

Fundamentals Level – Skills Module

Taxation (Malta)

Monday 1 December 2008

Time allowed

Reading and planning: 15 minutes

Writing: 3 hours

ALL FIVE questions are compulsory and MUST be attempted.

Tax rates and allowances are printed on pages 2–4.

Do NOT open this paper until instructed by the supervisor.

During reading and planning time only the question paper may be annotated. You must NOT write in your answer booklet until instructed by the supervisor.

This question paper must not be removed from the examination hall.

The Association of Chartered Certified Accountants

The Malta Institute of Accountants

F6 (MLA)

Paper



SUPPLEMENTARY INSTRUCTIONS

1. Calculations and workings need only be made to the nearest €.
2. All apportionments should be made to the nearest month.
3. All workings should be shown.

TAX RATES AND ALLOWANCES

The following tax rates are to be used in answering the questions.

Individual tax rates for the year of assessment 2009

Married individuals			Other individuals				
€	€	Rate	€	€	Rate	%	
0 to 11,400	11,400	0	0 to 8,150	8,150	0	0	
11,401 to 20,500	20,500	15	8,151 to 14,000	14,000	15		
20,501 to 28,000	28,000	25	14,001 to 19,000	19,000	25		
28,001 and over		35	19,001 and over			35	

Non-resident individuals

€	€	Rate
		%
0 to 700	700	0
701 to 3,100	3,100	20
3,101 to 7,800	7,800	30
7,801 and over		35

Corporate income tax

Company tax rate for the year of assessment 2009	35%
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Value added tax

Standard rate	18%
Reduced rate	5%

Capital allowances**Industrial buildings and structures**

Initial allowance	10%
Wear and tear allowance	2%

Plant and machinery

Minimum number of years over which items of plant and machinery are to be depreciated:

Computers and electronic equipment	4
Computer software	4
Motor vehicles	5
Furniture, fixtures, fittings and soft furnishings	10
Equipment used for the construction of buildings and excavation	6
Catering equipment	6
Aircraft	12
Ships and vessels	10
Electrical and plumbing installations and sanitary fittings	15
Cable infrastructure	20
Pipeline infrastructure	20
Communication and broadcasting equipment	6
Medical equipment	6
Lifts and escalators	10
Air conditioners	6
Equipment mainly designed or used for the production of water or electricity	6
Other machinery	5
Other plant	10

Capital gains

Capital gains index of inflation

1983	428·06	1996	549·95
1984	426·18	1997	567·95
1985	425·17	1998	580·61
1986	433·67	1999	593·00
1987	435·47	2000	607·07
1988	439·62	2001	624·85
1989	443·39	2002	638·54
1990	456·61	2003	646·84
1991	468·21	2004	664·88
1992	475·89	2005	684·88
1993	495·60	2006	703·88
1994	516·06	2007	712·68
1995	536·61		

Fringe benefit rates on company cars

Vehicle use	% of vehicle value	
Vehicle not more than six years old	17%	
Vehicle more than six years old	10%	
Fuel value	% of vehicle value	
Vehicle value not exceeding Euro28,000	3%	
Vehicle value exceeding Euro28,000	5%	
Maintenance value	% of vehicle value	
Vehicle value not exceeding Euro28,000	3%	
Vehicle value exceeding Euro28,000	5%	
Private use percentage		
From	To	%
0	16,310	30
16,311	21,000	40
21,001	32,620	50
32,621	46,600	55
46,600+		60

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Question 1 begins on page 6.**

ALL FIVE questions are compulsory and MUST be attempted

- 1 George and Rebecca Miceli are married and live together. The couple have notified the Commissioner of Inland Revenue that George is to be considered the responsible spouse for tax purposes.

In 2008 they were employed with two separate Maltese companies under the following terms:

George

	€
Gross salary and bonus	18,000
Car cash allowance	1,500
Re-imbursement of childcare costs	2,500
Mobile phone allowance	1,200

Rebecca

	€
Gross salary and bonus	14,000
Entertainment allowance	3,000
Re-imbursement of internet costs (used exclusively for her employer's business)	1,000
Health insurance under a scheme available to all employees	800

Rebecca's employer makes a motor vehicle available to her, which was bought new in 1999 for the equivalent of €19,000. She uses the motor vehicle both for work related duties and for private purposes. Rebecca pays for all the fuel herself.

During 2008 George and Rebecca were involved in the following transactions:

- (1) They sold their main residence, an apartment in St Julians, for €150,000. They had bought the apartment in 2002 for €100,000 and had lived in it ever since.
- (2) They purchased a maisonette in Balzan for €250,000, which they moved into in November 2008.
- (3) They bought a shop in Msida for €120,000.
- (4) They disposed of shares in four companies, which they had bought in 1996. The following are the details of these share transactions:

Shares in	Bought for €	Sold for €
Messy Ltd (listed on the Malta Stock Exchange)	2,500	3,800
Sulphur Ltd (listed on the Malta Stock Exchange)	3,400	2,800
Sting Ltd (not listed on the Malta Stock Exchange)	12,000	15,500
Crimson Ltd (not listed on the Malta Stock Exchange)	8,000	4,000

- (5) They leased out the shop in Msida for five years at an annual rent of €5,000 starting from 1 July 2008.
- (6) They took out a bank loan of €200,000 to finance the purchase of the shop in Msida, in full (€120,000) and to partly finance the purchase of the maisonette in Balzan (€80,000). The loan was taken out on 1 July 2008 and the bank charged interest at the rate of 8% per annum.
- (7) They received dividend income as follows:
 - (i) A net dividend of €13,000 distributed out of Malteser Ltd's immovable property account. The company had paid tax at the rate of 35% on the profits out of which this dividend was distributed.
 - (ii) A dividend of €2,400 distributed out of Sly Ltd's final tax account.

George and Rebecca have two children. Adriana attends a private secondary school and the school fees paid in 2008 amounted to €2,500. Melissa attends a registered childcare centre and the fees in 2008 amount to €3,000, of which (as stated above) €2,500 was reimbursed by George's employer. Both Adriana and Melissa attend gymnastics lessons (a sports activity approved by the Kunsill Malta ghall-iSport) and their parents pay fees amounting to €250 per year for each child.

Required:

- (a) Determine the chargeable income of George and Rebecca Miceli for the year of assessment 2009, identifying the capital loss (if any) carried forward to the year of assessment 2010. (23 marks)
- (b) Compute the tax chargeable on George and Rebecca Miceli for the year of assessment 2009. (2 marks)
- (c) Compute the tax deductible from George and Rebecca Miceli under the final settlement system (FSS) for the year of assessment 2009. (2 marks)
- (d) Compute the tax payable by or refundable to the couple for the year of assessment 2009. (3 marks)

(30 marks)

2 Sparite Ltd was incorporated on 25 February 2008 by two non-resident shareholders, Spa Ltd and Rite Ltd. None of the ultimate shareholders of Spa Ltd and Rite Ltd are resident in Malta. The following information is relevant to Sparite Ltd's operations during its first financial period, which ended on 31 December 2008:

- (1) On 1 March 2008, bought 60% of the ordinary share capital of Limassol Ltd, a company incorporated and resident in Cyprus for €400,000.
- (2) On 4 March 2008, bought 3% of the ordinary share capital of Glacier Ltd, a company incorporated and resident in the United Kingdom for €2,000,000. The shareholding did not entitle Sparite Ltd to appoint directors on the board of Glacier Ltd.
- (3) On 1 July 2008, invested €110,000 in Maltese government stocks which were bought at a premium of 10%. The stocks have an annual rate of return of 5·6%.
- (4) On 1 October 2008, bought €200,000, 6% bonds in Bremen GmbH, a company incorporated and resident in Germany, at par. Sparite Ltd did not use the services of an authorised financial intermediary on the receipt of the bond interest, which was payable quarterly.
- (5) On 30 June 2008, disposed of its shares in Glacier Ltd for €2,200,000.
- (6) On 1 November 2008, received a dividend from Limassol Ltd amounting to €18,000.
- (7) Sparite Ltd started an IT consultancy business in its own name during 2008, which generated a turnover of €100,000. The related costs amounted to €30,000 of which €12,000 consisted of a specific provision on a receivable from one of its major customers.
- (8) Sparite Ltd also ventured into property trading in 2008 and made a loss of €20,000 on the purchase and sale of a property in Balzan.
- (9) Sparite Ltd operates from an office block that it purchased on 1 April 2008. The offices measure 420 square metres, but the company leased out 150 square metres to an unrelated party for €20,000 annually, starting from 1 April 2008.

Required:

- (a) Determine Sparite Ltd's chargeable income and tax payable for the year of assessment 2009 on the basis that the company will choose any option that minimises the tax payable and allocate the net of tax profits to the various tax accounts, including the untaxed account.

Note: you should present your answer in a columnar format, using as column headings the various relevant tax accounts, splitting the foreign income account between participating holding and non-participating holding. (20 marks)

- (b) Assuming that the profits allocated to the foreign income account and the Maltese taxed account may be distributed, determine the amount that could be claimed as a tax refund by the non-resident shareholders upon a distribution of the profits allocated to these two accounts. (5 marks)

(25 marks)

- 3** Stephen Bugeja is married and has two children, Rachel and Michael. He owns four properties: a villa in Naxxar which he and his wife use as their ordinary residence; an apartment in Xlendi; a plot of land in Birguma and another plot of land in Fgura.

In 2008 Stephen decided to donate three of his properties as follows:

the apartment in Xlendi to Mrs Bugeja's sister;
the plot of land in Birguma to Rachel; and
the plot of land in Fgura to Michael.

Stephen had bought the properties on the following dates and at the following prices:

	Year	€
Apartment in Xlendi	2006	120,000
Plot of land in Birguma	2005	80,000
Plot of land in Fgura	2002	72,000

The market value of the apartment in Xlendi has increased by 8% each year (not compounded) and the market value of the two plots of land has increased by 10% each year (not compounded). It is expected that these rates of increase in the value of the three properties will continue in the foreseeable future. The values assigned to all three properties on the deeds of donation were the same as the market value of each property on that date.

All four individuals (Stephen, Mrs Bugeja's sister, Rachel and Michael) pay personal income tax at the marginal rate.

Required:

- (a) State, giving reasons, whether or not tax will be chargeable upon the donation of the apartment in Xlendi to Mrs Bugeja's sister and the donation of the two plots of land to Rachel and Michael respectively. If you conclude that tax is chargeable, compute the amount due and state when such tax is payable. (4 marks)
- (b) Compute the tax chargeable on Mrs Bugeja's sister if she were to take up residence in the Xlendi apartment in 2008 and then in 2010 sell the property for €150,000. Support your calculations with brief explanations and state when such tax would be payable or refundable. (5 marks)
- (c) Compute the tax chargeable on Rachel Bugeja if in 2009 she were to transfer the plot of land in Birguma for €110,000. Support your calculations with brief explanations and state when such tax would be payable or refundable. (6 marks)
- (d) Compute the tax chargeable on Michael Bugeja if in 2014 he were to transfer the plot of land in Fgura for €170,000. Support your calculations with brief explanations and state when such tax would be payable or refundable. (5 marks)

Notes: (1) Where the law allows two alternative ways of computing the tax charge, always choose the option that results in less tax.

(2) Ignore the inflation allowance in respect of all three properties.

(20 marks)

- 4 Sparkle Ltd was incorporated on 2 March 2000. Its shareholders are two individuals, both resident in Malta. The company's distributable profits on 31 December 2006 amounted to (the equivalent of) €55,000 and were allocated to the following tax accounts:

	€
Maltese taxed account (profits that suffered 15% final withholding tax)	4,250
Maltese taxed account (profits that suffered 35% tax)	48,500
Untaxed account	2,250
 Distributable profits	 55,000

During 2007 the company's pre tax profits amounted to €32,000 arising from the following transactions:

	€
Rent of field for agricultural purposes	12,000
Bank interest gross of 15% withholding tax	4,000
Profit from the purchase and sale of a consignment of sports shoes	16,000
 32,000	

During 2008 the company's pre tax profits amounted to €44,000 arising from the following transactions:

	€
Profit on the sale of a field, which had been bought in 2000 for €10,000 and sold in 2008 for €24,000	14,000
Bank interest gross of 15% withholding tax	3,800
Profit from consultancy services in connection with agriculture	26,200
 44,000	

In 2007 and 2008, Sparkle Ltd operated from office premises measuring 200 square metres leased from its 70% subsidiary, for €8,000 annually.

On 15 February 2009 Sparkle Ltd's directors resolved to distribute €40,000 to the company's shareholders out of the profits earned up to 31 December 2008.

Required:

- (a) Re-allocate Sparkle Ltd's distributable reserves as on 31 December 2006 to the final tax account, Maltese taxed account and untaxed account. (1 mark)
 - (b) Determine Sparkle Ltd's chargeable income and tax payable for the year of assessment 2008 and allocate the net of tax profits to the various tax accounts. (5 marks)
 - (c) Determine Sparkle Ltd's chargeable income and tax payable for the year of assessment 2009 and allocate the net of tax profits to the various tax accounts. (5 marks)
 - (d) Advise Sparkle Ltd's directors on the tax accounts out of which they should distribute the proposed dividend taking into account the relevant legal restrictions on dividend distributions, as well as tax minimisation. (4 marks)
- (15 marks)

- 5** The Value Added Tax Act lays down the rules for charging value added tax (VAT) on supplies of goods or services. The following supplies have been made by persons established in Malta:
1. The sale of television sets whilst they are placed in a customs duty suspension regime.
 2. The provision of accommodation services in licensed holiday premises by an individual.
 3. The renting of a showroom by an individual to a car dealer.
 4. The hiring out of safe deposit boxes by a commercial bank.
 5. The sale by an individual of his private motor vehicle.
 6. The sale of a work of art, as defined in the Value Added Tax Act by its importer.
 7. The renting of residential property by a company, to an individual, for a period of five years.
 8. The minor repairing of a bicycle by a person registered under Article 10 of the VAT Act.
 9. The provision of medical treatment in a hospital.
 10. The charging of interest by a commercial bank on the credit facilities extended to its customers.

Required:

For each of the categories of supplies listed above, state whether a person established in Malta for the purpose of making such a supply:

- **is required to charge VAT and, if so, at which rate; and**
- **is eligible to claim input tax on any related purchases.**

(10 marks)

End of Question Paper