Fundamentals Level – Skills Module

Taxation (Malta)

Tuesday 2 June 2015

Paper F6 (MLA)

Time allowed
Reading and planning: 15 minutes
Writing: 3 hours

This 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 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 exam 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 categories of profits of a company registered in Malta fall to be allocated to the foreign income account (FIA)?

(1) Profits from investments, assets or liabilities situated outside Malta of a company licensed as a bank by the Malta Financial Services Authority, where all deposits throughout the financial year are taken from persons who are not resident in Malta
(2) Profits from royalties and similar income arising outside Malta
(3) Trading profits attributable to a branch situated outside Malta of the company, which are liable to tax in Malta, and which are shown as part of the company's chargeable income in its tax return
(4) Income or gains derived from a participating holding or from the disposal of such holding in a limited liability company not resident in Malta

A All of the above
B 1, 2 and 3 only
C 2 and 4 only
D 1 and 4 only

2 Andrew owns 15% of the share capital of a company registered in Malta. He had acquired the shares at a cost of €1,500. The shares carry full voting rights and rights to profits available for distribution, but do not confer a right to appoint or nominate a director on the board of the company. He sells these shares for €2,500. The market value of the shares for capital gains purposes is €4,000. Andrew is fully subject to tax in Malta and his marginal personal income tax rate is 35%.

How much is Andrew's tax liability on the sale of these shares?

A €0
B €350
C €480
D €525

3 On which of the following matters is a taxpayer allowed to request an advance revenue ruling from the Commissioner for Revenue?

(1) The tax treatment of any transaction which concerns a financial instrument
(2) The tax treatment of any transaction which involves international business
(3) Whether a transfer of immovable property situated in Malta is chargeable to 12% final tax
(4) Whether the general income tax anti-avoidance rule applies to a *bona fide* commercial transaction to which a company is party

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

4 George is a businessman who runs a restaurant chain. On 1 July 2014, George purchased a brand new executive car at a cost of €60,000 which he will use solely for business purposes in the production of his trading income.

What is the deduction for wear and tear which George Zammit will be allowed against his trading income for the year of assessment 2015?

A €0
B €1,400
C €2,800
D €12,000

5 **Which of the following constitutes a non-taxable legal person for the purposes of value added tax?**

(1) Any person who carries on an economic activity
(2) A pure holding company, the income of which consists solely of dividends derived from its subsidiary
(3) An employee
(4) A public authority acting exclusively in the exercise of the functions assigned to it by law

A 1, 3 and 4 only
B 1 and 3 only
C All of the above
D 2 and 4 only

6 The fiscal and accounting year of a company engaged in trading activities within the Maltese domestic market ends on 30 June. Its tax returns have consistently been filed on time, and the tax payable according to the most recent tax returns is as follows:

	€
Tax payable for the year of assessment 2011	22,000
Tax payable for the year of assessment 2012	19,000
Tax payable for the year of assessment 2013	24,000
Tax payable for the year of assessment 2014	29,000

What is the amount of the first provisional tax instalment due by the company in respect of the basis period ending 30 June 2015, and by which date is this first instalment due?

A €5,800, due by 30 April 2015
B €4,800, due by 31 August 2014
C €4,800, due by 30 April 2015
D €5,800, due by 21 December 2014

7 Mark is engaged in full-time employment. He is also a passionate photographer and also wishes to provide photography services in his free time on a part-time, self-employed basis. His expected gross annual revenue from this activity is expected to be in the region of €5,000.

Which of the following value added tax (VAT) registration options are available to Mark in relation to his photography services activity?

(1) Apply for an Article 10 value added tax registration
(2) Register for value added tax as a small undertaking (Article 11 registration)
(3) Apply for an Article 12 value added tax registration
(4) Opt not to register for value added tax

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

8 Stephen owns commercial office space in Gozo which he leases to a professional services firm on a long-term basis. Stephen's results for 2014 from this activity are as follows:

	€
Rental income received	24,000
Less:	
Cleaning expenses	(900)
Repairs and maintenance	(3,000)
Ground rent payable	(400)
Interest paid on the loan to finance the acquisition of the property	(4,100)
Professional fees	(600)
Net profit before tax	15,000

What is Stephen's chargeable income from the rental activity for year of assessment 2015?

A €14,700
B €15,600
C €15,000
D €14,780

9 **Which of the following statements is TRUE in relation to Class One social security contributions?**

(1) Class One contributions generally apply to a person who is employed in insurable employment
(2) Weekly rates of Class One contributions are generally calculated at 20% of the weekly wage
(3) In general, both the employer and employees make equivalent Class One contributions in respect of each respective employee
(4) A person who is employed in more than one insurable employment is generally required to make Class One contributions in respect of each such employment

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

10 David started a new business as an independent trader on 1 January 2015. He incurred the following business expenditure before he actually commenced carrying out his trade:

	Period prior to commencement in which incurred	€
Advertising	20 months	5,700
Cost of feasibility study	12 months	4,500
Formation expenses	3 months	2,600
Staff salaries	3 months onwards	14,500
Staff training	2 months	3,100

What is the amount of pre-trading expenditure which David will be allowed against his trading income for the year of assessment 2016?

A €23,300
B €0
C €17,600
D €30,400

11 Matthew, an individual who is ordinarily resident and domiciled in Malta, sold his holiday home situated in Italy during 2014 for €220,000. This property had been acquired during 2009 for €160,000 and the cost of acquisition adjusted for inflation by the relevant index is €176,750. On 1 April 2014, improvements costing €25,000 had been incurred in respect of the property prior to its sale.

The proceeds of the sale were not remitted to Malta. Matthew's marginal rate of income tax is 35%.

What is the income tax payable by Matthew on the capital gains resulting from the sale of his Italian property?

A €0
B €5,268
C €6,388
D €26,400

12 **Which of the following transactions in connection with immovable property situated in Malta is NOT exempt from value added tax?**

A The letting of residential property which is not required to be licensed in virtue of the Malta Travel and Tourism Services Act
B The letting of premises and sites designated as parking areas
C The transfer of commercial real estate
D The letting of property by a private individual landlord to a business registered for value added tax under Article 10 for the purpose of its economic activity

13 Drittijiet Limited, a company incorporated and tax resident in Malta, is an intellectual property holding company which owns a number of registered patents. During 2014, it disposed of one of its patents, Patent A, for €100,000. Patent A had been acquired as an investment during 2009 for a consideration of €70,000. During 2014, Drittijiet Limited paid wages of €6,000 to a part-time employee who is responsible for the general administration of the company and its patents.

What is the charge to income tax on capital gains which will apply to Drittijiet Limited in respect of the disposal of Patent A?

A €0
B €8,400
C €10,500
D €30,000

14 During 2014, Marsa Limited disposed of computer software for €16,500. The computer software had been acquired for business purposes during 2012 at a cost of €15,000.

What is the balancing charge arising on Marsa Limited as a result of the disposal of the computer software?

A €7,500
B €0
C €9,000
D €11,250

15 BVA Limited owns 55% of BVB Limited and 75% of BVC Limited. BVB Limited, in turn, holds 80% of BVD Limited and 90% of BVE Limited. BVC Limited was liquidated on 30 June 2014. BVD Limited was incorporated on 1 October 2014. BVB Limited acquired its holding in BVE Limited on 1 April 2014.

All five companies are resident exclusively in Malta for tax purposes, and have an accounting and tax year ending on 31 December 2014.

Which of the above companies will NOT be eligible for group loss relief in the year of assessment 2015 because of the requirement for group companies to have accounting periods which begin and end on the same dates?

A BVC Limited only
B BVD Limited only
C BVE Limited
D BVC Limited and BVD Limited

(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 Matthew Vella and Paula Spiteri are both individuals, ordinarily resident and domiciled in Malta. Except for some joint business interests, Matthew and Paula are not related and do not share family or other ties.

Matthew and Paula are the only shareholders of Sirens Limited (SL), a Maltese company incorporated during 2008, which is engaged in the holiday property short-term rental business. SL's latest statutory financial statements show the following statement of financial position as at 30 September 2014:

	€
Non-current assets:	
Immovable property	650,000
Current assets:	
Debtors	25,000
Cash in hand and at bank	70,000
	745,000
Equity and liabilities	
Share capital	
2,500 ordinary shares of €1 each	2,500
5,000 non-voting 6% preference shares of €100 each	500,000
Retained earnings	97,500
Non-current liabilities: bank loan	100,000
Current liabilities: trade creditors	45,000
	745,000

The shares of SL are held as follows:

Matthew Vella:

- 1,500 ordinary shares of €1 each (subscribed for at par on SL's incorporation)
- 3,000 non-voting 6% preference shares of €100 each (acquired on issue on 1 October 2010)

Paula Spiteri:

- 1,000 ordinary shares of €1 each (subscribed for at par on SL's incorporation)
- 2,000 non-voting 6% preference shares of €100 each (acquired on issue on 1 October 2010)

The immovable property owned and used by SL for the purpose of its business is as follows:

	Book value (historical cost) as at 30 September 2014	Market value as at 30 September 2014
	€	€
Maisonette in Xlendi (acquired during 2014)	125,000	125,000
Block of three apartments in Qawra (acquired during 2009)	525,000	720,000

SL has not made any acquisitions or disposals of its immovable properties held as at 30 September 2014, and the market value of these properties has not changed since that date. SL does not hold investments in any other entities.

The profit history of SL is as follows:

Financial year ended 30 September:	Profit before tax	Profit after tax
	€	€
2014	55,000	47,000
2013	51,000	44,500
2012	44,200	39,800
2011	37,600	35,400
2010	21,300	18,700
2009	7,000	(1,200)
2008	(15,000)	(14,600)

On 1 December 2014, Matthew and Paula received an offer from an unrelated third party to purchase all of their shares in SL. The purchaser offered €155 per ordinary share, and €120 per preference share.

Required:

(a) Calculate the market value of the ordinary shares of Sirens Limited for the purposes of the charge to income tax on capital gains. (4 marks)

(b) Calculate the combined total chargeable capital gain for Matthew Vella and Paula Spiteri if they sold both their ordinary shares and preference shares in Sirens Limited at the prices offered by the prospective purchaser in December 2014. (6 marks)

(10 marks)

2 Star Holding Limited (SHL) is a company which was incorporated in Malta on 1 January 2014, and is managed and controlled in Malta.

SHL owns Star Trading Limited (STL), which was incorporated in Malta on 1 February 2014, and is managed and controlled in Malta. During the financial year ended 31 December 2014, STL derived the following income:

(1) Income from local trading operations. The total income chargeable to tax (computed in accordance with the Income Tax Act) amounted to €100,000.

(2) Income from overseas trading operations which are attributable to a permanent establishment situated outside Malta. No foreign tax, whether directly or by way of withholding, is suffered on this income and as such no double taxation relief will be claimed. The total income chargeable to tax (computed in accordance with the Income Tax Act) amounts to €140,000. The directors of SHL have opted not to exempt this income under the participation exemption regime.

(3) Foreign source passive royalties amounting to €50,000. No evidence of any foreign tax paid is available, although the company's directors have indicated that they wish to avail themselves of the flat rate foreign tax credit (FRFTC) in relation to this income.

(4) Foreign source passive interest amounting to €25,000. No foreign tax has been suffered on this interest income and no relief for double taxation will be claimed.

STL will distribute all of its post-tax profits for the year ended 31 December 2014 as dividends to SHL.

SHL is fully owned directly by Star Group Limited (SGL), a company domiciled and tax resident in the Netherlands. SGL in turn is owned by a number of individuals, none of whom are resident in Malta or domiciled in Malta.

SHL has been duly registered for the purposes of making claims for the refund of tax with the Maltese tax authorities.

Required:

(a) In respect of each of Star Trading Limited's streams of income (1) to (4) for the year ended 31 December 2014:

- **state the tax account to which the chargeable income after tax will be allocated;**
- **calculate the tax payable in Malta; and**
- **calculate the income tax refund claimable by Star Holding Limited.**

Note: You should deal with each stream of income separately. (9 marks)

(b) State whether or not Malta's full imputation tax credit system applies to dividends distributed by a company registered in Malta out of profits allocated to the immovable property account. (1 mark)

(10 marks)

3 The following transactions were carried out by three independent businesses:

(a) International Trading Limited (ITL), a business established in Malta which is registered for value added tax (VAT) under Article 10, sold goods to an Asian business customer and transported the goods from Malta to a destination outside the EU on behalf of its customer.

(b) ITL also sold goods to a private individual customer established in Italy. These goods were purchased by ITL from the stores of a wholesaler physically located in Italy, and then transported by ITL to its customer's home address in Italy.

(c) Lewis Allen LLP (LA) is a law firm established and registered for VAT exclusively in the UK. LA provided legal advice to MaltaInsure Limited, a business established in Malta which is engaged in the business of insurance, serving the domestic Maltese market. MaltaInsure is registered for VAT under Article 12.

(d) Smart Advisory Limited (SAL) is a consultancy business established in Malta which is registered for VAT under Article 10. SAL provided consultancy services to a private individual customer established in Spain.

(e) SAL also provided consultancy services to a private individual customer established in Canada.

Required:

For each of the transactions (a) to (e):

- **state whether the transaction is a supply of goods or a supply of services for value added tax (VAT) purposes;**
- **state the place where the transaction is deemed to take place for VAT purposes;**
- **state who is the person liable to account for the VAT and, where applicable, pay VAT to the authorities; and**
- **state the applicable Maltese rate of VAT or, if no Maltese VAT is payable, the reason why.**

(10 marks)

4 David and Clara are a married couple who moved to Malta in 2012 to take up residence in Malta. The couple intend to remain resident in Malta for a number of years, but as they were both born and raised in Belgium, they plan to return to Belgium at some time in the future.

During 2014, the couple undertook the following transactions:

(1) Sold a residential property located in Belgium for €340,000. The couple had originally purchased the property in 2005 for €290,000. The proceeds from the sale were received in the couple's bank account in Belgium, out of which the amount of the gain was remitted to their Maltese bank account to finance current expenditure. The balance of €290,000 remained held in the couple's account in Belgium.

(2) Received a net dividend of €8,500 out of profits allocated to the untaxed account of a Malta resident company. This amount of €8,500 was received directly into the couple's bank account in Belgium.

(3) Closed a joint bank account which they held with a bank based in Jersey, remitting both the capital amount of €35,000 as well as the gross interest for the year credited by the bank amounting to €1,200 into their bank account in Malta. No foreign tax was suffered on the interest.

(4) Received interest income for the year amounting to €2,250 on their Maltese bank balances, which the couple had elected to be paid gross of withholding tax.

(5) Received foreign source investment income for 2014 amounting to €15,000 directly into the couple's bank account in Belgium, of which 50% was remitted to their bank account in Malta. No foreign tax was suffered on this income.

(6) Received Malta source income for 2014 amounting to €45,000 directly into the couple's bank account in Belgium, of which 50% was then remitted to their bank account in Malta.

(7) Disposed of marketable securities in Maltese companies as follows:

- shares listed on the Malta Stock Exchange, on which a capital gain of €5,000 was made; and
- shares in non-listed Maltese companies, on which a capital gain of €4,000 was made.

The proceeds from both disposals were received directly into the couple's bank account in Belgium, and were not remitted to Malta.

Required:

(a) State, giving reasons, whether David and Clara will be considered as ordinarily resident and/or domiciled in Malta for the year of assessment 2015. (2 marks)

(b) Calculate David and Clara's chargeable income for the year of assessment 2015, indicating by the use of zero any item of income or gains which will not be subject to tax in Malta. (8 marks)

(10 marks)

5 Cube Holdings (Malta) Limited (CHML) owns the entire ordinary share capital of Sphere (Malta) Limited (SML) and of Cylinder Trading (Malta) Limited (CTML). CHML, SML and CTML (collectively referred to as the 'Group') are limited liability companies, which are all domiciled in Malta, and managed and controlled in Malta. The financial and fiscal year of all three companies ends on 31 December.

CHML is eligible for refunds of tax on dividend distributions by SML and CTML, and is registered for this purpose with the Commissioner for Revenue. CHML is fully owned by four individuals who are neither resident in Malta nor domiciled in Malta.

SML is an intermediate holding company which was established to hold a real estate investment situated in Portugal, as well as the Group's investment in 25% of the ordinary share capital of Cube Overseas Trading Limited (COTL). COTL is a limited liability company incorporated and tax resident in a country outside the territory of the European Union. The ordinary shares in COTL held by SML confer a full right to profits available for distribution and proportional voting rights, but no right to assets available for distribution on a winding up.

As at 31 December 2014, COTL distributed a net dividend for the year of €76,500 to SML. COTL is subject to corporate income tax at the rate of 15% on all of its income in its country of residence. No withholding tax applies on the dividend distribution from COTL to SML.

The real estate asset situated in Portugal did not generate any income, but was disposed of by SML during 2014, realising a capital gain of €120,000. No foreign tax was suffered on the disposal, and no double taxation relief whatsoever is to be claimed in this regard.

SML did not generate any other income or incur any expenditure during the year ended 31 December 2014, except for incurring professional fees amounting to €1,000. SML does not own, either directly or indirectly, any immovable property situated in Malta.

CTML is engaged in retail trade and operates a number of retail stores spread throughout various localities in Malta and Gozo. The retail stores are all owned by CTML and have a total floor area of 550 m^2. CTML's accounting profits before tax for the year ended 31 December 2014 amount to €295,000. No adjustments are required to this figure to arrive at the chargeable income calculated in accordance with the requirements of the Income Tax Act.

On 31 December 2014, SML and CTML distributed all of their profits available for distribution derived during the financial year ended on that date to CHML.

The objective of the Group is the maximisation of the return to CHML, including the right to benefit from any tax refunds on the distribution of dividends.

Required:

(a) For Sphere (Malta) Limited (SML) and Cylinder Trading (Malta) Limited (CTML) prepare income tax computations for the year of assessment 2015, giving an explanation for any item of income which you treat as exempt from taxation in Malta. (4 marks)

(b) For SML and CTML allocate the distributable profits for the year ended 31 December 2014 to the respective tax accounts, stating the reason for the allocation to each particular tax account. (6 marks)

(c) For Cube Holdings (Malta) Limited (CHML) for the year ended 31 December 2014 calculate the dividends received from SML and CTML, show the allocation of these dividends to the respective tax accounts, and calculate the relative tax refunds available to CHML. (5 marks)

(15 marks)

6 Jake Vella is ordinarily resident and domiciled in Malta. Jake is married to Joan and the couple has a four-year-old son, Jamie, who attends a registered private kindergarten school. The Vella family has owned and occupied a Maltese village house as their sole residence ever since purchasing the house on 1 March 2002. Joan works within the Vella household and did not independently earn any income during 2014.

Jake was employed as a vehicle mechanic with a franchised service station, where he earned the following between January and April 2014:

	€
Salary	5,500
Bonus	750
Provision of free meals	320

The meals are provided in a staff canteen where free meals are provided for all service station staff during lunchtime.

The Vella family sold their village house on 1 April 2014 realising a gain of €15,000, and on the same date purchased and moved into a town apartment with a large underlying garage.

Jake resigned his position with the service station with effect from 30 April 2014 and started a small business as an independent mechanic, working from his new garage as from 1 May 2014. The garage is entirely devoted to the new business.

On 1 July 2014, Jake purchased brand new machinery costing €24,000 and a second-hand pick-up truck costing €17,500 for the purpose of his business.

Jake's books of account show the following results for his business from its commencement on 1 May to 31 December 2014:

	Note	€	€
Revenue from mechanical services			28,000
Less: Direct costs			(4,000)
Gross profit			24,000
Less: Administration and selling expenses:			
Wages and salaries	1	10,550	
FSS deductions	2	450	
Social security contributions (Class Two)	3	750	
Utilities costs	4	650	
Repairs and maintenance	5	950	
Bad debts	6	350	
Legal and other fees	7	1,100	
Other general expenses	8	1,450	
Depreciation of fixed assets		500	
			(16,750)
Accounting profit			7,250

Notes:

(1) Wages and salaries comprise drawings from the business made by Jake of €1,000 per month since the commencement of the business, and net salary payments of €2,550 made to a part-time book-keeper engaged by Jake for the purpose of the business.

(2) FSS deductions represent the 15% tax withheld under the rules applicable to part-time workers.

(3) Social security contributions represent the amount of social security payable by Jake in respect of his activity as a self-occupied person.

(4) Utilities costs comprise water and electricity bills received since 1 May 2014, of which €390 is in respect of the garage and €260 relates to the apartment.

(5) Repairs and maintenance comprise:

	€
Cost and installation of an air conditioner in the garage	680
Repairs to garage tiling	150
General maintenance	120
	950

(6) Bad debts consist of a bad debt write-off of €150, and a specific provision for doubtful debts of €200.

(7) Legal and other fees include administrative penalties for late VAT registration and late filing of a VAT return totalling €450, and interest payable to the VAT Department of €150.

(8) Other general expenses include a donation of €250 made to a local philharmonic society.

During 2014, Jake received a net dividend of €1,625 from a Maltese company listed on the Malta Stock Exchange, which was paid out of profits on which the distributing company paid tax at the full standard income tax rate applicable to companies of 35%, and which had been allocated to the Maltese taxed account. He also received net bank interest income of €1,700, on which 15% tax had been withheld by the bank.

Jake and Joan paid €1,200 of kindergarten school fees in respect of 2014.

Required:

Assuming that Jake and Joan Vella opt for the most favourable method of tax computation, calculate their total chargeable income, tax charge and tax payable or refundable in respect of the year of assessment 2015.

Note: You should list all of the items of income and gains referred to in the question, indicating by the use of '0' any items which are exempt from tax or otherwise not taxable in Malta.

(15 marks)

End of Question Paper