
Answers

Section B

Marks

1 Circle Trading Limited

1. Local source trading income

Allocated to the Maltese tax account (MTA).

0·5

Chargeable income

€75,000

Tax chargeable and payable at 35%

€26,250

0·5

Tax refundable to Circle Holding Limited (CHL) on a dividend distribution (6/7ths of €26,250)

€22,500

1

2. Foreign source trading income attributable to a permanent establishment (PE)

Allocated to the final tax account (FTA).

1

Chargeable income (participation exemption applies)

€0

1

Tax refundable to CHL on a dividend distribution (limited to tax paid in Malta)

€0

1

3. Foreign source trading income not attributable to a PE

Allocated to the MTA.

1

Chargeable income

€
62,000

Tax chargeable at 35%

21,700

0·5

Less: Double taxation relief

(2,400)

0·5

Tax payable in Malta

19,300

Tax refundable to CHL on a dividend distribution (6/7ths of €21,700)

€18,600

1

4. Foreign source passive interest

Allocated to the foreign income account (FIA).

0·5

Chargeable income

€15,000

Tax chargeable and payable at 35%

€5,250

0·5

Tax refundable to CHL on a dividend distribution (5/7ths of €5,250)

€3,750

1

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2 Esperti Limited

Value added tax (VAT) for the period 1 September to 30 November 2015

Output tax

	Value	VAT	
	€	€	
Domestic B2C supplies	2,400	432	0·5
Domestic B2B supplies	12,750	2,295	0·5
Intra-EU B2C supplies	3,200	576	0·5
Intra-EU B2B supplies (place of supply is outside Malta)	14,780	0	0·5
Non-EU B2C supplies (place of supply is outside Malta)	1,650	0	0·5
Non-EU B2B supplies (place of supply is outside Malta)	9,860	0	0·5
Intra-EU acquisitions of capital goods	12,900	2,322	0·5
Services received from EU providers	1,550	279	0·5
Services received from non-EU providers	1,210	218	0·5
	<u>60,300</u>		
Total output tax for the period		<u>6,122</u>	

Input tax	Value €	VAT €	Marks
Intra-EU acquisitions (reverse charge)	12,900	2,322	0·5
Capital goods expenditure (imports)	1,100	198	0·5
Domestic overheads at standard rate – goods (€1,120 less €650 blocked)	470	85	1·5
Water (exempt without credit)	230	0	0·5
Electricity (5% reduced rate applies)	665	33	1
Insurance premiums (exempt without credit)	120	0	0·5
Services received from EU providers (reverse charge)	1,550	279	0·5
Services received from non-EU providers (reverse charge)	1,210	218	0·5
	<u>18,245</u>		
Total input tax for the period		<u>3,135</u>	<u>10</u>

3 Silvia

- (a) Silvia is domiciled but not ordinarily resident in Malta, therefore, she will be chargeable to tax in Malta on income and gains arising in Malta plus any foreign income (but not foreign gains) remitted to/received in Malta. 2

(b) Income chargeable to tax in Malta for the year of assessment 2016

	€	
Salary (income arising outside Malta and not remitted to Malta)	0	0·5
Interest on non-Maltese bank accounts (income arising outside Malta and not remitted)	0	0·5
Interest on Maltese bank accounts (exempt – not resident in Malta)	0	1
Chargeable rental income (working)	1,900	W
Capital gains:		
On ordinary shares of a non-listed foreign company (capital gain arising outside Malta)	0	0·5
On ordinary shares of a company listed on the Malta stock exchange (exempt)	<u>0</u>	0·5
Total chargeable income in Malta	<u>1,900</u>	

Working: Taxation of Malta source rental income

Applying the option of being taxed at 15% on the gross rental income

Tax payable: 15% of €12,000	<u>€1,800</u>	1
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Applying the rental income deduction rules

	€	
Rental income received	12,000	
Less:		
Allowable interest expense	(7,500)	1
Ground rent	(250)	0·5
Maintenance expenses (disallowed)	0	0·5
Further deduction (20% of (€12,000 – €250))	<u>(2,350)</u>	1
	<u>1,900</u>	

Tax payable at non-resident rates:

€0 to €700 at 0%	0	
€701 to €1,900 at 20%	<u>240</u>	
Tax chargeable	<u>240</u>	0·5

Therefore, it will not be beneficial to opt to use the 15% tax option and the tax payable will be €240. 0·5

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4 Charles

Tax payable on the sale of shares in Irons Limited (IL)

The transfer is a transfer of a controlling interest.

Market value of IL at 31 December 2014

	€	€	
Net asset value as at 31 December 2014		219,600	0.5
Add: Goodwill adjustment (€25,000 x 2)		50,000	1
Market value of immovable property	335,000		0.5
Book value of immovable property	<u>(120,000)</u>		0.5
Immovable property adjustment		<u>215,000</u>	
Market value		<u>484,600</u>	

Market value percentage attributable to the shares held by Charles:

Y = (0.4 x A) + (0.2 x B) + (0.4 x C)	1
= (0.4 x 50%) + (0.2 x 75%) + (0.4 x 50%)	
= 20% + 15% + 20%	
= 55%	1

Market value of shares held by Charles:

55% of €484,600	€266,530	0.5
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Since the market value is higher than the consideration, the market value is used. 1

Capital gain and tax payable

	€	
Transfer value	266,530	0.5
Cost of acquisition (1,200 x 50% x €1)	(600)	1
Inflation deduction in respect of immovable property (50%)	<u>(16,423)</u>	0.5
Chargeable capital gain	<u>249,507</u>	
Tax at 35%	87,327	1

Working: Inflation deduction in relation to the immovable property asset

120,000 x $\frac{823.89 - 646.84}{646.84}$	€32,846	1
		<u>10</u>

5 Graham Enterprises Limited (GEL)

(a) Income tax for the year of assessment 2016

1. Dividend income from Anglia Limited (AL)

The participation exemption applies since:

- AL is not a property company. 0.5
 - The shareholding constitutes an equity holding since it confers two out of the three equity holding rights, namely voting rights and the right to profits available for distribution. 0.5
 - Although the holding is of less than 10%, the acquisition value of the investment is more than €1,164,000 and the investment has been held for an uninterrupted period of more than 183 days. 0.5
 - The anti-abuse provisions are satisfied, because AL is resident in the European Union. 0.5
- Therefore, no tax is payable by GEL on the dividend from AL. 0.5
- So the distributable profits are €124,400.

2. Chargeable income from the provision of management services

	€	
Management fee income	44,500	
Less: Deductible expenses		
Outsourced consultancy costs	(13,500)	0.5
Office maintenance costs	(3,200)	0.5
Chargeable income	27,800	
Tax at 35%	(9,730)	0.5
Distributable profits	18,070	

3. Capital gain from sale of shares in Orient Limited (OL)

The participation exemption applies since:

- OL is not a property company. 0.5
- The shareholding constitutes an equity holding since it confers all of the equity holding rights. 0.5
- The holding is of more than 10%. 0.5
- The anti-abuse provisions do not apply to capital gains. 1

Therefore, no tax is payable by GEL on the capital gain, so the resulting distributable profits are:

	€	
Consideration	525,000	
Less: Cost of acquisition (50%/95% x €795,000)	(418,421)	1
Distributable profits (capital gain)	106,579	

4. Dividend income from OL

	€	
Dividend income	32,600	
Tax thereon at 35%	(11,410)	0.5
Distributable profits	21,190	
		9

Tutorial note: The participation exemption does not apply to the dividend from OL since although the other criteria are met, none of the anti-abuse conditions are satisfied.

(b) Allocation of the distributable profits to tax accounts

	€	€	
Maltese tax account (MTA)			
Provision of management services – first stage allocation		18,070	0.5
Less: Annual market rent re-allocated to immovable property account (IPA) – 55 sqm at €250/sqm		(13,750)	0.5
		4,320	
Immovable property account (IPA) – second stage allocation		13,750	0.5
Final taxed account (FTA)			
Dividend from AL	124,400		0.5
Capital gain on sale of OL shares	106,579		0.5
		230,979	
Foreign income account (FIA)			
Dividend from OL		21,190	0.5
Untaxed account		0	
Distributable profits		270,239	

		Marks
Tax refunds claimable by shareholders on a dividend distribution		
	€	
MTA – 6/7ths x (€4,320 x 35%/(100% – 35%))	1,994	1
FIA – 5/7ths x (€21,190 x 35%/(100% – 35%))	8,150	1
Total tax refunds which may be claimed	<u>10,144</u>	
No refunds re FTA or FIA.		<u>1</u>
		<u>6</u>
		<u>15</u>

6 Theresa and Maria

(a) Chargeable income of the partnership for the year of assessment 2016

	€	€	
Profit before tax as per financial statements		138,656	
<i>Add back:</i>			
Bad debts written off	0		0·5
Increase in provision for doubtful debts	2,100		0·5
Depreciation	2,600		0·5
Unrealised loss on exchange	400		0·5
Partners' salaries	0		0·5
Partners' drawings	20,000		0·5
Class 2 social security contributions relating to partners	3,350		1
Interest payable to partners	0		0·5
Interest payable to supplier	<u>0</u>		0·5
		28,450	
<i>Deduct:</i>			
Surplus on disposal of shop furniture	(2,200)		0·5
Bank interest income (subject to final withholding tax)	(975)		1
Interest received from the VAT Department	<u>(1,176)</u>		1
		(4,351)	
		<u>162,755</u>	
Capital allowances (10% of (€25,000 – €4,000))	(2,100)		1
Balancing allowance/charge (not applicable – asset bought and sold in the same year)	<u>0</u>		0·5
		(2,100)	
		<u>160,655</u>	
			<u>9</u>

(b) Partners' individual income tax for the year of assessment 2016

Partners' chargeable income

	Theresa €	Maria €	
Share of partnership profits for the year (€160,655 x 50%)	80,328	80,327	1
Salary from partnership	25,000	25,000	1
Interest income from partnership	<u>665</u>	<u>320</u>	1
	<u>105,993</u>	<u>105,647</u>	
Interest income on overdue VAT refund (€1,176 x 50%)	<u>588</u>	<u>588</u>	1
Total chargeable income	<u>106,581</u>	<u>106,235</u>	

Partners' individual tax charge				Marks
		Theresa €	Maria €	
Using single rates:				
€0 to €8,500	at 0%	0	0	
€8,501 to €14,500	at 15%	900	900	
€14,501 to €60,000	at 25%	11,375	11,375	
On excess over €60,000	at 35%			
– on €46,581		16,303		
– on €46,235			16,182	
Tax chargeable (exclusive of final withholding tax paid on local bank interest income)		<u>28,578</u>	<u>28,457</u>	<u>2</u>
				<u>6</u>
				<u>15</u>