Fundamentals Level – Skills Module

Taxation (Malta)

Thursday 10 December 2015

Paper F6 (MLA)

Time allowed

Reading and planning: 15 minutes

Writing: 3 hours

This question paper is divided into two sections:

Section A – ALL 15 questions are compulsory and MUST be attempted

Section B – ALL SIX questions are compulsory and MUST be attempted

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

Do NOT open this question 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.

Do NOT record any of your answers on the question paper.

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. Calculations and workings need only be made to the nearest €
2. All apportionments should be made to the nearest month unless stated otherwise
3. All workings should be shown when answering Section B

TAX RATES AND ALLOWANCES

The following tax rates and allowances for 2014 (year of assessment 2015) are to be used in answering the questions.

Individual income tax

Resident individual tax rates

Married couples – joint computation

€	€	Rate
0	to 11,900	0%
11,901	to 21,200	15%
21,201	to 28,700	25%
28,701	to 60,000	29%
60,001 and over		35%

Other individuals

€	€	Rate
0	to 8,500	0%
8,501	to 14,500	15%
14,501	to 19,500	25%
19,501	to 60,000	29%
60,001 and over		35%

Parents maintaining a child/paying maintenance

€	€	Rate
0	to 9,800	0%
9,801	to 15,800	15%
15,801	to 21,200	25%
21,201	to 60,000	29%
60,001 and over		35%

Non-resident individuals

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

Corporate income tax

Standard rate	35%

Value added tax (VAT)

Standard rate	18%
Reduced rate – general	5%
Reduced rate – accommodation in premises required to be licensed in virtue of the Malta Travel and Tourism Services Act	7%

Capital allowances

Industrial buildings and structures

Initial allowance	10%
Wear and tear allowance	2%

Plant and machinery

Wear and tear allowance as indicated in the question where applicable

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 airframe or engine	6
Aircraft engine or airframe overhaul	6
Aircraft interiors and other parts	4
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	1999	593·00
1984	426·18	2000	607·07
1985	425·17	2001	624·85
1986	433·67	2002	638·54
1987	435·47	2003	646·84
1988	439·62	2004	664·88
1989	443·39	2005	684·88
1990	456·61	2006	703·88
1991	468·21	2007	712·68
1992	475·89	2008	743·05
1993	495·60	2009	758·58
1994	516·06	2010	770·07
1995	536·61	2011	791·02
1996	549·95	2012	810·16
1997	567·95	2013	821·34
1998	580·61	2014	823·89

Applicability of increase for inflation

$$\frac{\text{Cost of acquisition/improvements}}{1} \times \frac{\text{index(yd)} - \text{index(ya)}}{\text{index(ya)}}$$

Where:
index(yd) is the index for the year immediately preceding that in which the transfer is made;
index(ya) is the index for the year immediately preceding that in which the property in question had been acquired or completed, whichever is the later, or, when it relates to improvements, for the year immediately preceding that in which the cost of carrying out the improvements was incurred.

Annual market rent (tax accounting)

The annual market rent of immovable property situated in Malta owned and used by a company for the purpose of its activities (excluding property which is rented by the said company to other parties) is calculated by multiplying the aggregate surface area in square metres of all floors of such premises so owned and used by €250 per annum.

Car fringe benefit rates

Vehicle use	Percentage of vehicle value
Vehicle not more than six years old	17%
Vehicle more than six years old	10%
Fuel value	
Vehicle value not exceeding €28,000	3%
Vehicle value exceeding €28,000	5%
Maintenance value	
Vehicle value not exceeding €28,000	3%
Vehicle value exceeding €28,000	5%

Private use percentages

Car value

From €	To €	
0	16,310	30%
16,311	21,000	40%
21,001	32,620	50%
32,621	46,600	55%
46,601 and over		60%

Section A – ALL 15 questions are compulsory and MUST be attempted

Please use the grid provided on page two of the Candidate Answer Booklet to record your answers to each multiple choice question. Do not write out the answers to the MCQs on the lined pages of the answer booklet.
Each question is worth 2 marks.

1 **Which of the following operations is NOT considered to constitute a transfer for the purposes of the charge to income tax on capital gains?**

A Donation
B Sale by instalments
C Lease
D Assignment

2 Company P, which is registered in Malta, receives foreign source passive royalties in respect of which it wishes to claim relief from double taxation, albeit no evidence of the foreign tax paid is available. The net amount of the royalties received by Company P in Malta in 2014 was €39,500. Deductible expenses totalling €11,300 were incurred in the production of this royalty income.

What is the amount of the net tax payable in Malta by Company P in respect of these royalties?

A €3,451
B €38,075
C €9,870
D €5,288

3 In the case of employees born on or after 1962, the employee's share of Class 1 social security contributions is generally computed at the rate of 10% of the basic weekly wage, capped at €41·83 per week.

What is the total amount of social security contributions payable over a full calendar year (52 weeks) in respect of an employee whose basic weekly wage is €500?

A €2,175
B €5,200
C €2,600
D €4,350

4 John, who is ordinarily resident and domiciled in Malta, sold his 10% shareholding in a Maltese private company for €10,000. The market value of the shares at the date of sale has been calculated to be €14,500. John had acquired the shares for €5,000.

What is the amount of provisional tax payable by John in respect of the share transfer?

A €1,015
B €0
C €700
D €665

5 Louisa, who was born in the Netherlands, recently took up residence in Malta. In 2014, her first full year as a resident of Malta, she earned interest of €500 on the maturity of a fixed term deposit of €10,000 with a Dutch bank. On maturity of the deposit, Louisa transferred the full amount of €10,500 (principal and interest) to her Maltese bank account.

What is the amount of Louisa's income chargeable to tax in Malta as a result of these transactions?

A €10,500
B €500
C €10,000
D €0

6 **Which of the following transactions is NOT an exempt without credit supply for the purposes of value added tax (VAT)?**

(1) The supply of health services
(2) The supply of pharmaceuticals
(3) The letting of parking spaces in a car park
(4) The letting of accommodation licensed by the Malta Tourism Authority

A 1, 2 and 4
B 1 and 3
C 3 and 4 only
D 2, 3 and 4

7 Company A is a service company registered in Malta with a financial and fiscal year ending on 31 December. On 1 February 2014, Company A purchased computer equipment costing €15,000. This computer equipment had to be sold during December 2014, and the proceeds on disposal were €10,600.

What is the balancing allowance which arises in the year of assessment 2015 as a result of the disposal of the computer equipment?

A €0
B €650
C €4,400
D €1,540

8 Company T, a trading company registered in Malta, leases a company car with a list price of €40,000 for the use of its managing director. In 2014, the annual lease charges amounted to €14,400

What is the amount of lease expense which Company T will be allowed as a tax deduction in the year of assessment 2015?

A €2,520
B €0
C €5,040
D €14,400

9 A Maltese bank, which is engaged exclusively in domestic lending, purchased computer software from a provider established in the UK at a cost of €35,000.

What is the net amount of value added tax (VAT) (output VAT chargeable less input VAT recoverable) payable by the bank in respect of this transaction?

A €0
B €1,750
C €2,450
D €6,300

10 Peter is ordinarily resident and domiciled in Malta and has a marginal personal tax rate of 35%. He sold his 12% shareholding in a Maltese private company for €15,000 when the market value of the shares was calculated to be €24,000. Peter had acquired the shares for €6,000.

What is the amount of the chargeable capital gain made by Peter on the share transfer?

A €9,000
B €0
C €18,000
D €3,150

11 Company M is a company registered in Malta with a financial and fiscal year ending on 31 December. Company M filed its income tax return for the year of assessment 2015 on 1 December 2015. This tax return showed that the company was due an income tax refund in respect of the year of assessment 2015.

What is the amount of additional tax (if any) payable by Company M as a result of the late filing of its tax return for the year of assessment 2015?

A €0
B €50
C €1,500
D €400

12 Company X is a tax resident of Country Y, which does not have a double tax treaty with Malta. In 2014, Company X entered into a contract to perform construction work in Malta for a sole trader who is ordinarily resident and domiciled in Malta. In terms of the contract, the Maltese sole trader is required to pay a gross total of €95,000 for the complete works as specified in the contract. The total progress payments made by the Maltese sole trader to Company X during 2014, net of any applicable withholding tax, amounted to €13,000. The Commissioner for Revenue has not issued any notice in relation to this contract.

What is the amount of tax withheld by the Maltese sole trader during 2014?

A €7,000
B €0
C €4,333
D €4,550

13 What is the general basis of Maltese taxation applicable to a person who is not domiciled in Malta and neither resident in Malta, nor ordinarily resident in Malta?

A Taxable in Malta on a source plus remittance basis
B Taxable in Malta on a source basis only
C Exempt from taxation in Malta
D Taxable in Malta on a worldwide basis

14 Andrew, who is ordinarily resident and domiciled in Malta, is single and does not have any children. He entered into a definite contract of employment for 24 months with a company registered in Malta commencing on 1 January 2014. The contract requires Andrew to perform his duties mainly in Italy. His total gross chargeable employment income during 2014 arising from this was €75,000. Andrew did not earn any other income whatsoever during 2014.

What is Andrew's income tax liability for the year of assessment 2015, assuming he chooses the most beneficial rates of tax available to him?

A €19,145
B €11,250
C €0
D €17,597

15 An online provider of downloadable music is established in Luxembourg for value added tax (VAT) purposes. On 15 March 2015, a Maltese private individual customer logs on to the provider's website from his home in Malta, and downloads a music album of his choice from the website, making payment by credit card. The price of the music album (exclusive of VAT) is €5. The standard rate of VAT in Luxembourg is 17%.

What is the value added tax (VAT) payable in respect of this transaction, in cents?

A €0·85
B €0·25
C €0·00
D €0·90

(30 marks)

Section B – ALL SIX questions are compulsory and MUST be attempted

Please write your answers to all parts of these questions on the lined pages within the Candidate Answer Booklet.

1 David Jones is ordinarily resident but not domiciled in Malta.

David purchased an apartment in Malta during 2009 for €300,000, on which he paid stamp duty amounting to €10,400. He also paid notarial expenses totalling €3,300 and agents' fees of €2,400.

Several enhancements were made to the apartment during 2011, which cost a total of €55,000.

David sold the apartment on 7 August 2014 for €455,000. Brokerage fees in respect of the sale totalled €26,845. Other selling expenses totalled €4,400.

David is single and his marginal rate of personal income tax is 35%.

Required:

Assuming that he selects the most beneficial method of taxation, calculate the tax payable by David in respect of the sale of the apartment during the year of assessment 2015.

(10 marks)

2 **(a)** Exiles Limited (EL) is a company registered in Malta, which is 100% owned by Gillian Blake, an individual who is neither resident nor domiciled in Malta.

EL owns a 5% ordinary shareholding in Otters Limited (OL), a trading company incorporated and tax resident in Canada. OL is not a property company and derives all of its income from its trading operations within North America. OL benefits from an advantageous fiscal regime in Canada, as a result of which it is subject to tax in Canada at a concessionary rate of 3%.

The investment in OL was acquired by EL on 1 July 2012 at a price of €2,450,000. The ordinary shares owned by EL confer full voting rights and full rights to profits available for distribution, but carry no rights to assets available for distribution on a winding up.

During its financial year ended 30 June 2014, EL derived the following income:

(1) Dividends received from OL totalling €294,000. These dividends were not subject to any withholding tax in Canada.

(2) Foreign sourced interest income amounting to €155,000 (gross). This interest income was subject to a withholding tax of 10% in the country from which the interest income was derived, and EL has proper evidence of this tax paid abroad. No double taxation treaty is in place between Malta and the country of source.

During the same financial year, EL incurred an interest expense amounting to €25,000 which was wholly and exclusively incurred in respect of the finance used to acquire the foreign sourced interest income. EL did not incur any other expenses during the year ended 30 June 2014.

If and where applicable, the directors of EL have indicated that they wish to apply the participation exemption.

EL distributed all of its post-tax profits for the year ended 30 June 2014 by way of dividends to Gillian Blake, who has been duly registered with the Inland Revenue for the purposes of making tax refund claims.

Required:

In respect of Exiles Limited (EL) for the year of assessment 2015:

(i) Explain whether the participation exemption will or will not apply to the dividend income received from Otters Limited, together with the tax consequences in terms of the tax payable (if any) by EL and the tax account to which the distributable profit will be allocated. (4 marks)

(ii) Calculate the tax payable in Malta on the foreign sourced interest income, state the tax account(s) to which the distributable profit will be allocated, and calculate the amount of the income tax refund (if any) claimable by Gillian Blake. (5 marks)

(b) State whether a partnership *en commandite*, the capital of which is not divided into shares, constitutes a company for Maltese tax purposes. (1 mark)

(10 marks)

3 Palma Hotel Limited (PHL) is a company established in Malta. PHL owns and operates a hotel in Malta and is registered for value added tax (VAT) purposes under Article 10 of the Value Added Tax Act.

PHL invariably charges its guests a fixed price per room per night (exclusive of any applicable VAT), depending on the basis of accommodation booked, as follows:

Room only (RO) basis	€100 per room per night
Bed & breakfast (B&B) basis	€125 per room per night
Half board (HB) basis	€160 per room per night
Full board (FB) basis	€175 per room per night

Guests booked on a particular basis (e.g. RO) are nevertheless entitled to use any of the hotel's restaurants upon payment of a specified fixed price per meal depending on whether it is breakfast, lunch or dinner.

The following information relates to PHL's VAT period 1 August to 31 October 2014:

(1) Number of room-nights occupied and paid:

Room only (RO)	250 room-nights
Bed & breakfast (B&B)	424 room-nights
Half board (HB)	189 room-nights
Full board (FB)	46 room-nights

(2) Additional turnover generated from the hotel's restaurants (exclusive of any applicable VAT):

	Food	**Beverages**
From guests staying at the hotel	€56,600	€22,450
From visiting guests	€94,200	€49,700

(3) Purchases and other expenses during the period (exclusive of any applicable VAT), as supported by tax invoices where appropriate:

	€
Food for consumption in restaurants	75,900
Beverages for consumption in restaurants:	
Alcoholic	19,100
Non-alcoholic	27,400
Hotel staff salaries and wages	195,000
Intra-EU acquisition of restaurant kitchen equipment (capital expenditure)	125,000
Bank loan interest charged to PHL	2,400
Management fee payable to PHL's group parent company	15,000
Utility bills:	
Water (supplied by the public authority)	2,200
Electricity	5,100

The group parent company is established in the United States. It does not have any establishment in Malta, and is not registered for VAT in Malta.

Required:

For Palma Hotel Limited's value added tax (VAT) return period ended 31 October 2014, calculate the company's:

- **output tax; and**
- **input tax.**

Clearly identify any items of expenditure for which input tax does not apply or is not deductible.

Note: You are not required to calculate the VAT payable/excess credit for the period.

(10 marks)

4 Mary, Pauline and Sarah are sisters. They each own 10% of the share capital of Salina Limited (SL), a company registered in Malta. SL was incorporated on 1 January 2012 and its balance sheet as at 31 December 2014 is as follows:

	€
Plant and equipment	100,000
Current assets	9,000
Current liabilities	(6,000)
	103,000
Share capital (1,000 shares of €1 each)	1,000
Distributable reserves	102,000
	103,000

SL does not own any immovable property, nor does it hold any investments in other companies. SL's average annual profits before tax between 2012 (its year of incorporation) and 2014 are €44,000.

All of the shares in SL confer equal percentage voting rights and percentage entitlement to profits. The shares were all subscribed for at cost by its shareholders upon the incorporation of SL. Prior to 2015, there had been no changes in the shareholdings of SL.

Mary, Pauline and Sarah each sold half their shares in SL as follows:

(1) On 1 February 2015, Mary sold half of her shares (i.e. 50 shares) for €80 each.
(2) On 15 April 2015, Pauline sold half of her shares (i.e. 50 shares) for €84 each.
(3) On 24 November 2015, Sarah sold half of her shares (i.e. 50 shares) for €89 each.

Required:

In respect of each of the disposals of Salina Limited shares made by Mary, Pauline and Sarah respectively:

(a) State, with reasons, whether or not the disposal constitutes a transfer of a controlling interest. (3 marks)

(b) Compute the capital gain chargeable to tax, if any, for each of the disposals for the year of assessment 2016.

Note: You are not required to calculate the tax payable. (7 marks)

(10 marks)

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Question 5 begins on page 14.

5 Rubicon Limited (RL) is a trading company registered in Malta which was incorporated on 1 June 2012. RL's financial results for the year ended 31 March 2014 are as follows:

	Note	€	€
Turnover			1,250,500
Cost of sales			(445,200)
Gross trading profit			805,300
Other income:			
Dividend income	1	15,500	
Interest income	2	2,920	
Rental income	3	6,400	
			24,820
Selling and administrative expenses:			
Advertising	4	(700)	
Wages and salaries	5	(224,450)	
Directors' fees		(65,500)	
Bad debts	6	(2,250)	
Depreciation	7	(4,500)	
Loss on the disposal of a computer	8	(650)	
Exchange differences	9	(1,150)	
Professional fees		(7,500)	
Rental expense	10	(9,100)	
Other expenses	11	(12,500)	
			(328,300)
Profit before tax			501,820

Notes:

1. The dividend income consists of a gross dividend received from an investment in a company listed on the Malta stock exchange. The dividend was paid out of the distributing company's immovable property account (IPA).
2. Interest income comprises:

	€
Local bank interest	2,771
Interest received from the VAT Department on a late refund of value added tax (VAT)	149
	2,920

The local bank interest is stated net of tax at 15% deducted by the bank by way of final withholding tax.

3. The rental income is derived from the letting of a commercial property situated in Malta owned by RL. The property is held as an investment property on RL's balance sheet.
4. Advertising includes a voluntary charitable donation of €250.
5. An amount of €1,200 of wages and salaries has not been reported under the final settlement system (FSS).
6. Bad debts comprise:

	€
Bad debts written off	3,400
Decrease in the provision for doubtful debts	(1,150)
	2,250

7. Depreciation is charged on fixed assets in accordance with RL's accounting policies. The original cost of the fixed assets owned and used by RL is as follows:

	Cost as at 1 April 2013	Additions on 1 January 2014	Disposals on 1 October 2013	Cost as at 31 March 2014
	€	€	€	€
Computers	8,100	2,500	(1,900)	8,700
Lift	9,200	–	–	9,200

8. The loss on disposal arose from the sale on 1 October 2013 of a computer purchased on 1 December 2012 for €1,900. The net book value of the computer as at 1 April 2013 was €1,250, and no depreciation was provided in respect of this computer for the year ended 31 March 2014.

9. Exchange differences comprise:

	€
Exchange loss on a purchase invoice received and settled during the year	2,000
Exchange gain on a sales invoice outstanding as at 31 March 2014	(850)
	1,150

10. The rental expenses relate to RL's business premises, which are leased from an unrelated party. RL does not own any real estate other than the commercial property held as an investment referred to in note 3.

11. Other expenses include:
    - Maintenance costs of €420 relating to the commercial property leased out by RL as referred to in note 3. No other expenses were incurred in relation to this property during the year to 31 March 2014;
    - Customer entertainment expenses totalling €2,400.

12. RL does not make an election whereby all available distributable profits otherwise able to be allocated to the Maltese taxed account and the foreign income account are instead allocated to the immovable property account.

Required:

(a) Prepare the income tax computation of Rubicon Limited (RL) for the year of assessment 2015. Clearly identify the elements of income charged to tax at 35% and at 15%, and the total tax payable by the company.

Notes:
1. **Commence your computation of business income with the profit before tax figure of €501,820 and include all of the items referred to in notes 1 to 11, indicating by the use of '0' any items for which no adjustment is required.**
2. **You should ignore deferred tax.** (12 marks)

(b) Show the allocation of RL's distributable profits to the applicable tax accounts. (3 marks)

(15 marks)

6 Marco and Anette are a married couple. They were both born in Belgium and, prior to taking up residence in Malta on 1 January 2014, had resided in Belgium throughout their lives. They plan to reside in Malta for at least the next few years, although they eventually intend to return to Belgium.

Marco retired from his employment with the Belgian civil service immediately prior to relocating to Malta. Throughout 2014 he received a monthly pension in Malta of €2,040, net of 15% Belgian withholding tax.

Anette has specialised in providing online marketing services to a portfolio of international business clients for several years, and she has continued to do so from her home office in Malta. Anette's turnover for 2014 totalled €95,000. Her business expenses during 2014 consisted solely of telecommunications costs totalling €2,460, and stationery costs amounting to €240. Upon moving to Malta, Anette purchased brand new furniture for €6,500 and computer software for €3,000 for the home office in Malta, to enable her to continue to perform her work effectively.

During 2014, Anette was also appointed to the board of directors of a Maltese company as its non-executive chairperson. For this she received a fee of €20,000 in respect of 2014, and the use of a brand new company car, inclusive of all running costs and fuel. The company had purchased the car for €45,000.

In addition to the above, Marco and Anette earned income and realised gains as follows during 2014:

(1) Rental income totalling €24,000 in respect of the rental of their former home in Belgium. This income was received in a joint account the couple hold with a bank in Belgium, and was not remitted to Malta.

(2) Capital gains on the sale of shares listed on the Belgian stock exchange amounting to €7,500. No foreign tax was suffered on this gain and the proceeds from the sale of the shares were fully remitted to Malta during 2014.

Required:

(a) For the year of assessment 2015, calculate Marco and Anette's total chargeable income and total tax payable, using the most beneficial method of tax computation.

Note: You should list all of the items of income referred to in the question, clearly identifying any items which are not subject to tax in Malta. (12 marks)

(b) Briefly explain the responsibilities of a married couple for the filing of tax returns and payment of tax. (3 marks)

(15 marks)

End of Question Paper