Fundamentals Level – Skills Module

Taxation (Malta)

Monday 6 December 2010

Paper F6 (MLA)

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

SUPPLEMENTARY INSTRUCTIONS

1. You should assume that the tax rates and allowances shown below will continue to apply for the foreseeable future
2. Calculations and workings need only be made to the nearest Euro
3. All apportionments should be made to the nearest month unless stated otherwise
4. All workings should be shown

TAX RATES AND ALLOWANCES

The following tax rates and allowances for the year of assessment 2010 are to be used in answering the questions.

Individual income tax rates

Resident individual tax rates

Married couples – joint computation: Euro		Other individuals: Euro	
0 – 11,900	0%	0 – 8,500	0%
Next 9,300	15%	Next 6,000	15%
Next 7,500	25%	Next 5,000	25%
Remainder	35%	Remainder	35%

Non-resident individuals

Euro	
0 – 700	0%
Next 2,400	20%
Next 4,700	30%
Remainder	35%

Corporate income tax

Standard rate	35%

Value added tax (VAT)

Standard rate	18%
Reduced rate	5%

Capital allowances – Income Tax Act rates

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

Index of inflation

1983	428·06
1984	426·18
1985	425·17
1986	433·67
1987	435·47
1988	439·62
1989	443·39
1990	456·61
1991	468·21
1992	475·89
1993	495·60
1994	516·06
1995	536·61
1996	549·95
1997	567·95
1998	580·61
1999	593·00
2000	607·07
2001	624·85
2002	638·54
2003	646·84
2004	664·88
2005	684·88
2006	703·88
2007	712·68
2008	743·05
2009	758·58

Car fringe benefit calculation and rates

Annual value of benefit = (vehicle use + fuel value + maintenance value) x private use percentage

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%
Car value	**Private use percentage**
Not exceeding Euro16,310	30%
Exceeding Euro16,310 but not Euro21,000	40%
Exceeding Euro21,000 but not Euro32,620	50%
Exceeding Euro32,620 but not Euro46,600	55%
Exceeding Euro46,600	60%

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Question 1 begins on the next page

ALL FIVE questions are compulsory and MUST be attempted

1 Mr and Mrs Camilleri are married and living together. They have asked you to assist them in completing their personal tax return for the year of assessment 2010 and have provided you with the following information for that year.

Mr Camilleri is an engineer. He held the post of director with a foreign group company in Malta, which closed down its operations on 31 March 2009. During the three months to 31 March 2009 Mr Camilleri received a salary of €15,000, as well as director's fees of €1,000 from a related group company. In the course of a four-day overseas trip in February 2009, he received a subsistence allowance of €560. He was provided with a company car which had been acquired for €30,000 in 2002; all fuel for the car is paid for by the company. The company paid his subscription fee at Marsa Sports Club so that Mr Camilleri could take foreign directors, clients and suppliers out golfing; the fee amounted to €300. For the three months to 31 March 2009, the company also paid for his mobile phone costs, internet subscription and cable television, which amounted to €650, €75, and €200, respectively. Mr Camilleri worked frequently from home outside office hours.

After being unemployed for a few months, Mr Camilleri eventually took up employment with a company in Kuwait from 1 October 2009. His salary for working in Kuwait for the remaining three months of the year was €25,000.

Rental income from the rent of a shop owned by Mr Camilleri amounted to €6,000 for the year. He paid ground rent of €250 in respect of this property. The shop fixtures and fittings had cost €25,000 and were acquired nine years ago. Insurance on the premises amounted to €500 and interest on the loan taken out to acquire the property amounted to €1,000.

Net interest after 15% withholding tax on balances held with a Maltese bank amounted to €255 for the year.

In order to yield additional income, in May 2009 Mr Camilleri disposed of some shares listed on the stock exchange on which he made a gain of €525. In 2008, he had sold his holdings of preference shares in a private company, which had a coupon rate of 7%, at a loss of €400. He had made no other disposals during the year 2008 or in the year 2009.

In July 2009 Mr Camilleri sold a property that he had inherited from his father in 2004. The value of the property in the declaration *causa mortis* was €30,000 but his father had bought it in 1991 for €7,500. The duty on documents amounted to €1,500. The property was sold for €50,000 and real estate agency fees amounted to €2,500. Mr Camilleri had initially tried to sell the property without using a real estate agent and had himself spent another €1,000 in advertising the property directly in the local papers.

As a result of Mr Camilleri's unemployment, Mrs Camilleri returned to work in April 2009. She had stopped working when their first son was born six years ago. Prior to this she had worked for several years as a manager with a local Maltese company and took up employment again with the same firm. Her annual salary is €50,000.

The couple send their two children to a private school. The fees for the younger child who attends primary school amounted to €800, whereas the fees for the older child amounted to €1,800.

Required:

(a) In the case of married couples it is necessary to choose a responsible spouse. Explain the relevance of a couple electing a responsible spouse and if and how, once elected, this status can be changed. (3 marks)

(b) Calculate the tax charge for Mr and Mrs Camilleri for the year of assessment 2010 on the basis that Mr Camilleri was elected as the responsible spouse. Your answer should mitigate the tax payable by applying the more optimal solution under the circumstances in all cases. (26 marks)

(c) State what difference it would make to your computation in (b) if Mrs Camilleri had been the responsible spouse.

Note: you are not required to recalculate the tax charge. (1 mark)

(30 marks)

2 Qammiegh Ltd has a 75% investment in Ghadira Ltd which in turn holds 70% of the share capital of Karraba Ltd.

For the year ended 31 December 2009 the income of Ghadira Ltd consisted of:

Net dividends of €11,375	The tax deducted at source was €6,125
Net interest from Government bonds of €8,500	The tax deducted at source was €1,500

Karraba Ltd was formed on 1 April 2009 and commenced trading one month later. The accounting profit for the eight months ended 31 December 2009 amounted to €50,000.

An analysis of the expenditure of the company yielded the following additional information.

1. Costs incurred in the month of April included:
   (i) wages and salaries totalling €15,000;
   (ii) motor vehicle running expenses of €750; and
   (iii) an advertising campaign that cost €13,000.
2. Legal fees included formation expenses of €2,500.
3. A bad debt provision of €7,000 has been provided by the directors.

The assets of Karraba Ltd as at 31 December 2009 comprised the following:

4. A showroom measuring 250 square metres which was acquired for €250,000.
   No depreciation has been provided on the showroom.
5. Computer equipment acquired for €9,000 on which depreciation of €2,250 was provided.
6. Furniture and fittings for the showroom acquired for €40,000 on which depreciation of €4,000 was provided.
7. Delivery vans acquired for €35,000 on which depreciation of €7,000 was provided.
8. Directors' cars acquired for €40,000 on which depreciation of €8,000 was provided. The company has two directors and the value of the cars provided was €20,000 each.

Qammiegh Ltd also has two 100% subsidiaries and a joint venture.

Gebla Ltd, a 100% subsidiary of Qammiegh Ltd, is a property development company that acquires land and constructs property on it. The following accounting profits were registered by Gebla Ltd for the year to 31 December 2009:

- €75,000 in relation to transfers of properties subject to tax of 12% on their transfer value of €100,000.
- €30,000 arising on other transfers of immovable property.

Fomm ir-Rih Ltd, also a 100% subsidiary of Qammiegh Ltd, made an accounting loss of €120,000 in the year to 31 December 2009 after charging depreciation of €10,000. Capital allowances for the year amount to €15,000.

Siehbi Ltd, which is an equal (50%) joint venture Qammiegh Ltd has with a third party overseas, manages a hotel situated outside Malta. For the year to 31 December 2009 the profits made by Siehbi Ltd amounted to €65,000 and dividends of €50,000 were distributed for the year.

All six companies have a year end on 31 December.

All of the companies are resident in Malta except for Siehbi Ltd.

Required:

For each of the companies in the Qammiegh Ltd group, determine the chargeable income and tax payable for the year of assessment 2010 and show the allocation of the net of tax profits to the various tax accounts, on the basis that the policy of the group and the respective companies is always to choose the option that minimises the tax payable.

Notes:
1. **You should present your answer in a columnar format for each company and for each of the various tax accounts.**
2. **Ignore any allocations to the untaxed account arising on the claim of group loss relief at the claimant company level.**

(25 marks)

3 The shareholding of Adams Ltd, a company formed on 30 April 2002, was as follows as at 31 December 2009:

Shareholder	No of shares held	Type of holding	Date of acquisition/ Subscription	Cost €
Chicago Ltd	5,500	Ordinary shares of €1 each	30 April 2002	10,000
Thomas Borg	5,000	Preference shares of €1 each	30 April 2002	5,000
Nick Cassar	7,000	Ordinary shares of €1 each	28 August 2006	8,400
Sean Farrugia	85,000	Ordinary shares of €1 each	15 January 2007	100,000
	5,000	Preference shares of €1 each		5,500
Henry Harthill	2,500	Ordinary shares of €1 each	15 January 2007	3,125

All the shareholders are resident in Malta except for Henry Harthill, who is a non-resident.

The balance sheet of Adams Ltd at 31 December 2009 was as follows:

	Notes	€
Fixed assets	1	250,000
Investment	2	50,000
Current assets		30,000
		330,000
Share capital-ordinary shares		100,000
Share capital-preference shares		10,000
Retained earnings	3	220,000
		330,000

Notes:

1. Included in the value of the fixed assets is a property acquired in 2002 for €75,000. An architect has valued the property at €175,000 on the basis of current market prices.
2. The investment consists of a 75% holding in Boston Ltd, which was formed on 24 February 2009. Boston Ltd does not hold any immovable property. The following extract is provided from the company's financial statements for the year 2009:

Profit/(loss) before tax €	Gross dividends distributed €	Tax at source €	Net dividends distributed €
7,500	3,077	1,077	2,000

3. The profits/(losses) before tax of Adams Ltd have been as follows:

Year	Profit/(loss) €
2002	12,398
2003	22,483
2004	37,800
2005	24,231
2006	15,675
2007	9,576
2008	7,111
2009	(575)

Flagstaff Ltd has approached the ordinary shareholders of Adam Ltd with an offer to buy their shares in the company for €4·15 per share. Sean Farrugia, Nick Cassar and Henry Harthill are seriously considering this offer. Chicago Ltd has stated that it will not accept the offer but it will sell its shares to its group holding company, Denver Holdings Ltd. Denver Holdings Ltd, which holds all of the shares in Chicago Ltd, is resident in Malta.

Required:

(a) Determine the chargeable gain that would arise on the transfer of their shares in Adams Ltd to Flagstaff Ltd in 2010 by:

(i) Sean Farrugia; and (11 marks)

(ii) Nick Cassar. (2 marks)

(b) Explain the Malta tax consequences for Henry Harthill of the transfer of his shares in Adams Ltd to Flagstaff Ltd. (2 marks)

(c) Explain the Malta tax consequences for Chicago Ltd of the transfer of its shares in Adams Ltd to Denver Holdings Limited. (2 marks)

(d) Determine the tax due by Adams Ltd if it were to sell the property for €190,000 and incurring brokerage fees of €6,000 which the notary did not include in the deed because no fiscal receipt was issued. (3 marks)

(20 marks)

4 Paul and Timothy have been in partnership for several years sharing profits and losses in the proportion 2:1. Their partnership agreement also provides for the following:

– An annual salary of €8,500 to Timothy.
– Both partners to maintain a capital account credit balance of €20,000 on which interest is paid at the rate of 1% per annum.
– Interest to be credited/charged on partners' current account balances (credit/debit) at the rate of 5% per annum.

The partnership profit and loss accounts for the last two years record a loss of €7,800 for the year ended 31 December 2008 and a profit of €16,200 for the year ended 31 December 2009, after charging/(crediting) the following:

Year ended 31 December	Note	2008	2009
		€	€
Bank interest	1	–	(510)
Depreciation	2	8,800	8,500
Motor vehicle expenses	3	3,300	3,100
Advertising expenses	4	1,200	1,450
Partners' salary		8,500	8,500
Interest on partners' capital accounts		400	400
Interest on partners' current accounts: Paul		700	240
Timothy		50	(350)

Notes:

1. The bank interest was recorded net of the 15% final withholding tax deducted by the bank.
2. The partnership calculates depreciation at the same rates as the wear and tear allowance rates available for capital allowance purposes.
3. The motor vehicle expenses are in respect of the running expenses (including fuel) for the motor car used by Timothy. The executive car, which had been purchased by the partnership for €30,500 in 2006 and depreciated at the rate of 20%, was used by Timothy for 50% business and 50% private purposes
4. The advertising expenses for the year 2009 include a donation of €200 to a local charity.

Additional information:

Timothy is separated from his wife to whom he pays alimony of €380 per month in accordance with their public deed of separation, as well as a child allowance of €180 per month for the support of their daughter.

Timothy has no income other than that received from the partnership.

Required:

(a) Prepare the partnership's income tax computations for each of the years of assessment 2009 and 2010. (8 marks)

(b) Calculate Timothy's chargeable income for the year of assessment 2010. (6 marks)

(c) Explain how the tax due on Paul's partnership income for the year of assessment 2010 will be made. (1 mark)

(15 marks)

5 Medical Ltd is involved with the supply of medical equipment and pharmaceutical goods. The company's transactions for the value added tax (VAT) return period 1 March to 31 May 2010 are as listed below. Unless stated otherwise all figures are shown exclusive of VAT.

1. Purchased medical equipment for €9,050. Transport costs amounted to €2,500 and insurance costs, €750.
2. Sold medical equipment to a Libyan individual for €2,500. The transportation of the equipment from Malta to Libya was handled by the customer himself.
3. Sold medical equipment to a local clinic for €5,000. A tax invoice was issued on 31 May 2010 but delivery of the equipment to the clinic was not made until 1 June 2010.
4. Made domestic sales of pharmaceutical goods amounting to €2,000.
5. Sold used office furniture for €450, that had been acquired by the company before 1995.
6. Paid for accommodation for a supplier representative amounting to €1,000 inclusive of VAT.
7. On 15 March 2010 paid rent of €1,500 to the lessor of the company's premises, Mr Said for the quarter 1 April to 30 June 2010.
8. On 1 April 2010 paid rent for a licensed apartment used by a foreign director amounting to €4,500 inclusive of VAT for the quarter 1 April to 30 June 2010. A tax invoice was provided.
9. Paid other overheads amounting to €7,000 and electricity costs of €1,000.

Required:

(a) Calculate the excess VAT credit due to Medical Ltd for the period 1 March to 31 May 2010. (8 marks)

(b) Explain by when the excess credit due will be refunded to Medical Ltd. (2 marks)

(10 marks)

End of Question Paper