



Think Ahead

Taxation (MLA)

Sample Questions – September 2020

Get to know your exam

These graphical representations are intended to give an indication of past exam requirements and associated question content.

Please note that you will not be able to complete answers within these documents and in isolation they will not sufficiently prepare you for your exam.

We encourage you to visit the ACCA Practice Platform in order to attempt up to date practice exams within the computer-based exam environment.

Introduction screen

Taxation - Malta (TX - MLA) Sample Questions - September 2020



Introduction

This practice exam indicates how the live exam will be structured and assessed, and the likely style and range of questions that could be asked.

You should use the practice exam to become familiar with the question types and the features and functionality contained within the live exam.

The practice exam is reflective of the live exam experience but has some differences:

- The live exam will be timed, however there is no time limit in this exam.
- If you want to sit this exam in exam style conditions you should answer the questions presented within the time allowed for your live exam.
- Once you have started this exam you are able to leave at any time by closing the browser window. When you return, anything you have entered into the response options will be saved and you can continue sitting the exam.
- In the live exam your answers to the constructed response questions will be expert-marked. At the end of this exam, all objective test questions (OTs) be auto-marked however you should use the solution material provided to assess your performance in the constructed response questions.
- You will be able to access solution material at the end of this exam when using the Self-Marking resources which include a Marking Guide and/or Sample Answer for each question. If you wish to access these without completing the questions, click on [End Exam](#) on the Item Review Screen and navigate to the Marking tab on the Dashboard to Self-Mark.

Next →

Instruction screens


Instructions (1 of 4)

The instructions displayed below are representative of those displayed in the live exam. Where there are differences between this exam and the live exam these are explained.


General Instructions

- In this exam, the instruction screens are not timed however in the live exam they will be available for a maximum of 10 minutes prior to the exam starting.
- In the live exam, the stated exam time will automatically start once the 10 minute period has passed (or earlier if you choose to start the exam within the 10 minute period).
- A copy of the instruction screens can be accessed at any time during the exam by selecting the Help button provided.

Answering and Navigating

- Please read each question carefully.
- The question number you are viewing is displayed in the top display bar. You can hide or restore this display by selecting .
- You can navigate between screens by selecting **Next →** or **← Previous**, or by clicking on a question number from the Navigator or Item Review screens.
- A warning message will display to remind you that you cannot navigate away from a question if you have not viewed all of the question content. Ensure that you use all scrollbars and/or open any on-screen exhibits before navigating from each question.
- Some questions have the scenario and answer area divided by either a horizontal or vertical splitter bar. You can move this splitter bar to see more or less of the scenario or answer area.
- Please ensure you provide an answer for all elements of each question.
- You can revisit questions and change your answers at any time during the exam.




Flag for Review

- If you wish to revisit/review a question later in the exam, click  **Flag for Review**.
- Click the button again if you no longer wish to revisit/review the question later in the exam.


Instruction screens (continued)

Instructions (2 of 4)



Help

- Click the **Help** button provided to access:
- A copy of these exam instructions.
- Help and guidance on constructed response questions. (in the constructed response section of the exam only).
- Formulae sheets/tax tables if your exam requires these. Note that the name of the Help button will indicate if formulae sheets/tax tables are available i.e.  **Help**,  **Help/Formulae Sheet** or  **Help/Tax Tables**


Calculator

- You have the option to use the on-screen standard or scientific calculators by selecting  **Calculator**
- Note that in the live exam you are also permitted to use your own calculator providing it does not have the facility to store or display text.

Highlight and Strikethrough

- You can highlight key phrases or figures in the question scenario by selecting  **Highlight**
- You can strikethrough text in the question scenario by selecting  **Strikethrough**
- Highlighted and strikethrough text will be displayed on all questions relating to the scenario.

Workings/Scratch Pad

- You may use an on-screen Scratch Pad to make notes/workings by selecting  **Scratch Pad**
- The Scratch Pad retains all notes/workings entered for all questions and these are available for the duration of the exam. They will not be submitted for marking after your live exam.
- You will also be provided with paper for notes/workings for your live exam, should you prefer to use it. This will not be submitted for marking. It will be collected at the end of the exam and must not be removed from the exam room.
- **Important:**
 - The notes/workings entered onto the Scratch Pad or your workings paper during the live exam will not be marked.
 - If you want the marker to see any notes/workings for questions in the constructed response section of the live exam you must show them within the answer areas.

Instruction screens (continued)

Taxation - Malta (TX - MLA) Sample Questions - September 2020

Instructions (3 of 4)

Copy and Paste

- You can copy and paste from the Scratch Pad or question scenario into your answers in the constructed response section of the exam by using the Ctrl-C (Copy) and Ctrl-V (Paste) shortcuts. **Note:** When pasting into a spreadsheet in the live exam you must double-click the cell or paste directly into the formula bar. In this exam you can also paste into the spreadsheet by selecting the cell.

Symbol

- You can add a selection of currency symbols to your answers in the constructed response section of the exam by selecting **\$ Symbol** on the top toolbar.

Navigator Screen

- The Navigator screen can be accessed at any time during the exam by selecting **Navigator**.
- This screen allows you to jump to any question number in the exam.
- It also allows you to see the status of questions and whether they have been viewed, are complete or incomplete, or have been flagged for review.

Close All

- You can close each window (eg. Calculator or Scratch Pad) individually or you can close multiple windows by selecting **Close All** on the top toolbar.

Reviewing the Exam

- You can review your exam once you have attempted any, or all, of the questions.
- To do this:
 - Navigate to the **last question** in the exam.
 - Click **Next→**.
- This takes you to the Item Review screen.

← Previous Next →

Instruction screens (continued)

Taxation - Malta (TX - MLA) Sample Questions - September 2020

Instructions (4 of 4)

Item Review Screen

- This screen gives you an opportunity to see the flag and completion status of all questions before you exit the exam.
- You can select individual questions you wish to revisit, or quickly access groups of questions from the Item Review screen.
- During the item review period Navigator is not available however you can navigate to questions by selecting **Next→** , **← Previous** or **Review Screen**
- When reviewing questions you can change your answer and click **Review Screen** to view any updated status on the Item Review screen.

Ending the Exam

- Once you have completed your item review and wish to finally end the exam click **End Exam**
- Once you end the exam, you cannot revisit any questions.

Select **Next** to move to the Exam Summary screen.

← Previous Next →

Exam summary screen

Taxation - Malta (TX - MLA) Sample Questions - September 2020

Time allowed: This sample exam is not timed.

This exam is divided into two sections:

Section A

- 15 objective test (OT) questions, each worth 2 marks.
- 30 marks in total.

Section B

- Six constructed response questions that may contain a scenario which relates to one or more requirement(s).
- Each constructed response question is worth 10 or 15 marks in total.
- 70 marks in total.

All questions are compulsory.

Select **Next** to start your exam.

← Previous Next →

Sample exam questions

Section A – summary screen

Taxation - Malta (TX - MLA) Sample Questions - September 2020

Flag for Review

Section A

This section of the exam contains **15 objective test (OT) questions**.

Each question is worth **2 marks** and is compulsory.

This exam section is worth **30 marks** in total.

Important:

1. Calculations and workings need only be made to the nearest whole unit of currency, unless instructed otherwise.
2. All apportionments should be made to the nearest month.

Select **Next** to continue.

Navigator Next →

Section A - questions

Taxation - Malta (TX - MLA) Sample Questions - September 2020

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\$ Symbol ▼ Highlight ✎ Strikethrough 🧮 Calculator ✎ Scratch Pad

Close All Flag for Review

Which of the following situations are examples of potential tax avoidance which are blocked by Maltese tax legislation?

(1) Surrender of group relief losses between companies in circumstances where a company is a member of a group of companies solely or mainly as a result of arrangements intended to reduce the income tax liability of any of those companies
(2) A series of transactions is effected with the sole or main purpose of reducing the amount of tax payable via the investment income provisions
(3) An individual taxpayer willfully understates the amount of chargeable income in the personal income tax return, thereby reducing the reported income tax liability
(4) A change to the shareholding of a company is made solely or mainly for the purpose of obtaining the benefit of a tax loss

☐ 1, 2, 3 and 4
☐ 2 and 3 only
☐ 1 and 4 only
☐ 1, 2 and 4 only

Jim is employed by a Malta based company. He received the following income and gains during the year ended 31 December 2019:

	€
Employment income	25,000
Foreign source bank interest credited to a Spanish bank account	7,000
Foreign source royalty income received in Malta	5,000
Capital gain on sale of shares in a Maltese company which is not a property company	12,000
Capital gain on sale of shares in a Spanish company	<u>9,000</u>
Total income and gains	<u>58,000</u>

During the calendar year ended 31 December 2019, Jim was ordinarily resident outside Malta. Jim is unmarried and he is domiciled in Malta.

What is Jim's total chargeable income in Malta for the year of assessment 2020?

☐ €37,000
☐ €25,000
☐ €42,000
☐ €58,000

Section A – questions (continued)

George started his sole practitioner accountancy firm on 1 January 2020, in Mgarr. All his clients are small local enterprises established and operating in Malta. Most of George's clients qualify as a small undertakings for value added tax (VAT) purposes and are registered for VAT in Malta under article 11 of the VAT Act. George forecasts that his annual turnover from his accountancy practice, exclusive of any applicable VAT, will be as follows:

	€
Financial year ending 31 December 2020	15,000
Financial year ending 31 December 2021	22,000
Financial year ending 31 December 2022	30,000

George expects his business expenditure during 2020 will be negligible. He intends to arrange his VAT affairs to ensure that his charges to his clients will be as competitive as possible.

How much VAT, if any, will George expect to charge on his forecast accountancy fees for the year ending 31 December 2020?

- ☐ €0
- ☐ €2,700
- ☐ €750
- ☐ €3,960

B Ltd and C Ltd are incorporated in Malta. C Ltd is a 100% subsidiary of B Ltd. B Ltd is ultimately owned by an individual who is ordinarily resident in Malta and domiciled in Malta.

In 2015, B Ltd's employees developed a copyright, and the company financial statements showed a capitalised cost of €10,000 for the creation of this intellectual property asset. In 2017, B Ltd transferred the copyright to C Ltd when its fair market valuation was considered to be €20,000. C Ltd acquired the copyright with the intention of holding and exploiting it as a capital asset. However, it sold the copyright to Z Ltd during 2018 for €25,000. Z Ltd is incorporated in Malta and is unconnected to C Ltd and B Ltd.

What is the income tax treatment of C Ltd's sale of the copyright in the year of assessment 2019?

- ☐ A trading profit of €5,000
- ☐ A trading profit of €15,000
- ☐ A chargeable gain of €5,000
- ☐ A chargeable gain of €15,000

Retail Business Limited (RBL) is a company established in Malta and registered for value added tax (VAT) under Article 10 of the VAT Act. It sells sports clothing to local clients through retail outlets in Malta, and this is its sole source of turnover.

RBL has purchased a specialised computer server for the purpose of its business from a supplier established in the United States (US) (non-EU). The cost price of the server (exclusive of VAT) is €15,000. The supplier arranged for the despatch of the server directly from the US to RBL in Malta at an additional cost of €2,000. RBL also had to pay import duties of €1,000 to the Malta Customs authorities.

How much VAT must RBL pay to import the server into Malta?

- ☐ €3,240
- ☐ €2,700
- ☐ €2,880
- ☐ €3,060

Section A – questions (continued)

Marcelle is ordinarily resident and domiciled in Malta. She is unmarried and has no children. During the year ended 31 December 2019, she lived and worked overseas under a 12-month fixed term contract of employment with a foreign financial institution in the private sector. All her employment duties were performed outside Malta. Her total chargeable earnings for the year, which totalled €78,000, were all received outside Malta and none of this income was remitted to Malta. Marcelle's only other income during the year was €6,000 Malta source royalty income which was paid directly into her Maltese bank account. She wishes to claim the most beneficial tax treatment in Malta available to her. No double tax relief is available.

What is Marcelle's income tax liability for the year of assessment 2020?

- ☐ €21,375
- ☐ €11,700
- ☐ €13,800
- ☐ €0

Self-employed individuals born on or after 1962, pay Class 2 social security contributions at the rate of 15% of annual net income, capped at €69.79 per week.

Francesca is a self-employed individual born in 1963 who earned the following amounts of chargeable income from her sole economic activity:

	€
Year of assessment 2019	37,200
Year of assessment 2020	22,000

What is the total amount of Class 2 social security contributions payable by Francesca during the year ended 31 December 2020 over the course of the full calendar year (i.e. 52 weeks)?

- ☐ €3,629
- ☐ €3,300
- ☐ €7,258
- ☐ €5,580

Peter is a divorced individual who is ordinarily resident and domiciled in Malta. His total chargeable income for the year ended 31 December 2019, before any deductions was €58,000. During 2019, he paid €12,000 in alimony payments due to his ex-wife, as determined by the Courts of Malta. He also paid €3,000 in secondary school fees for his only daughter. The total school fees for the year were €6,000 and the other half of the fees were paid by his ex-wife.

What is Peter's taxable income for the year of assessment 2020?

- ☐ €43,000
- ☐ €58,000
- ☐ €43,700
- ☐ €44,850

Section A – questions (continued)

Anici Limited (AL) is a company which is registered in Malta for tax purposes. Its chargeable trading income (before any notional interest deduction) for its financial year ended 31 December 2019 is €36,600.

AL's capital position as at 31 December 2019 was as follows:

	€
Ordinary share capital	200,000
Preference share capital	150,000
Capital redemption reserve	60,000
Revaluation reserve	75,000
Retained earnings	40,000
	525,000
Non-current liabilities	95,000
Interest-free loan from a shareholder	620,000

All of the risk capital of AL has been employed in the production of trading income.

What is the maximum amount of notional interest which Anici Limited may deduct from its chargeable income for the year of assessment 2020?

- ☐ €36,600
- ☐ €36,750
- ☐ €24,500
- ☐ €32,940

Gemma owns a venue in Malta which she hires to private and public sector organisations to hold events. During 2019, she agreed to hire the venue for one day to a local public authority for a conference, at a value added tax (VAT)-exclusive price of €2,500. The public authority does not qualify as a taxable person for VAT purposes, and it is not VAT registered. Gemma is registered under Article 10 of the VAT Act.

What type of supply, for VAT purposes, is the hire of the venue and how much VAT, if any, must Gemma charge to the public authority?

Type of supply	VAT €
Option 1 VAT exempt without credit	0
Option 2 Standard rate	450
Option 3 Outside scope	0
Option 4 Reduced rate	175

- ☐ Option 1
- ☐ Option 2
- ☐ Option 3
- ☐ Option 4

Section A – questions (continued)

Barbara is ordinarily resident and domiciled in Malta. She sold her holiday chalet in the Swiss Alps in 2019 for €720,000. Barbara had acquired the chalet in 2017 for €605,000. The cost of acquisition, adjusted for inflation by the relevant index, is €620,400. The proceeds of the sale of the chalet were paid into Barbara's Swiss bank account, and the funds were not remitted to Malta. Barbara's marginal rate of income tax in Malta is 35%.

What is Barbara's tax liability on the sale of her Swiss chalet for the year of assessment 2020?

- ☐ €57,600
- ☐ €40,250
- ☐ €0
- ☐ €33,166

Which of the following are sources of Maltese revenue law?

- (1) EU Tax Directives
- (2) The Capital Gains Rules
- (3) Advance Revenue Rulings
- (4) The Income Tax Management Act

- ☐ 1 and 3 only
- ☐ 2 and 4 only
- ☐ 1, 2 and 4 only
- ☐ 1, 2, 3 and 4

Which of the following capital assets fall outside the scope of the charge to income tax on capital gains?

- (1) 5% preference shares
- (2) Goodwill
- (3) 10% ordinary shares
- (4) Intellectual property

- ☐ 2 and 4 only
- ☐ 1 only
- ☐ 1 and 3
- ☐ 2, 3 and 4

Section A – questions (continued)

Which of the following items of information are required to be included in a dividend certificate (warrant) for tax purposes?

- (1) Malta tax payable after any double taxation relief
- (2) Withholding tax, if any, payable on the dividend
- (3) Analysis by year of assessment of the profits out of which the dividend is distributed
- (4) Tax account(s) out of which the dividend is distributed

- ☐ 1, 2, 3 and 4
- ☐ 1 and 4 only
- ☐ 2 and 3 only
- ☐ 1, 2 and 4 only

Kwarta Limited is a company which is resident and domiciled in Malta. During the year ended 31 December 2019, it received €64,200 foreign source passive royalty income directly into its overseas bank account. This income was not remitted to Malta and no foreign tax was withheld from or paid on this income. Professional expenses of €9,800 were incurred wholly and exclusively in connection with this royalty income. The Directors wish to claim double taxation relief if possible.

How much corporate income tax, if any, is payable by Kwarta Ltd in respect of the foreign royalty income for the year of assessment 2020?

- ☐ €10,200
- ☐ €8,608
- ☐ €0
- ☐ €19,040

Section B – summary screen

Section B

This section of the exam contains **six constructed response questions**.

Each question may contain a scenario which relates to one or more requirement(s) which may be split over multiple question screens.

Each question is worth **10 or 15 marks** and is compulsory.

This exam section is worth **70 marks** in total.

Important:

1. Calculations and workings need only be made to the nearest whole unit of currency, unless instructed otherwise.
2. All apportionments should be made to the nearest month.
3. In your live exam you must:
 - Enter your answer for each question in the response area provided for that question. Any answers entered into a response area provided for a different question will not be marked.
 - Show all notes/workings that you want the marker to see within the response area provided for the question. Remember, any notes/workings made on the Scratch Pad or on your workings paper will not be marked.

Select **Next** to continue.

Section B – questions

Scenario 1

Taxation - Malta (TX - MLA) Sample Questions - September 2020

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This scenario relates to two requirements.

Tony is an individual who is resident and domiciled in Malta. Until 31 December 2019, he had been employed as the marketing manager of an international retail business established in Malta.

From 1 January 2020, Tony set up his own business as a self-employed marketing consultant and he had no other income in 2020. For the first quarter of his operations (1 January to 31 March 2020), his turnover is analysed as follows:

	Note	€
Consultancy income from Malta business clients		21,000
Consultancy income from other EU business clients		9,000
Consultancy income from non-EU business clients		<u>4,000</u>
Total turnover	1	<u>34,000</u>

During the same quarter, he incurred the following expenditure:

	Note	€
Purchase of computer and printer from Ireland (within the EU) used exclusively for business purposes	2	8,900
Professional fees charged by Maltese accountant		4,000
Software licence cost from supplier in Spain (within the EU)	3	1,200
Business bank loan interest cost		600
Local bank charges		250
Customer entertainment costs		400
Local non-commercial motor vehicle lease charge		1,800
Fuel costs		400
Local stationery costs		500
Local postage costs		<u>300</u>
Total expenditure	1	<u>18,350</u>

Notes:

- (1) All turnover and expenditure figures are exclusive of any associated value added tax (VAT), and expenditure is supported by valid tax invoices where applicable.
- (2) The computer and related equipment was dispatched by the supplier directly to Tony in Malta from Ireland. All these items qualify as capital goods for VAT purposes.
- (3) The software supplier is established outside Malta, has no establishment in Malta for VAT purposes, and is not registered for VAT in Malta.
- (4) All other services and overheads are purchased from suppliers who are established and VAT registered in Malta.

 **Help/Tax Tables**

Requirements for Scenario 1

(2 marks)

(8 marks)

(10 marks)

[illegible]

Section B – questions (continued)

Scenario 2

Taxation - Malta (TX - MLA) Sample Questions - September 2020

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This scenario relates to two requirements.

Nathan is a retired unmarried individual with no children. He is ordinarily resident and domiciled in Malta. During 2019, his total income consisted of the following:

	Note	€
Malta state pension		12,000
Local bank interest income	1	4,600
Foreign bank interest income	2	9,200
Gross dividend income	3	31,000

Notes:

(1) All local bank interest income is stated net of 15% final withholding tax.

(2) The foreign bank interest income arises outside Malta and was received directly into Nathan's foreign bank account, and was not remitted to Malta. No foreign tax was withheld from or paid on this income.

(3) The dividend income is analysed as follows:

Dividend stream	Company X	Company Y	Company Z	Total
Tax account	Maltese taxed account	Immovable property account	Untaxed account	
	€	€	€	€
Gross dividend income	9,000	12,000	10,000	31,000
Less: Tax at source	3,150	4,200	0	7,350
Less: Withholding tax	0	0	1,500	1,500
Net dividend income	5,850	7,800	8,500	22,150

Companies X, Y and Z are all listed on the Malta Stock Exchange. Nathan's holding of shares in each of these companies is less than 0.1% of the total share capital of each company. All of the dividends listed above were distributed out of profits derived in or after the year of assessment 2018.

🔍 Help/Tax Tables

Section B – questions (continued)

Requirements for Scenario 2

(a) Calculate Nathan's total income chargeable to tax on assessment for the year of assessment 2020, and calculate the total settlement tax either payable by or refundable to Nathan, assuming that he uses the most tax efficient method of assessment.

Note: You should list all of the items of income referred to in the question, indicating by the use of zero (0) any items which are not subject to tax on assessment.

(6 marks)

Edit Format

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(b) Outline how the residence status of an individual is determined for Malta income tax purposes, and briefly explain the difference between residence and ordinary residence.

(4 marks)

(10 marks)

Paragraph

Section B – questions (continued)

Scenario 3

Taxation - Malta (TX - MLA) Sample Questions - September 2020

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This scenario relates to four requirements.

Mega Limited (Mega), Bronto Limited (Bronto) and Tyro Limited (Tyro) are all companies which are registered and domiciled in Malta for tax purposes. Bronto and Tyro are managed and controlled in Malta. Mega is managed and controlled in Otherland, which is a country situated outside the European Union (EU). Malta does not have a double taxation agreement in place with Otherland. Otherland's tax laws deem Mega to be resident in Otherland.

Mega owns all the share capital of both Bronto and Tyro. Mega is owned in equal shares by five individual shareholders, all of whom are both ordinarily resident and domiciled in Malta.

All three companies have financial and fiscal years which end on 30 September.

Tax summaries for all three companies for the year ended 30 September 2019 follow:

	Note	Chargeable trading income (/loss) for the year €	Chargeable capital gain/(loss) for the year €	Unabsorbed trading tax loss from previous year of assessment €	Unabsorbed capital loss from previous year of assessment €
Mega	1	20,000	(4,000)	0	0
Bronto	2	65,000	27,000	0	(7,000)
Tyro	3	(36,000)	2,000	(14,000)	0

Notes:

(1) Mega's chargeable trading income is allocated to the foreign income account.

(2) Bronto's chargeable trading income is allocated to the Maltese taxed account.

(3) Tyro's trading tax loss would have been allocated to its immovable property account, if it had been a profit.

🔗 Help/Tax Tables

Requirements for Scenario 3

(3 marks)

(3 marks)

(3 marks)

(1 mark)






(10 marks)

[illegible]

Section B – questions (continued)

Scenario 4

Taxation - Malta (TX - MLA) Sample Questions - September 2020

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This scenario relates to three requirements.

James and Petra are ordinarily resident and domiciled in Malta. They are not related by family or other ties, except that they jointly own the entire shareholding of Marsa Limited (Marsa).

Marsa is a Malta resident company engaged in the provision of professional services. It had been incorporated in Malta on 1 January 2015 and adopted a 30 September financial and fiscal year end.

The statement of financial position of Marsa as at 30 September 2019, based on the audited financial statements, is as follows:

	Note	€
Non-current assets:		
Immovable property	1	375,000
Current assets:		
Trade receivables		105,000
Cash		25,000
Non-current liabilities: shareholders' loans		(200,000)
Current liabilities: trade payables		<u>(38,000)</u>
		<u>267,000</u>
Equity and reserves:		
Share capital		
20,000 ordinary shares of €1 each	2	20,000
Capital reserves		110,000
Revenue reserves		<u>137,000</u>
		<u>267,000</u>

Notes:

(1) The 30 September 2019 market value of the immovable property is estimated at €690,000.

The value of €375,000 shown in the statement of financial position represents the original cost, on the acquisition date of 1 January 2017.

(2) Marsa's ordinary share capital is held as follows:

James	15%
Petra	85%

The ordinary shares were subscribed for by James and Petra at par at Marsa's incorporation. These shares confer a full, proportionate percentage entitlement to voting rights and to all profits available for distribution. James' shareholding does not entitle him to be appointed, or to nominate or appoint, or to withhold the nomination or appointment, of a director of Marsa. Marsa's recent profit history is as follows:

Financial year ended 30 September:	Profit before tax €	Profit after tax €
2019	49,300	38,500
2018	57,100	40,200
2017	38,500	29,900
2016	22,400	19,300
2015	15,200	(5,900)

During December 2019, James and Petra received an offer from an unrelated third party to purchase all of their ordinary shares in Marsa. The price offered is €30 per ordinary share.

Marsa had no transactions involving immovable property or shares between 1 October 2019 and 31 December 2019.

 [Help/Tax Tables](#)

Requirements for Scenario 4

(3 marks)

[illegible]

(5 marks)

(2 marks)

(10 marks)

Section B – questions (continued)

Scenario 5

Taxation - Malta (TX - MLA) Sample Questions - September 2020

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This scenario relates to two requirements.

Davinia and Steve are unmarried individuals, trading in partnership, with effect from 1 January 2019. They operate a small but successful shop in Gozo, which sells scented candles and essential oils. The partnership deed provides that the business profits and losses are shared equally between the two partners. The partnership has not elected to be treated as a company for tax purposes.

The financial results of the partnership for the year ended 31 December 2019 are as follows:

	Notes	€	€
Revenue			295,000
Less: Cost of sales (all allowable)			(110,000)
Gross profit			185,000
Less:			
Administration and distribution costs			
Depreciation	1	12,500	
Wages and salaries	2	45,250	
Other expenses	3	4,750	
Impairment of receivables	4	<u>2,500</u>	
			(65,000)
			120,000
Other income	5		<u>10,000</u>
Net profit before tax			<u>130,000</u>

Notes:

(1) The depreciation charge on the business assets is arrived at as follows:

	€
Shop computer equipment – 25% of €2,000	500
Shop commercial truck – 25% of €30,000	7,500
Non-commercial vehicle – 25% of €18,000	<u>4,500</u>
	<u>12,500</u>

The non-commercial vehicle is used on a day-to-day basis by Davinia and Steve solely for the purposes of the business of the partnership, with no element of private use.

(2) Wages and salaries consist of:

	€
Partners' basic salaries (€18,000 each per annum)	36,000
Salary paid to part-time sales assistant	<u>9,250</u>
	<u>45,250</u>

The part-time sales assistant's salary was not reported to the Final Settlement System (FSS).

(3) Other expenses consist of the following items:

	€
Accountancy fees	900
Advisory fees in relation to the initial capital structure of the partnership	1,300
Value Added Tax (VAT) administrative penalty (failing to provide a fiscal receipt to a customer)	500
Pre-trading expenditure incurred during December 2018:	
- Advertising	1,000
- Cost of feasibility study	<u>1,050</u>
	<u>4,750</u>

(4) Details of the charge for impairment of receivables, as follows:

	€
Irrecoverable debt written off	750
Specific allowance in respect of a particular trade receivable	<u>1,750</u>
	<u>2,500</u>

(5) Other income represents money received from family members and close friends of Davinia and Steve. These funds were gifted to Davinia and Steve to help them set up their new partnership business. The funds were invested into the partnership and will not be repaid to the donors.

Additional information:

During the year ended 31 December 2019 the partners also received the following:

- Davinia received local property rental income of €12,000, on which the final tax scheme on rental income was not applied;
- Steve received local bank interest of €10,000 (net of final withholding tax).

Davinia and Steve did not have any other chargeable income or gains in respect of the year of assessment 2020.

They are both ordinarily resident and domiciled in Malta.

 **Help/Tax Tables**

Requirements for Scenario 5

(12 marks)

(3 marks)

(15 marks)

[illegible]

Section B – questions (continued)

Scenario 6

Taxation - Malta (TX - MLA) Sample Questions - September 2020

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This scenario relates to one requirement.

Honey Holdings Limited (H Holdings) is a holding company incorporated, managed and controlled in Malta. It is wholly owned by private individual investors, all of whom are not resident in Malta and not domiciled in Malta. H Holdings is duly registered for tax refund purposes with the Commissioner for Revenue.

H Holdings owns the following equity shareholdings in other companies forming the Honey Group:

- 90% of Honey Trade Limited (H Trade), a company incorporated, managed and controlled in Malta which is exclusively engaged in the carrying on of a retail trade within the Maltese market. H Trade owns immovable property situated in Malta having an aggregate floor area of 350 square metres, and which it uses wholly for the purposes of its trade.
- 50% of Honey Overseas Limited (H Overseas), a company incorporated, managed and controlled in Malta which carries on a retail trade within Portugal (in the EU). Portugal treats H Overseas' trading income as attributable to a permanent establishment in Portugal, and accordingly these profits are taxed in Portugal at 25%. The calculation of trading profits in Portugal is the same as in Malta. The Directors of H Overseas have resolved not to avail of any potential applicability of the participation exemption in this respect.
- 20% of Honey Services Limited (H Services), a company incorporated, managed and controlled in Greece (in the EU). H Services provides marketing services, which are wholly carried out overseas and delivered to clients established outside Malta. H Services benefits from a special overseas tax regime which results in it not paying any foreign taxes.
- 100% of Honey Ideas Limited (H Ideas), a company incorporated, managed and controlled in Malta. Its sole source of income is royalties (qualifying as passive royalties in terms of Maltese income tax law) derived from the licencing of a copyright asset to another unrelated company incorporated, managed and controlled in Malta. H Ideas does not suffer any foreign tax.

The following are the results of the operating entities forming the Honey Group of companies for the financial and fiscal year ended 30 September 2019:

	Total chargeable income before tax €
H Trade	214,000
H Overseas	160,000
H Services	98,000
H Ideas	110,000

?

Help/Tax Tables

Requirements for Scenario 6

For each of Honey Trade Limited, Honey Overseas Limited, Honey Services Limited and Honey Ideas Limited in respect of the year of assessment 2020:

- (i) Calculate the Malta tax payable;
- (ii) Calculate the distributable profits for the year;
- (iii) Allocate the distributable profits to the appropriate tax accounts; and
- (iv) Calculate the resulting tax refunds, if any, which Honey Holdings Limited would become eligible to claim from the Commissioner for Revenue. You should assume all profits are fully distributed to the shareholders of the respective companies by way of a dividend proportionate to their shareholding percentage.

Note: Where alternative tax treatments are available, unless otherwise stated, assume that the respective company adopts the most beneficial method which minimises the Malta tax payable at the level of that company itself, irrespective of the tax position of its shareholders.

(15 marks)

[illegible]

Example view of full CBE constructed response workspace

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This scenario relates to two requirements.

Tony is an individual who is resident and domiciled in Malta. Until 31 December 2019, he had been employed as the marketing manager of an international retail business established in Malta.

From 1 January 2020, Tony set up his own business as a self-employed marketing consultant and he had no other income in 2020. For the first quarter of his operations (1 January to 31 March 2020), his turnover is analysed as follows:

	Note	€
Consultancy income from Malta business clients		21,000
Consultancy income from other EU business clients		9,000
Consultancy income from non-EU business clients		4,000
Total turnover	1	34,000

During the same quarter, he incurred the following expenditure:

	Note	€
Purchase of computer and printer from Ireland (within the EU) used exclusively for business purposes	2	8,900
Professional fees charged by Maltese accountant		4,000
Software licence cost from supplier in Spain (within the EU)	3	1,200
Business bank loan interest cost		600
Local bank charges		250
Customer entertainment costs		400
Local non-commercial motor vehicle lease charge		1,800
Fuel costs		400
Local stationery costs		500
Local postage costs		300

(a) State any value added tax (VAT) filing(s) which Tony is required to submit to the VAT Department for the period 1 January to 31 March 2020, and the relevant filing deadline(s).

(2 marks)

Paragraph

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