

Fundamentals Level – Skills Module

# Taxation (Malta)

Thursday 9 June 2016



**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.**

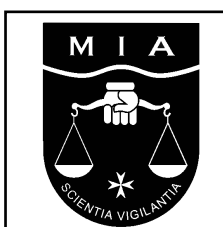
**During reading and planning time only the question paper may be annotated. You must NOT write in your answer booklet until instructed by the supervisor.**

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

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

# Paper F6 (MLA)

Think Ahead



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 in Section B

## TAX RATES AND ALLOWANCES

The following tax rates and allowances for 2015 (year of assessment 2016) 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 60,000	25%
60,001	and over	35%

##### Other individuals

€	€	Rate
0	to 8,500	0%
8,501	to 14,500	15%
14,501	to 60,000	25%
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 60,000	25%
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%

**Note:** In the case of non-resident EU/EEA individuals who do not derive at least 90% of their worldwide income from Malta, the tax liability is capped as follows:

$$\frac{\text{Malta chargeable income}}{\text{Worldwide income}} \times \text{Tax charge if worldwide income is charged at the applicable resident individual tax rates}$$

### 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	2000	607.07
1984	426.18	2001	624.85
1985	425.17	2002	638.54
1986	433.67	2003	646.84
1987	435.47	2004	664.88
1988	439.62	2005	684.88
1989	443.39	2006	703.88
1990	456.61	2007	712.68
1991	468.21	2008	743.05
1992	475.89	2009	758.58
1993	495.60	2010	770.07
1994	516.06	2011	791.02
1995	536.61	2012	810.16
1996	549.95	2013	821.34
1997	567.95	2014	823.89
1998	580.61	2015	832.95
1999	593.00		

### 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%
<b>Fuel value</b>		
Vehicle value not exceeding €28,000		3%
Vehicle value exceeding €28,000		5%
<b>Maintenance value</b>		
Vehicle value not exceeding €28,000		3%
Vehicle value exceeding €28,000		5%
<b>Private use percentages</b>		
<b>Car value</b>		
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 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 Saliba is ordinarily resident and domiciled in Malta and his marginal income tax rate is 35%. During 2015, David entered into the following transactions in immovable property:
- (1) An apartment situated in Sliema (Malta) was transferred on 30 September 2015 at a price of €450,000. This property had been acquired on 1 January 2012 from an unrelated third party at a cost of €375,000. The apartment does not form part of a project.
  - (2) A house situated in Florence (Italy) was transferred on 15 November 2015 at a price of €1,250,000. This property had been acquired as an investment on 1 July 2009 at a cost of €955,000.
  - (3) A farmhouse situated in Nadur (Gozo) was transferred on 1 February 2015 at a price of €350,000. This property had been acquired on 31 August 2007 at a cost of €255,000.
  - (4) A villa situated in Madliena (Malta) was transferred on 30 April 2015 at a price of €950,000. This property was inherited by David on 10 July 1990 at a declared value of €215,000.
  - (5) A maisonette situated in Mellieha (Malta) was transferred on 1 December 2015 at a price of €210,000. This property was inherited by David on 1 October 2010 at a declared value of €155,000.

**Required:**

**With respect to each of transactions (1) to (5), calculate the tax payable by David Saliba.**

**(10 marks)**

- 2** Daniel Roth is an individual who is neither ordinarily resident nor domiciled in Malta. He owns the entire share capital of Daniel Holdings Limited (DH), which is a company incorporated and managed and controlled in Malta.

During the year ended 31 December 2015, DH recorded the following transactions:

- (1) A gross dividend of €10,000 derived from its 25% equity investment in North Limited, a trading company which is incorporated and tax resident outside Malta but within another EU member state. No foreign tax, whether by way of withholding or otherwise, was suffered on this dividend. North Limited is not a property company.
- (2) A gross dividend of €16,000 derived from its 15% equity investment in East Limited, a company which is incorporated and tax resident outside the EU. East Limited derives solely passive interest and royalties which are subject to no foreign tax whatsoever. A withholding tax of €1,600 was suffered upon the dividend distribution and evidence of this withholding tax is available. East Limited is not a property company.
- (3) Another gross dividend of €9,000 derived from East Limited. There is no evidence of any foreign tax paid on this second dividend, whether by way of withholding or otherwise. However, DH's directors have indicated that they wish to avail themselves of the flat rate foreign tax credit (FRFTC) in relation to this dividend. DH is specifically empowered to receive such income in terms of its memorandum and articles of association.
- (4) A capital gain of €12,500 on the disposal of its 40% equity shareholding in South Limited, a company which is incorporated and tax resident in Malta. South Limited is not a property company.
- (5) A capital gain of €5,700 on the disposal of its branch (permanent establishment) situated outside the EU.

Where applicable, DH always elects to apply the participation exemption. DH will distribute all of its distributable profits for the year ended 31 December 2015 by way of a dividend to Daniel Roth.

**Required:**

**In respect of each of Daniel Holdings Limited's streams of income (1) to (5), calculate:**

- **the tax payable in Malta by Daniel Holdings Limited; and**
- **the income tax refund claimable by Daniel Roth.**

**Where no tax is payable or refund claimable state the reason.**

**Note:** You should deal with each stream of income separately.

**(10 marks)**

3	Supplier	Customer	Type of supply	Value (exclusive of value added tax (VAT))
(1)	Established in Malta Registered for VAT under Article 10	A private individual in Malta	Pharmaceutical goods	€150
(2)	Established in Malta Registered for VAT under Article 10	A business established in Italy Has an Italian VAT identification number	Computer hardware transported from Malta to Italy	€15,000
(3)	Established in Malta Registered for VAT under Article 11	A private individual in Malta	Beauty service	€25
(4)	Established in China Not VAT registered	A private individual in Malta	A tablet computer shipped from China to Malta	€175
(5)	Established in China Not VAT registered	A business established in Malta Registered for VAT under Article 10	Mobile phone sets shipped from China to Malta	€40,000
(6)	Established in France Has a French VAT identification number	A business established in Malta Registered for VAT under Article 12	Consultancy services	€4,000
(7)	Established in Germany Has a German VAT identification number	A business established in Malta Registered for VAT under Article 11	Printing equipment	€21,000
(8)	Established in Switzerland Not VAT registered	A business established in Malta Registered for VAT under Article 10	Legal services	€3,500
(9)	Established in Croatia Has a Croatian VAT identification number	A business established in Malta Registered for VAT under Article 12	Printed books transported from Croatia to Malta	€15,000

**Required:**

**In respect of each of the transactions (1) to (9), calculate the output value added tax (VAT), if any, chargeable in Malta. Where no VAT is chargeable, state the reason.**

**(10 marks)**

- 4** Hanut Limited (HL) has owned and operated a retail store in Malta since 2000. HL's financial and fiscal years both end on 30 June each year.

On 30 May 2013, HL disposed of its original retail store at its market value of €250,000. HL had acquired its original store on 1 March 2000 at a cost of €140,000. On 15 July 2013, HL replaced the original store with a larger, more modern and prominently located store which it acquired at a price of €550,000. Stamp duty of €27,500 was incurred by HL on the purchase of the new store. The new retail store is used solely for a similar purpose within the business as the original store. Upon acquisition, it was intended that the new store would not be replaced or cease to be used in the business for a period of at least ten years.

However, during 2015, the board of HL resolved that it was in the best commercial interests of the company to sell its retail store to an unrelated third party sale-and-leaseback company, and continue to operate the same store without actually owning it. This transaction would enable HL to release capital to finance the expansion of its business. The sale of the new store took place on 1 February 2015 at its market value of €750,000.

**Required:**

- (a) Assuming Hanut Limited (HL) wishes to minimise its immediate tax liability, state why no tax will be payable on the sale of the original store on 30 May 2013. Briefly explain the reliefs/exemptions available and state any actions HL will need to take to obtain the reliefs and/or exemptions.** (3 marks)
- (b) Calculate the cost of acquisition of the new store for tax purposes as at its acquisition date of 15 July 2013.** (3 marks)
- (c) Explain the tax consequences of HL's sale and leaseback of the new store on 1 February 2015 and calculate the total tax payable by HL as a result of the transfer.** (3 marks)
- (d) Recalculate the cost of acquisition of the new store for tax purposes as at its acquisition date of 15 July 2013, if its total cost of acquisition (including stamp duty of €5,000) was €105,000.** (1 mark)

Note: For the purposes of all calculations in this question, ignore the maintenance and inflation allowances.

**(10 marks)**



**This is a blank page.  
Question 5 begins on page 14.**

5 The Realty Group consists of four companies, all of which are incorporated, managed and controlled in Malta. The first company, Realty Holdings Limited (RHL), merely acts as the sole shareholder of the other three companies: Kera Limited (KL), Negojzu Limited (NL) and Finanzi Limited (FL). RHL is in turn owned by an individual entrepreneur who is resident and domiciled in Malta.

(1) KL owns a commercial real estate asset situated in Malta, which is leased to its sister company NL. This lease generates an annual rental income of €650,000 to KL, which represents the full market rental value of the property. KL pays interest to its other sister company FL in connection with a loan which was granted by FL to finance the acquisition of the real estate asset by KL. KL's income statement for the financial year ended 31 December 2015 is as follows:

	€	€
Turnover (rent received from NL)		650,000
Less:		
Property maintenance expenses	15,000	
Ground rent payable	9,000	
Interest expense payable to FL	200,000	
Professional fees	12,000	
Other expenses	5,500	
		(241,500)
Profit before tax		408,500

(2) NL carries on a wholesale and retail trade and has a Maltese value added tax (VAT) registration under Article 10. During 2015, NL operated its trading business from three different properties situated in Malta:

- Property 1 having a total footprint of 2,600 m<sup>2</sup>, leased from KL for €650,000 per year (as in (1) above);
- Property 2 having a total footprint of 450 m<sup>2</sup>, leased from an unrelated third party at a cost of €100,000 per year; and
- Property 3 having a total footprint of 220 m<sup>2</sup>, owned by NL.

NL's income statement for the financial year ended 31 December 2015 is as follows:

	€	€
Turnover		3,750,000
Cost of sales		(1,900,000)
Gross profit		1,850,000
Less:		
Property rental expense	750,000	
Administration and distribution expenses	35,500	
Allowance for irrecoverable debts	10,700	
		(796,200)
Profit before tax		1,053,800

(3) FL is a special purpose vehicle which exists only to provide loan financing to KL, from which it earned interest of €200,000 during the year ended 31 December 2015. FL has no other income or expenditure.

None of the companies will make an election to allocate Maltese taxed account or foreign income account profits to the immovable property account.

**Required:**

- (a) Prepare income tax computations for the year of assessment 2016 in respect of Kera Limited (KL), Negoju Limited (NL) and Finanzi Limited (FL), showing the chargeable income and tax charge of each company and allocating the distributable profits for the year to the respective tax accounts.

Note: Ignore deferred taxation and the re-allocation of profits between the immovable property accounts of related companies. (13 marks)

- (b) In respect of the letting of property by KL to NL:

- state whether KL will be required to register for value added tax (VAT) in Malta; and
- calculate the VAT, if any, which KL should charge NL on the rental payment for the year 2015.

(2 marks)

**(15 marks)**

- 6 Charles and Victor are two brothers who are both ordinarily resident and domiciled in Malta. The brothers are both unmarried and live together in the family home which they recently inherited from their father. Their mother is resident in a private home for the elderly in Malta, towards which Charles and Victor pay an annual contribution of €3,000 each.

Charles is a pensioner and his income for the year 2015 is as follows:

- (1) A gross monthly pension of €2,100.
- (2) Director's fees from a Maltese collective investment fund of €10,000.
- (3) Gross income as a part-time lecturer with the University of Malta of €4,500.
- (4) Local bank interest income (net of final withholding tax) of €1,530.
- (5) Net foreign bank interest income (not remitted to Malta) of €475. Foreign withholding tax at 5% was suffered on the gross interest.
- (6) Local net dividend income of €780. This dividend was paid out of profits which had been taxed at 35% at the level of the distributing company, and allocated to its immovable property account (IPA).
- (7) A capital gain amounting to €3,200 on the sale of shares in a Maltese company which is not listed on the Malta Stock Exchange.

Victor is employed as a full-time salesman with Telemarketing Limited, from which he earned a gross basic salary of €2,200 per month, plus the following benefits, in 2015:

- private use of a brand new company delivery van valued at €20,000;
- reimbursement of private medical expenses totalling €1,500;
- €900 worth of products normally sold by the company provided to Victor for free;
- an annual subsidy of €250 on meals served in the company staff canteen, which Victor consistently uses in full; and
- a long service award amounting to €2,500 in recognition of his 15 years of service to the company. This is the first time that Victor has received a long service award from the company.

Victor also works part-time for 10 hours per week with Webmarketing Limited, which is a wholly-owned subsidiary of Telemarketing Limited. During 2015, Victor's gross salary from Webmarketing Limited totalled €7,800.

Victor did not derive any other income during 2015, except for the following which he received by way of donation from his mother for no consideration whatsoever:

- a piece of Maltese antique furniture valued at €4,500; and
- cash totalling €2,250.

**Required:**

**Assuming that Charles and Victor always opt for the most favourable tax arrangements available to them individually, calculate their respective chargeable income, tax charge and total tax payable for the year of assessment 2016.**

**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**