpayer within the due date. These are generated for

each period when it falls due, usually every three months. When the returns are eventually submitted, these figures are automatically substituted by the declared amounts, which are usually much lower, sometimes nil or credit amounts.

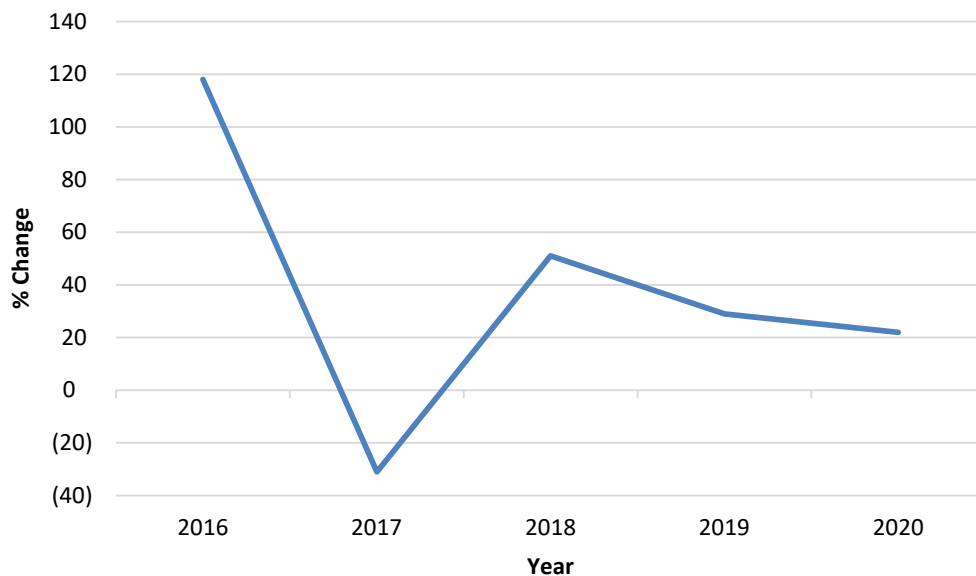
Also, interest continues to accrue monthly on these estimated taxes until the respective return is submitted.

The amount of €682,514,717, collected for 2020 (Table 7 on page 26) is only 35% of the amounts due for the year. Another amount of €97,097,153 was collected from dues pertaining to previous years. The amount estimated as not collectable, representing contested amounts, totalled €4,288,472,281. The amount of estimated taxes, audit assessments, penalties and interest are extracted from the VAT system for each taxpayer's account. If these amounts remain unpaid by the end of the year, then these are listed as estimated amounts considered as not collectable.

As per CfR's standing policy, write-offs are possible only upon de-registration of the VAT number, if the amount of VAT a taxpayer owes is €20 or less. In 2020, only an aggregate of €401 was written off. Larger amounts can only be written off with the approval of MFE.

In 2017, there was a decrease of 31% in net collectable arrears when compared to prior year. This was followed by three years of increases at a decreasing rate (2018: 51%, 2019: 29% and 2020: 22%). This is presented in Chart 11.

Chart 11: Trend Analysis of VAT Arrears (2016 - 2020)

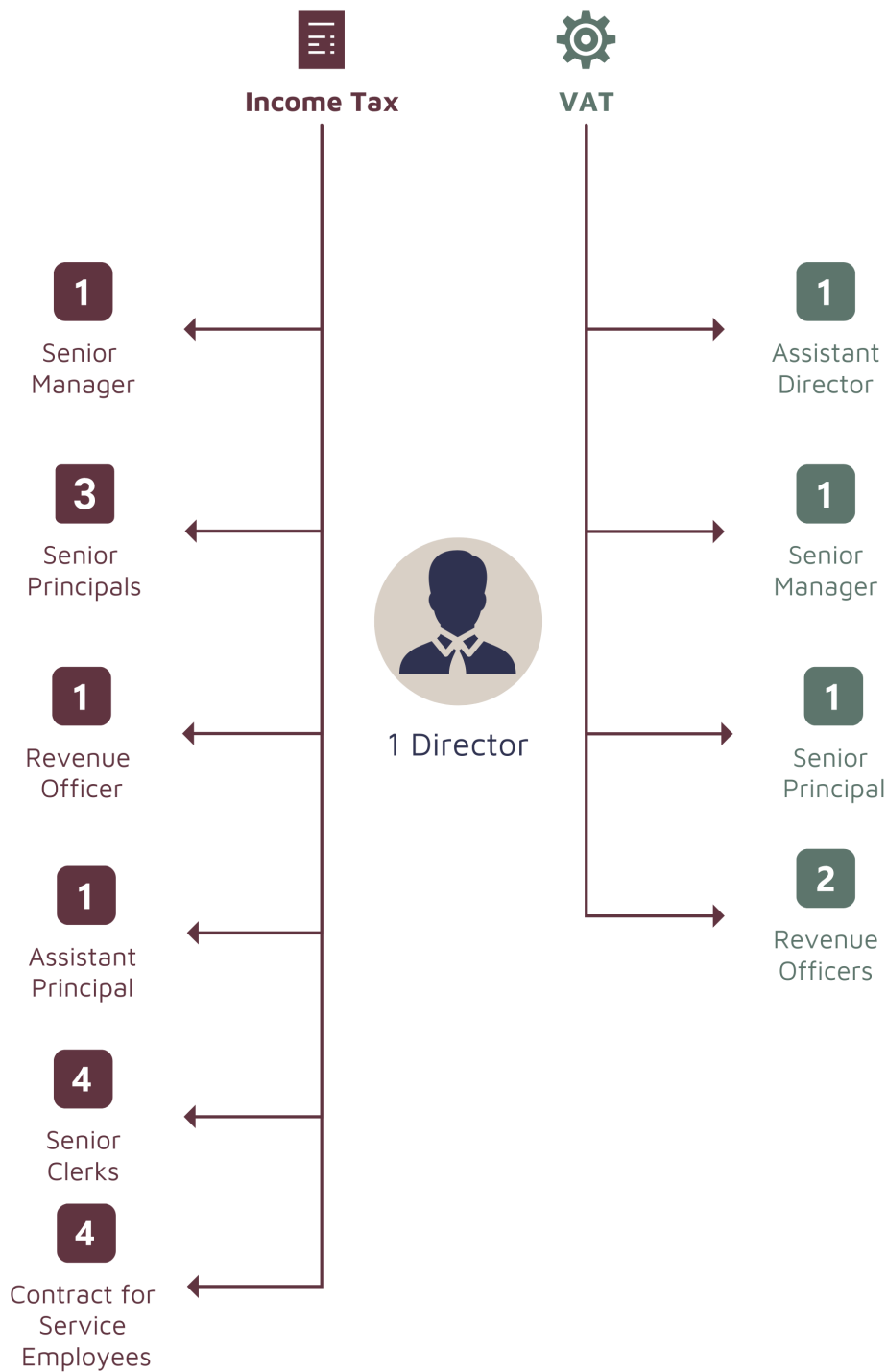


An ageing analysis of VAT net collectable arrears was never made available to NAO over the years.

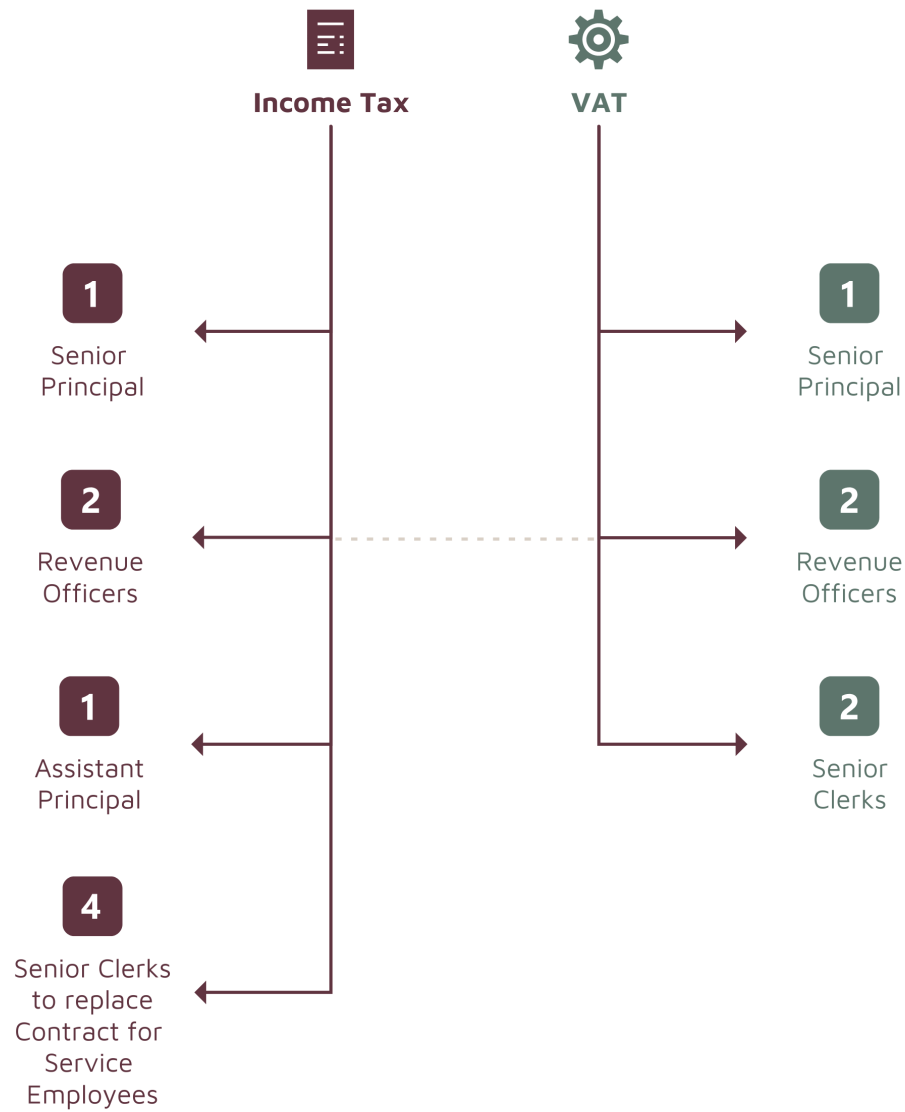
2.7 Staff Complement

CfR's staff complement involved in revenue collection and enforcement in 2020 totalled 20, including the Director. Human resources were planned to increase in 2021; however, this increase did not materialise and the staff within the Collection Directorate remained the same.

Staff Complement



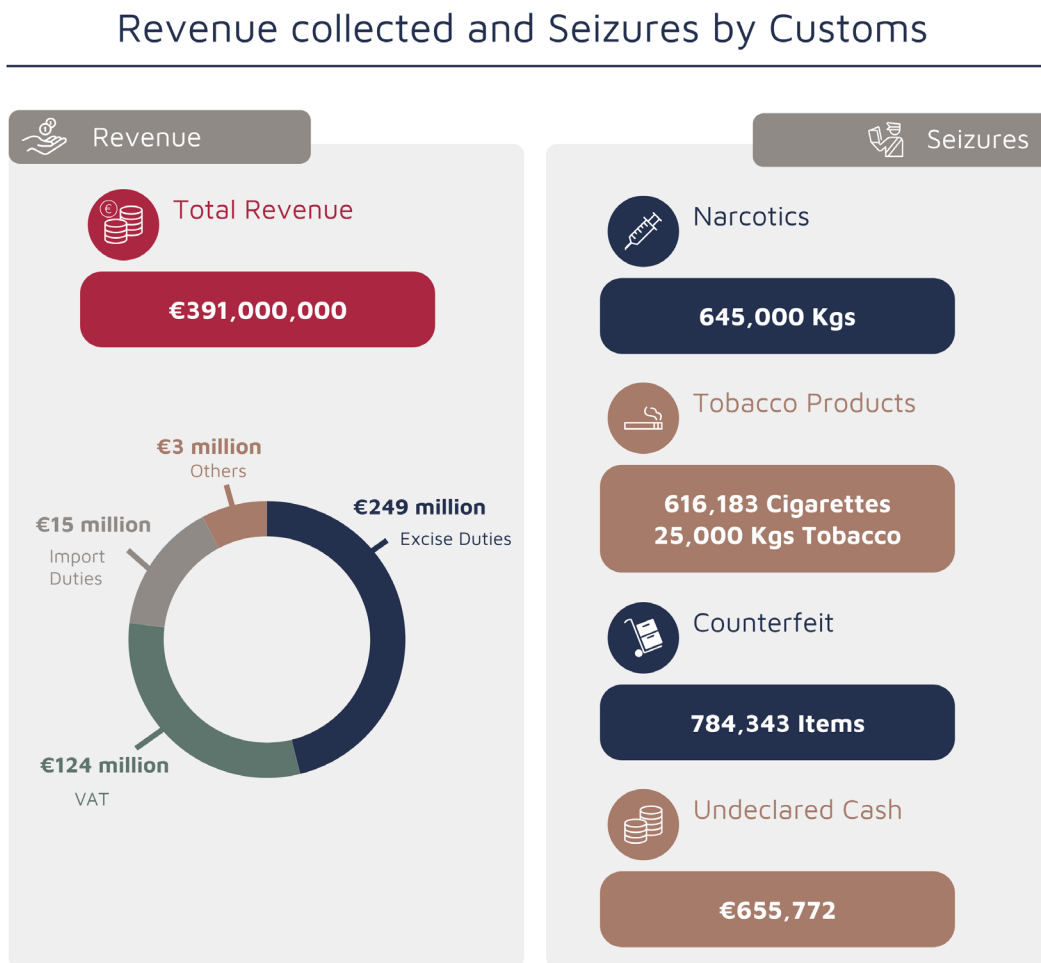
Additional Staff Complement required as per Human Resources Plan 2021



Chapter 3 | Customs

3.1 Revenue collected and Seizures

During the year 2020, Customs collected €391,078,122²² as revenue and made seizures as follows:



3.2 Variance Analysis

Customs submitted the estimates to MFE for year 2020 in May 2019. Thus, the projections were sent well in advance before any inkling of how the current year was going to fare. Moreover, the Financial Estimates' figures reflected targets drawn up by MFE some six months after Customs' submissions. Such a scenario could have partly contributed to the aggregate variation of €8,077,000 (2%) between the Departmental projections and those published in the Financial Estimates for 2020, with the most material difference registered in Import and Excise Duties, as shown in Table 12.

²² Including tax collected on behalf of VAT Section within CfR, amounting to €123,718,678.

Table 12: Variance Analysis of Financial Estimates against Projections for 2020 - Customs

Revenue Category	Projected by	As per Financial	Variance	
	Department	Estimates	€	%
	€	€		
Import and Excise Duties	342,296,000	350,140,000	7,844,000	2
Licences, Taxes and Fines	2,946,000	3,020,000	74,000	3
Fees of Office	20,000	40,000	20,000	100
Reimbursements	78,000	82,000	4,000	5
Other Revenue	400,000	535,000	135,000	34
Totals²³	345,740,000	353,817,000	8,077,000	2

(Source: Return submitted to Budget Affairs by Customs, Financial Estimates 2020 pages 134-135)

A comparison between the actual and budgeted figures for 2020, is shown in Table 13.

Table 13: Variance Analysis of Estimated against Actual Revenue for 2020 - Customs

Revenue Category	Estimated	Actual Revenue	Variance	
	Revenue		€	%
	€	€		
Import and Excise Duties	350,140,000	264,415,649	(85,724,351)	(24)
Licences, Taxes and Fines	3,020,000	2,658,413	(361,587)	(12)
Fees of Office	40,000	33,020	(6,980)	(17)
Reimbursements	82,000	92,598	10,598	13
Other Revenue	535,000	159,764	(375,236)	(70)
Totals	353,817,000	267,359,444 ²⁴	(86,457,569)	(24)

(Source: Financial Estimates 2020 pages 134-135, Financial Report 2020 pages 25-26)

The COVID-19 pandemic, which also brought about the closure of the airports, the stoppage of all entertaining activity and family gatherings, as well as the drastic reduction in personal earnings and income, like the rest of the world, Customs in Malta also recorded a drop in its revenue indicated in Table 13. Negative variations spread over most of the revenue items, led to an overall shortfall of 24% from that originally targeted. Import and excise duties experienced the most material variance of nearly €86 million.

A decrease in consumption of petroleum and machine-made cigarettes was the main contributor of the variation in excise duty. Table 14 refers.

²³ This includes only net tax collected on behalf of Customs.²⁴ This amount includes €4,044,337 collected during 2020 relating to 2019 and before.

Table 14: Main Contributors to Variances between Estimated and Actual Revenue 2020

Revenue Category	Estimated Revenue €	Actual Revenue €	Variance €	%
Excise Duties				
Petroleum	157,000,000	107,196,383	(49,803,617)	(32)
Machine-made Cigarettes	98,000,000	82,423,588	(15,576,412)	(16)
Spirits	15,500,000	9,582,924	(5,917,076)	(38)
Import Duty	20,000,000	15,121,327	(4,878,673)	(24)

(Source: Financial Estimates 2020 page 134, Departmental Accounting System)

3.3 Trend Analysis

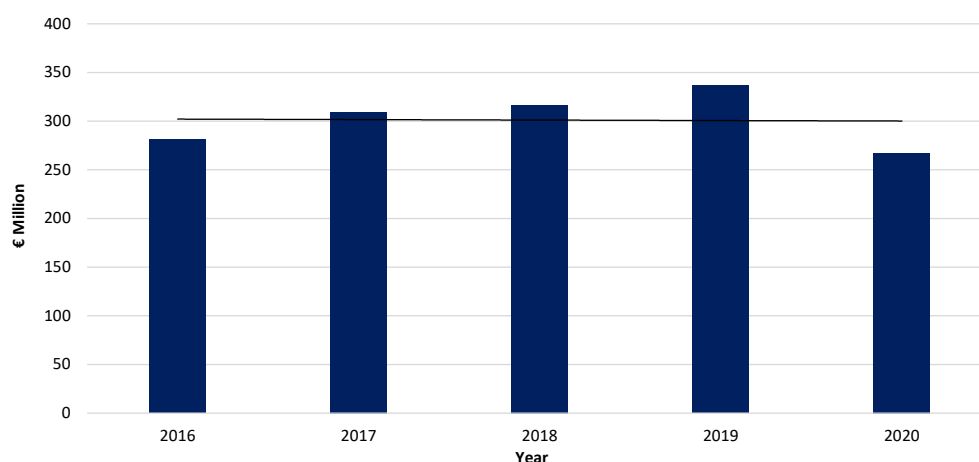
The total revenue collected by Customs during 2020 amounted to €391,078,122, out of which, €123,718,678 was collected on behalf of the VAT Section within CfR. The resultant figure of €267,359,444 could be analysed further against the income generated in the prior four years, as shown in Table 15 and Chart 12.

Table 15: Trend Analysis of Revenue (2016 - 2020) - Customs

Revenue Category	2016 €	2017 €	2018 €	2019 €	2020 €
Import and Excise Duties	277,506,406	303,086,434	312,141,946	332,123,158	264,415,649
Licences, Taxes and Fines	1,891,271	3,375,979	2,686,425 ²⁵	3,030,454	2,658,413
Fees of Office	1,427,620	1,446,528	1,544,906	497,324 ²⁶	33,020
Reimbursements	131,206	371,903	64,015	111,459	92,598
Other Revenue	124,454	1,036,347	107,383	535,090	159,764
Totals	281,080,957	309,317,191	316,544,675	336,297,485	267,359,444

(Source: 2016: Financial Report 2016 pages 32-33, 2017 and 2018: Financial Report 2018 pages 29-30, 2019 and 2020: Financial Report 2020 pages 25-26)

Chart 12: Trend Analysis of Customs' Revenue (2016 - 2020)



(Source: 2016: Financial Report 2016 page 33, 2017 and 2018: Financial Report 2018 page 30, 2019 and 2020: Financial Report 2020 page 26)

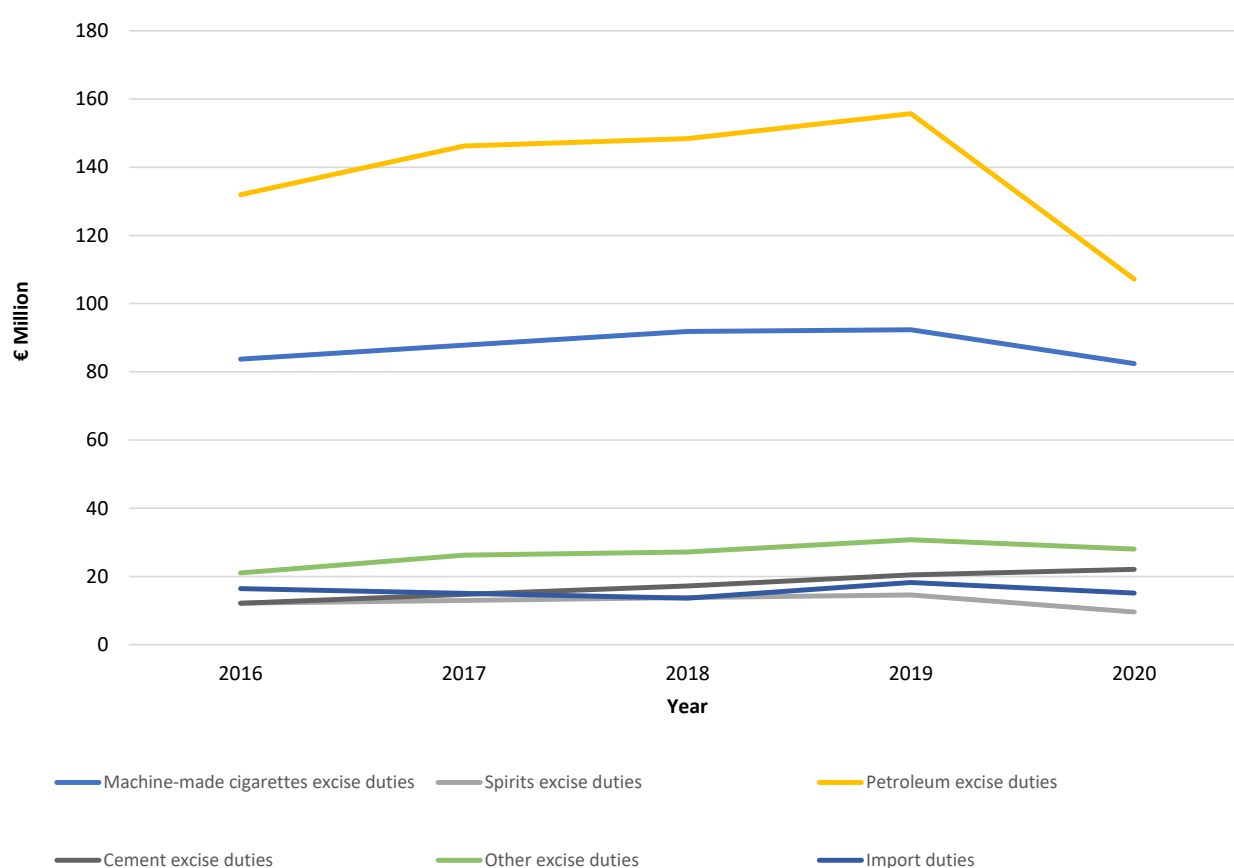
²⁵ In 2018, there was a material decrease of €632,723 in proceeds from sale of goods at Customs.

²⁶ In 2019, there was a decrease of €1,054,631 in the sale of banderols.

The increases in revenue collection from 2016 to 2019 depicted in Chart 12, are in line with the actual year-on-year national Gross Domestic Product growth. On the other hand, the substantial decrease in revenue collected from year 2019 to 2020 derived from the repercussions of COVID-19 pandemic on the economy which, as already indicated, had a material negative impact on general consumption.

The decrease in consumption of petroleum and machine-made cigarettes mentioned earlier, had a ripple effect on the excise duty collected in this regard. A trend analysis of the major revenue items during years 2016 to 2020, depicted in Chart 13, shows the shortfalls experienced in the last year as compared to the previous one, with a decrease of almost €49 million and €10 million in the two commodities in question respectively.

Chart 13: Trend Analysis of the major Customs' Revenue Items (2016 - 2020)

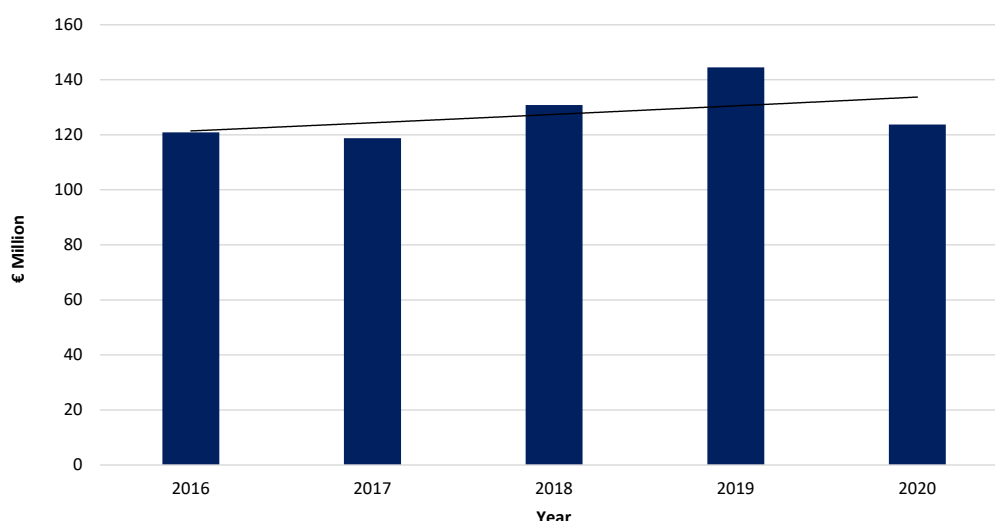


(Source: 2016 and 2017: Financial Report 2017 page 6, 2018 and 2019: Financial Report 2019 page 6, 2020: Financial Report 2020 page 6)

3.4 VAT collected by Customs on behalf of CfR

Chart 14 shows a trend analysis of VAT collected by Customs on behalf of CfR between 2016 and 2020.

Chart 14: VAT collected by Customs (2016 - 2020)



(Source: Customs)

Similar to the other revenue categories, the increases in revenue from 2017 to 2019 portrayed in Chart 14, are in line with the year-on-year national Gross Domestic Product growth, while the substantial decrease in 2020 was triggered by the repercussions of COVID-19 pandemic on the economy.

Goods imported locally from outside EU and excise goods received from EU are to be declared by the trader or agent for clearance by Customs. Most of the declarations are made by means of the Direct Trader Input system. Relevant information, such as the origin and commodity codes of the product, and its value, are inputted therein and integrated with the Tariff Module²⁷ and Taric Module²⁸, all taxes payable to Customs are identified since each commodity code has the respective VAT rate correlated to it.

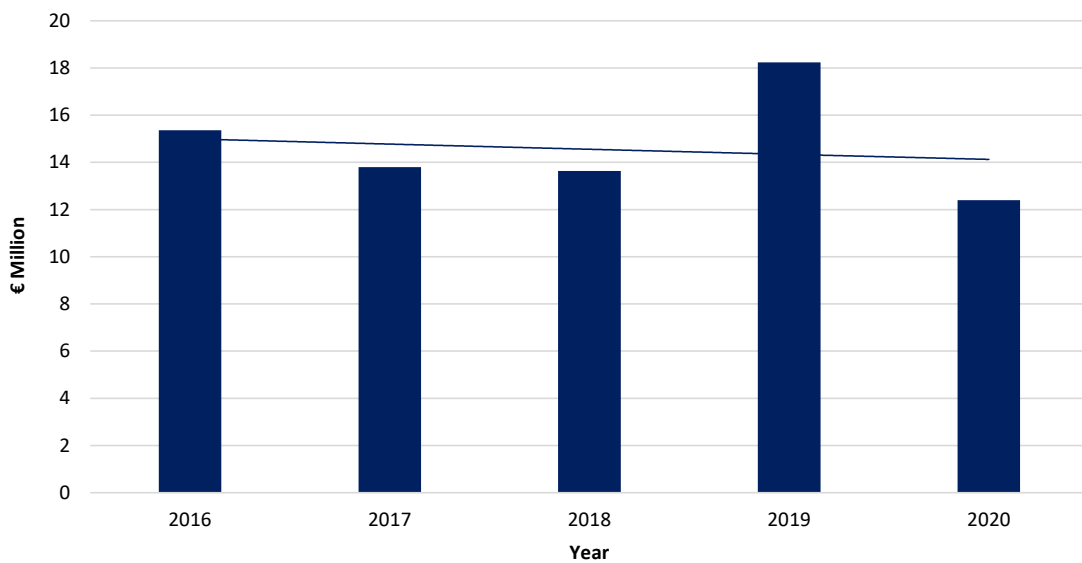
The same level of controls exerted on import and excise duties is practiced in respect of VAT collection. Refer to Section 3.6 of this Report for further details (page 42 refers).

3.5 Traditional Own Resources

As part of Malta's obligations as an EU Member State, revenue collected in the form of Customs duties on non-EU importations, and levies on agricultural products imported from outside the Union are to be paid back to the EU. This revenue is referred to as Traditional Own Resources (TOR). Chart 15 shows TOR collected since 2016. In 2020, this stood at €12,396,875.

²⁷ The Tariff Module, based on the World Custom Organisation's harmonised commodity and coding system, provides the necessary tariff information.

²⁸ The Taric Module is an information database developed by EU, providing integrated information on the latest tariffs applicable on a product-by-product basis, according to country of origin.

Chart 15: Traditional Own Resources collected (2016 - 2020)

(Source: Customs)

The 2019 spike is the result of intensive work on past import declarations' clearance that were outstanding in the suspense account. As expected, the 2020 drop is the result of substantial decrease of general economic activity, including incoming travellers, brought about by the COVID-19 pandemic.

In principle, all Customs duties on non-EU imports must be paid to the Union. However, each member country is entitled to retain a portion of the money by way of a collection fee to cover the respective administrative work involved. To this effect, the European Council altered the legislative framework in relation to EU's own resources system for the period between 2014 and 2020. Through the implementation of Council Decision No. 2014/335, the percentage of Customs duties of non-EU imports to be retained by each Member State was decreased from 25% to 20%. This rate was revised back to 25% as from year 2021.

In line with Article 2 of EU Council Regulation No. 608/2014, TOR generated by Member States should be inspected by the European Commission to ensure adherence to same Regulation. However, as confirmed by Customs, no verification was done to this effect during 2020. In actual fact, there was only one visit between 2016 and 2019.

3.6 Controls on Collection of Revenue

The inspections carried out by Customs during 2020, including the additional taxes collected as a result of such checks, are portrayed on the next page.

Inspections and related Additional Taxes collected by Customs

	Import Declarations	Export Declarations	Chapter 1
Total Declarations made during 2020	 116,064	 23,270	Chapter 1
Selected for Control	 26,164 23%	 1,892 8%	Chapter 2
Selected for Documentary Control	 6,227 (5% of total imports declarations) of which 1,138 (18% of selected for documentary control) re-routed to Selected for Control	 94 (0.4% of total excise declarations) of which 24 (26% of selected for documentary control) re-routed to Selected for Control	Chapter 3
Additional Taxes collected as a result of such Checks	Import Duties €396,075 Excise Duties €6,040 VAT €656,858	Excise Duties €3,113 VAT €15,034	Chapter 4

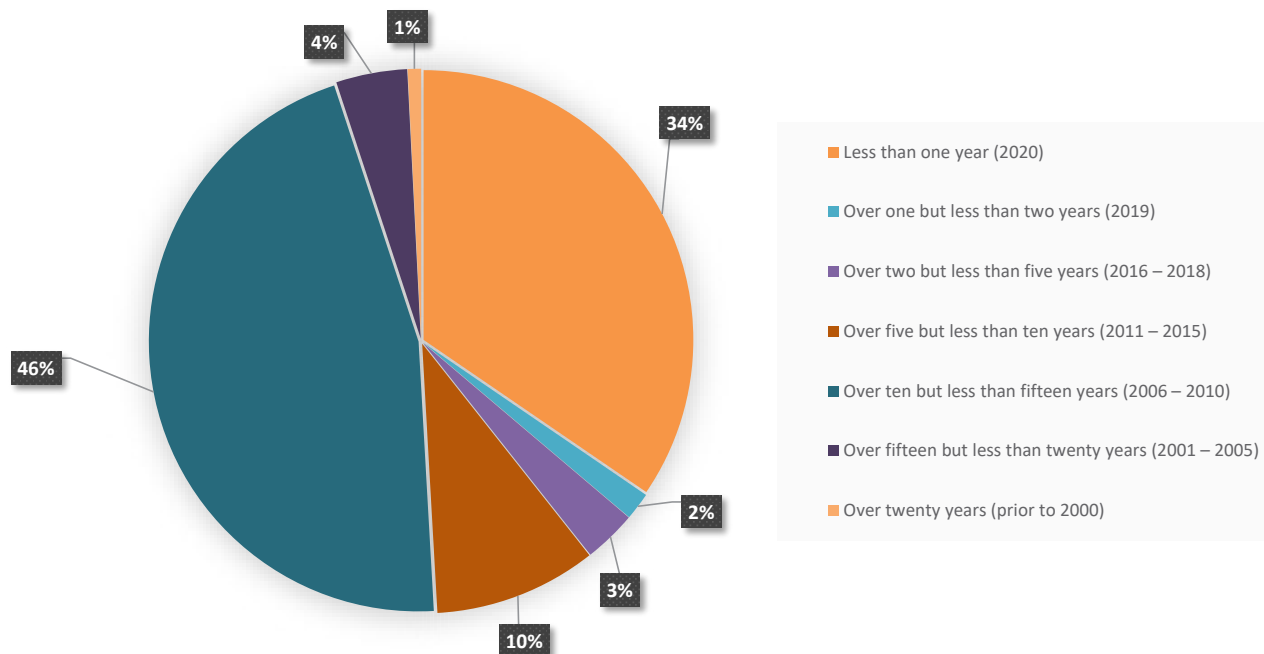
The selection of whether items are subject to be inspected or not, is done through an automated risk analysis system using risk criteria. First level of control is physical inspection of goods by Customs. A percentage of declarations, not pertaining to items selected for physical inspection are chosen by Information Technology personnel from the Business Object System for documentation scrutiny. The system can capture the list of documents which relates to items that were already released, documentation of which was not comprehensively verified at the time of release. This kind of documentary controls,

which can be carried out within three years after, are verified according to checklists as per respective Verification Unit's standard operating procedures. If a discrepancy is noted between information initially declared and the actual documentation submitted for the purpose of these control checks, the trader is contacted to pay any additional taxes due. This procedure is operated over and above the declarations initially selected for control. Thus, all transactions can be subject to inspection.

3.7 Arrears of Revenue

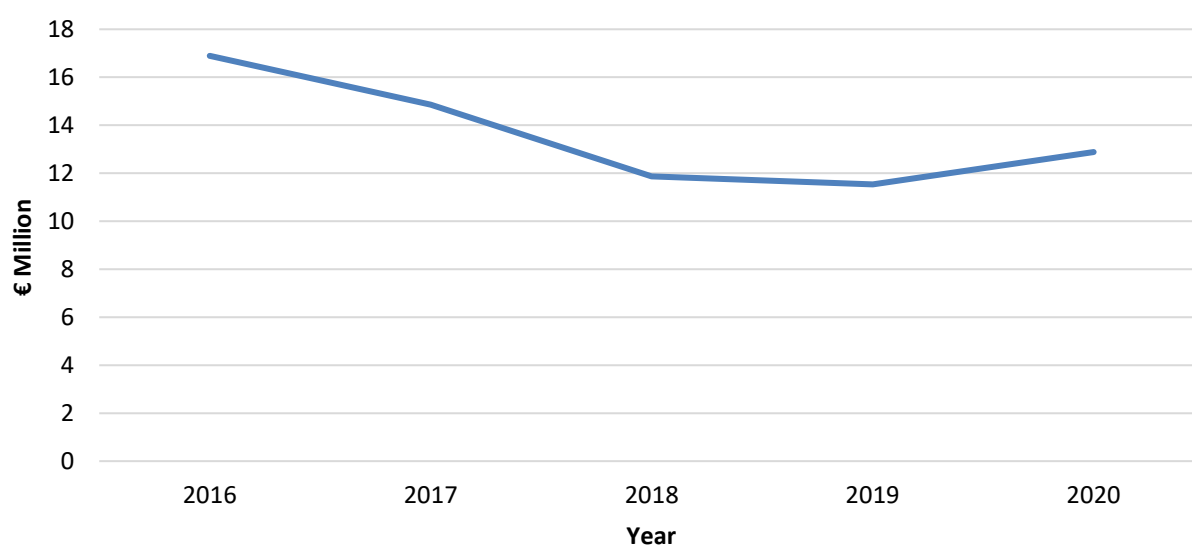
The net closing balance reported by Customs in its ARR at year ending 2020 amounted to €12,886,815. Of this amount, €5,906,743, was due between 10 and 15 years, out of which around 91% pertains to an ongoing Court case on excise duties relating to machine-made cigarettes. An analysis of the ageing of the net collectable amounts is given in Chart 16.

Chart 16: Customs' Net Collectable Arrears' Ageing as at 31 December 2020



The balance of net collectable arrears as at 31 December 2020 increased by 12% when compared to prior year, following three yearly decreases between 2017 to 2019. The net closing balance against the previous four years is presented in Chart 17.

Chart 17: Trend Analysis of Customs' Net Collectable Arrears (2016 - 2020)



(Source: Reports by the Auditor General on the Public Accounts 2016 to 2020)

Accrued income for Customs as at 31 December 2020 amounted to €49,822,360. The major part of this balance related to excise duty due on fuel from its biggest customer, for the months of September to December 2020. This is in line with the framework agreement entered into between MFE, Customs and the respective customer, as a consequence of cash flow difficulties encountered by the company due to the COVID-19 pandemic.

3.8 Customs Debt

Customs established a set of standard operating procedures to ensure the accuracy and completeness of revenue, as well as a uniform adoption of EU and national legislation by its Units. In addition, these procedures provide the officers in charge with the information required to perform their duties in a consistent manner and ascertain continuity in case of staff changes.

The Customs Debt Unit pursues outstanding amounts due to the Department and effects the applicable refunds to traders. It also monitors the deferred payment facilities granted to certain importing companies and manages bank guarantees.

The measures adopted by the Unit to ensure completeness of revenue include the following:

- Following up unsettled balances in the Customs Electronic System.
- Liaising with cashiers and heads of sections to sort out any queries arising in the Customs Electronic System.
- Suspense account monitoring.
- Compiling a monthly report, mainly comprising data extracted from the Customs Electronic System, relating to imports arriving from third countries, to be submitted to the European Commission (referred to as the 'A' account).

- e. Compiling and forwarding a quarterly report to the European Commission, which includes Customs debt that is not backed up by a guarantee (referred to as the 'B' account).
- f. Issuing refunds to traders following proper authorisation.
- g. Managing the deferred payment facility.
- h. Submission of Own Resources reports to the European Commission, also comprising a description of the cases of fraud and irregularities in Customs duties exceeding €10,000.
- i. Maintaining a register of original guarantees received by the different Customs' Sections.

As from end 2021, the new Manifest Monitoring Section was responsible to monitor the suspense account and all outstanding declarations awaiting Customs clearance. In the initial phase, one person was assigned to this Section and it was planned to add a few other experienced officers by end of June 2022. While the Compliance Directorate and the Customs Debt Unit operate in tandem, it is the responsibility of the former to verify that the correct amount of duties is collected. The Customs Debt Unit, in turn, ensures that, invariably, the amounts are forwarded by Customs and received by the European Commission in a timely manner.

3.9 Debt Collection Agreements

As provided by Article 63 of the Customs Ordinance (Cap. 37) and Article 16A of the Excise Duty Act (Cap. 382), when the endangered duty does not exceed the amount of €4,000, the defaulter may request an Out of Court settlement agreement to pay the respective dues. In such case, an agreement is drawn between the two parties, i.e., the defaulter and Customs, where the former agrees to pay the dues and, where applicable, goods seized become the property of the Government of Malta.

Normally, the dues are paid in full on signing of the agreement, whilst in other instances, depending on the amount involved, the defaulter may request to pay by monthly instalments. Such arrangements must be approved by Customs, which reserves the right to go ahead with criminal action in case of any eventual defaults in payments.

A total of 28 Out of Court agreements, which were initiated in 2019 or before, were being settled monthly on a regular basis as authorised by Customs. Fourteen of these agreements paid their last instalment, totalling €59,886, during the year 2020. The remaining 14 debtors were still paying by monthly instalments as at end 2020 and paid the total sum of €15,843, while a total of €36,980 was still due. In 2020, a total of 94 new agreements were entered into with defaulters, of which, 84 agreements were fully settled on signing of agreement, with total amount recouped amounting to €177,409.

3.10 Enforcement Measures

Inspections in joint effort with CfR (VAT Section)

- Joint operations are conducted by Customs on goods originating from non-EU countries, as well as on intra-community goods, primarily to combat the illicit movement of excise goods.

- Goods are also checked from a fiscal perspective, in line with VAT legislation. However, it is the responsibility of the personnel within CfR (VAT Section) to check and collect the invoices associated with intra-community goods. These will be analysed by the Compliance and Investigations Office within CfR.
- Periodic meetings are held between CfR and Customs to discuss new emerging trends. However, during the year 2020, no meetings were held in this regard.

Inspections on Intellectual Property Rights

- Suspected Intellectual Property Rights infringing goods²⁹ are held at the border of the Malta Customs territory in terms of the national Intellectual Property Rights Legislation (Cap. 414) and European Commission Regulation No. 608/13 on Customs Enforcement of Intellectual Property Rights.
- A risk assessment, based on different criteria is made by the respective unit, on the bills of lading, airway bills, postal and couriers' declarations.
- All containers selected for Intellectual Property Rights at the Malta Freeport are scanned prior to physical inspection. Packages at the Customs Express Freight Office and Customs Parcel Post Office are also scanned prior to inspection. On the other hand, at the Malta International Airport and Hal Far Groupage Bonds, not all consignments are scanned, but they are processed on a case-by-case basis.
- Contents of the suspected containers are physically inspected. If it results as being a positive Intellectual Property Rights case, the container is withheld for further investigations by Customs, in terms of the applicable legislation.

Customs Operations organised by the European Council and the World Customs Organisation

- Joint Customs operations are carried out between Member States, as agreed during meetings of the Law Enforcement Working Party Customs Working Group³⁰, under the auspices of the European Council.
- World Customs Organisation manages operations targeting different areas. Participation in these operations by Customs may not necessarily be from the Enforcement Section. This is decided upon by the respective Director in charge of the targeted areas.

3.10.1 Enforcement Measures during 2020

The enforcement measures taken during 2020 are listed in Table 16.

²⁹ Counterfeit goods, pirated goods and goods infringing a patent under Maltese law.

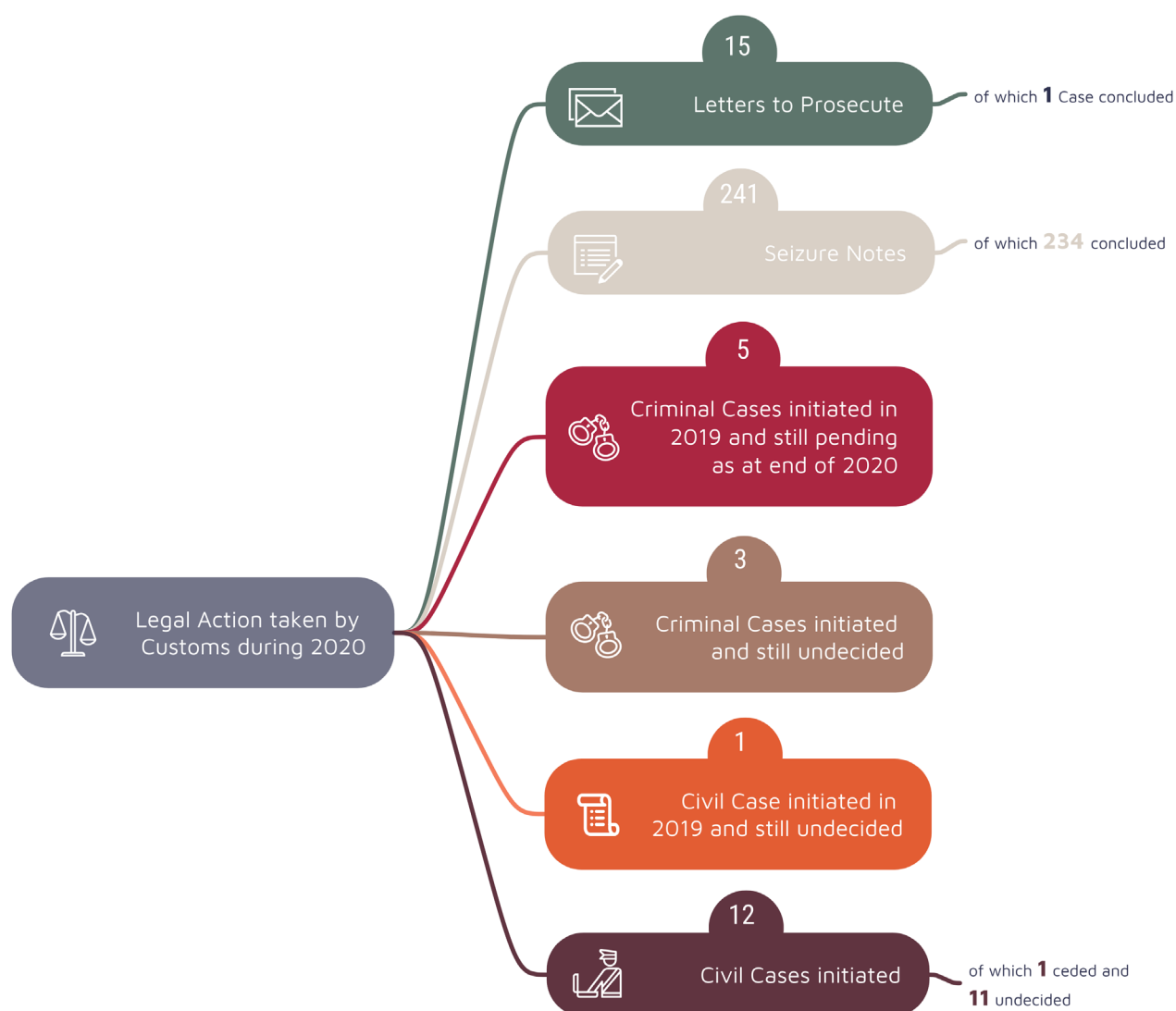
³⁰ This Working Group replaced the Customs Cooperation Working Party in July 2021. The Working Group handles work relating to legislative activities and cross-border policing. Customs personnel participated in the respective meetings.

Table 16: Enforcement measures taken by Customs during 2020

Type of Measure	Cases identified during 2020	Amount due to Customs €	Amount collected relating to 2020 €
Inspections performed in joint effort with VAT Section	No Customs related infringements were detected during 121 inspections	-	-
Inspections on Intellectual Property Rights	163 ³¹	125,635	125,635

3.10.2 Legal Action during 2020

Legal Action taken by Customs during 2020



³¹ Regarding Intellectual Property Rights cases, 1,030 containers were inspected at the Malta Freeport, resulting in 31 positive cases. There were also 106 positive cases at the Customs Express Freight Office, 6 cases at the Malta International Airport, 1 case at the Hal Far Groupage Bonds, and 19 cases at the Customs Parcel Post Office. These resulted from daily inspections that were conducted at the respective locations.

3.11 Staff Complement

Within Customs, officers responsible for the enforcement of revenue collection may be classified as follows:

Customs' Staff Complement

	Staff in Post 	Grades 	Required Staff Complement 
Front-line Personnel			
Excise Directorate			
• Alcohol Products Unit	5	• 1 Senior Inspector, 4 Customs Officers	• 1 Inspector
• Energy Products Unit	7	• 3 Principals, 3 Assistant Principals, 1 Senior Clerk	• 3 Executive Officers
• Tobacco Products Unit	6	• 1 Inspector, 5 Customs Officers	• 1 Senior Inspector, 1 Customs Officer
• Non-harmonised Good Unit	5	• 1 Senior Inspector, 1 Inspector, 3 Customs Officers	• 2 Customs Assistants
Compliance and Systems Directorate			
• Container and Groupage Unit	8	• 1 Senior Principal, 2 Principals, 3 Assistant Principals, 1 Executive, 1 Senior Clerk	• 1 Assistant Principal
• Airfreight Unit	9	• 2 Principals, 3 Assistant Principals, 2 Senior Clerks, 2 Customs Officers	• 1 Customs Officer or Executive Officer
• Parcel Post Office	13	• 1 Senior Inspector, 12 Customs Officers	• 3 Inspectors, 1 Customs Assistant
• Express Freight Office	8	• 1 Inspector, 7 Customs Officers	• 1 Senior Inspector
• Malta International Airport Office	31	• 1 Senior Inspector, 6 Inspectors, 23 Customs Officers, 1 Senior Customs Assistant	• 2 Inspectors, 3 Customs Officers
• Manifest Monitoring Unit	5	• 1 Assistant Principal, 2 Customs Officers, 2 Advisers	-

Customs' Staff Complement *cont...*

	Staff in Post 	Grades 	Required Staff Complement 
Back-office Duties			
Compliance and Systems Directorate			
• Valuation Unit	4	• 2 Principals, 1 Assistant Principal, 1 Customs Assistant	-
• Verification Unit	6	• 1 Principal, 4 Assistant Principals, 1 Customs Officer	• 1 Principal
• Customs Audit Unit	7	• 1 Senior Inspector, 1 Inspector, 5 Customs Officers	-
Sales Function			
Excise Directorate			
• Auction Unit	3	• 1 Inspector, 1 Customs Officer, 1 Senior Customs Assistant	-
Totals	117		21

A total of 117 officers are responsible for the enforcement of revenue collection at Customs. According to the latter, an additional 21 other officers are actually required to carry out the necessary timely enforcement action.

As highlighted in the Malta Customs Business Strategy 2020 to 2022, the optimisation of the Department's human resources is a critical success factor in improving its level of performance and service delivery. Thus, the Department is determined to continue to adopt the principle of skills' matching, so that personnel will be placed in sections where it is deemed that they can give the optimum output according to their ability. Customs is also committed to take the necessary steps to progressively recruit suitable personnel in full conformity with the capacity building plan for years 2020 to 2022.

Chapter 4 | Report Highlights

4.1 Revenue Analysis

This analysis has delved into the revenue received by CfR and Customs during 2020, as well as trends in public income since 2016.

Most noticeable was the substantial drop during 2020 as a consequence of COVID-19 pandemic, against the upward trends from 2016 to 2019, in each of their relative income streams:

- €293 million increase in absolute terms in Income Tax over the reporting period, with material spikes in Capital Gains for 2017 (17%) and 2018 (25%), FSS for 2016 (14%) and 2018 (15%), as well as Withholding Tax which experienced an increase of 28% in 2017.
- An overall decrease in absolute terms of €13 million in Duty on Documents and Transfers over the period 2016 to 2020. During the foregoing period, the major increase (26%) was registered in 2018 over the previous year. This was attributed to the various stamp duty relief. However, this growth was offset by the impact of the COVID-19 pandemic in 2020, during which a drastic drop of 34% over the previous year was experienced.
- VAT income experienced a steady upward trend from 2016 to 2019, with a total increase of €220 million over four years when compared to 2015. On the other hand, €167 million less than the previous year were collected in 2020.
- A €55 million growth in Customs income was recorded between 2016 and 2019. In contrast, a significant drop of €69 million was experienced in 2020, mainly the result of a lower amount of excise duty collected.

4.2 Enforcement Action

An assessment of the various enforcement actions taken by CfR and Customs was also provided throughout this analysis.

In the case of Income Tax, the most commonly used tool by CfR was remission of interest agreements in relation to company tax falling in arrears and tax due by a total of 368 individuals during 2020. This contributed to the collection of €4 million from the amounts falling in arrears by end of year 2020.

Similarly, during the year 2020, 22 remission agreements relating to VAT were entered into by CfR, as a result of which around €1.4 million was recovered. Collection efforts by CfR also included the issue of 2,031 Demand Notices, 61 Judicial Letters, as well as a total of 105 Civil Court sittings relating to 70 cases. Total tax collected following enforcement action amounted to €23 million.

The Investigations Section within CfR carried out 1,467 investigations during 2020; these included 120 full audit investigations (following which €29 million in assessments were raised), 307 specific audit investigations and 564 cases which were referred to the Financial Intelligence Analysis Unit (as a result, €8.2 million was recouped). Another seven cases were referred to the Police Department since they related to tax evasion.

Legal action taken by Customs during 2020 included 8 cases at the Criminal Courts and 13 cases at the Civil Courts. The Department also settled 94 cases Out of Court, issued 15 Letters to Prosecute and 241 Seizure Notes.

4.3 Staff Complement

The staff complement across CfR and Customs, relating to enforcement, is still to be augmented. As far as possible, any justified human resources' shortfalls are to be properly addressed, to ensure that revenue due to Government is invariably collected in a timely and efficient manner.

Chapter 5 | Conclusion

The first analysis carried out by NAO five years ago delved into the revenue received by the Inland Revenue Department, VAT Department and Customs during 2016, as well as trends in public income since 2012. Most noticeable were the upward trends in each of their relative income streams. An assessment of the various enforcement actions taken by the Departments was also provided throughout such review.

This year, NAO conducted a follow-up on the analysis reported upon in 2016, focusing on the changes that occurred during the subsequent four years. Most noticeable was the substantial drop during 2020 as a consequence of the COVID-19 pandemic, against the upward trends in the preceding four years, from 2016 to 2019.

Various enforcement actions were applied in order to collect the money due. This included the remission of interest agreements and legal action; however, the need of staffing relocation in various areas responsible for revenue collection needs to be addressed.

Considering that the year under review was very much impacted by the pandemic, this Office intends doing a similar follow-up assignment within a couple of years.

2021-2022 (to date) Reports issued by the NAO

NAO Annual Report and Financial Statements

May 2021	National Audit Office Annual Report and Financial Statements 2020
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NAO Audit Reports

May 2021	Performance Audit: Preliminary review: NAO's role in reviewing Government's measures relating to the COVID-19 pandemic
June 2021	Follow-up Reports by the National Audit Office 2021 Volume I
July 2021	Performance Audit: Fulfilling obligations in relation to asylum seekers
October 2021	Information Technology Audit: Examinations Department
October 2021	Follow-up Reports by the National Audit Office 2021 Volume II
November 2021	Performance Audit: Smart and RF meters' contribution to more accurate and timely utilities billings
November 2021	Information Technology Audit: IT Asset Management across Government Ministries and Departments
December 2021	Performance Audit: A Strategic Overview on the Correctional Services Agency's Operations at the Corradino Correctional Facility
December 2021	Report by the Auditor General on the Public Accounts 2020
December 2021	Report by the Auditor General on the workings of Local Government for the year 2020
December 2021	An audit of matters relating to the concession awarded to Vitals Global Healthcare by Government Part 2 A review of the contractual framework
January 2022	Performance Audit: Assisting Individuals with Dementia and their Caregivers within the Community