
Answers

Section A

Marks

- 1 **A** All four streams of income fall within the definition of the foreign income account.
- 2 **B** $(2,500 - 1,500) \times 35\% = 350$
- 3 **A** Maltese tax legislation specifically sets out the matters in respect of which an advance revenue ruling may be sought.
- 4 **C** $14,000 \times 20\% = 2,800$
- 5 **D**
- 6 **B**
- 7 **D**
- 8 **D** €14,780 {€24,000 – 4,100 – 400 – 4,720, i.e. 20% of [24,000 – 400]}
- 9 **A**
- 10 **C** $14,500 + 3,100 = 17,600$
- 11 **B**
- | | |
|--|---------------|
| | € |
| Consideration | 220,000 |
| Cost of acquisition adjusted for inflation | (176,750) |
| Improvements | (25,000) |
| Maintenance allowance
(0.4% x 5 years x €160,000) | (3,200) |
| Chargeable capital gain | <u>15,050</u> |
| Income tax charge on the capital gain at 35% | 5,268 |
- 12 **B**
- 13 **C** $(100,000 - 70,000) \times 35\% = 10,500$
- 14 **A** $15,000 - 7,500 (15,000 \times 25\% \times 2 \text{ years}) = 7,500$
- 15 **C**

2 marks each

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Section B

Marks

1 Matthew Vella and Paula Spiteri

(a) Market valuation of Sirens Limited (SL) ordinary shares

	€	€	
Net asset value as at 30 September 2014		600,000	1·0
Add: Goodwill adjustment (W1)		83,640	1·5
Market value of immovable property	845,000		
Book value of immovable property	<u>(650,000)</u>		
Immovable property adjustment		<u>195,000</u>	1·0
Market value of SL		878,640	
Less: Preference shares		<u>(500,000)</u>	0·5
Value of ordinary shares in SL		<u>378,640</u>	<u>4</u>

(W1) Goodwill adjustment

	€	€	
Profit before tax:			
Year ended 30 September 2014	55,000		
Year ended 30 September 2013	51,000		
Year ended 30 September 2012	44,200		
Year ended 30 September 2011	37,600		
Year ended 30 September 2010	<u>21,300</u>		
Total profits for the five preceding financial years	<u>209,100</u>		
Two years' average profits (2/5ths)		83,640	

(b) Combined total chargeable capital gain on the disposal of Matthew and Paula's shares in SL

	€	
Ordinary shares		
Transfer value: 2,500 shares at €155 each (consideration > market value of €152 (378,640/2,500))	387,500	2·0
Cost of acquisition	<u>(2,500)</u>	1·0
Inflation deduction in respect of immovable property (W2)	<u>(55,316)</u>	1·5
	<u>329,684</u>	
Preference shares (out of scope)	<u>0</u>	1·0
Combined total chargeable capital gain	<u>329,684</u>	

(W2) Inflation deduction re immovable property

$$525,000 \times \frac{821.34 - 743.05}{743.05} = \text{€}55,316$$

No inflation deduction for the Xlendi property. 0·5

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Tutorial note: Shares subject to a fixed rate of return (such as SL's preference shares) fall outside the scope of the definition of 'securities' under the capital gains provisions.

2 Star Holdings Limited (SHL)

(a) Star Trading Limited – tax on income for the year ended 31 December 2014

(1) Malta trading income

Allocated to the Malta tax account (MTA)		0·5
Chargeable income	<u>€100,000</u>	
Tax chargeable and payable at 35%	<u>€35,000</u>	0·5
Tax refundable to SHL on a dividend distribution (6/7ths of €35,000)	<u>€30,000</u>	0·5

	Marks
(2) Foreign trading income attributable to a permanent establishment (PE) in respect of which the participation exemption regime has not been applied	
Allocated to the foreign income account (FIA)	0.5
Chargeable income	€140,000
Tax chargeable and payable at 35%	€49,000
Tax refundable to SHL on a dividend distribution (6/7ths of €49,000)	€42,000
Tutorial note: <i>The 2/3rds refund does not apply since no double tax relief (DTR) was claimed against the FIA income.</i>	
(3) Foreign source passive royalties (with double tax relief (DTR))	
Allocated to the foreign income account (FIA)	0.5
	€
Foreign income received in Malta	50,000
Add: Flat rate foreign tax credit FRFTC (25%)	12,500
Grossed-up income	62,500
Tax chargeable at 35%	21,875
Less: FRFTC	(12,500)
Tax payable in Malta	9,375
Tax refundable to SHL on a dividend distribution (2/3rds of €9,375)	€6,250
Tutorial note: <i>The 2/3rds refund applies since DTR was claimed against the FIA income.</i>	
(4) Foreign source passive interest (no DTR)	
Allocated to the foreign income account (FIA)	0.5
Chargeable income	€25,000
Tax chargeable and payable at 35%	€8,750
Tax refundable to SHL on a dividend distribution (5/7ths of €8,750)	€6,250
	<u>9</u>
Tutorial note: <i>The refund is reduced to 5/7ths (from 6/7ths) since the dividend is paid out of passive interest income.</i>	
(b) Yes – the full imputation credit system does apply to a distribution out of the immovable property account.	<u>1</u>
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3 Value added tax (VAT)

(a) International Trading Limited (ITL) – supply with transport outside the EU

- Supply of goods
- Malta (where transport begins)
- ITL (reporting obligation only, no VAT is due on this transaction)
- No Maltese VAT is payable as the transaction constitutes an export, which is exempt with credit for VAT purposes

(b) ITL – supply to a customer in Italy

- Supply of goods
- Italy (where transport begins)
- ITL (in Italy since Italian VAT rather than Malta VAT applies)
- No Maltese VAT is payable as the transaction falls outside the scope of Maltese VAT

(c) Lewis Allen LLP – supply to a Maltese business

- Supply of services
- Malta (where the business customer is established)
- MaltaInsure Limited (reverse charge applies)
- 18%

	Marks
(d) Smart Advisory Limited (SAL) – supply to customer in Spain	
– Supply of services	0·5
– Malta (where the supplier is established)	0·5
– Smart Advisory Limited	0·5
– 18%	0·5
(e) SAL – supply to customer outside the EU	
– Supply of services (as in (d))	
– Canada (where the customer is established)	0·5
– SAL (reporting obligation only, no VAT is due on this transaction)	0·5
– No Maltese VAT is payable as the transaction falls outside the scope of Maltese VAT	0·5
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4 David and Clara

- (a)** David and Clara moved to Malta with a view to taking up residence in Malta for a number of years. On this basis, they are considered to be ordinarily resident in Malta for the year of assessment 2015. 1·0

With regard to domicile, David and Clara were born and raised in Belgium, and they intend to return to Belgium in the long-term future, which means that they are not considered to be domiciled in Malta. 1·0

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(b) Computation of chargeable income

(1) Gain on sale of Belgium property	nil	1·0
(2) Untaxed dividend from Malta company	€10,000	1·0
(3) Foreign source interest income	€1,200	1·0
(4) Malta source interest income received	€2,250	1·0
(5) Remitted foreign source investment income	€7,500	1·0
(6) Malta source income	€45,000	1·0
(7) Malta source capital gain on unlisted shares	€4,000	1·0
Capital gain on shares listed on Malta Stock Exchange	<u>nil</u>	1·0
Total chargeable income	<u>€69,950</u>	<u>8</u>

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Tutorial note: *The Malta source dividend was distributed out of the untaxed account, so tax at 15% (8,500 x 15/85 = 1,500) would have been withheld by the paying company.*

5 Cube Holdings group of companies

(a) Tax computations for the year of assessment 2015

Sphere (Malta) Limited (SML)

	€	
Capital gain on sale of property	120,000	0·5
Professional fees (disallowed)	(1,000)	0·5
Chargeable income	<u>120,000</u>	
Tax charge at 35%	€42,000	0·5

The participation exemption applies to the dividend from Cube Overseas Trading Limited (COTL) since the holding is an equity holding of more than 10%, and COTL is subject to foreign tax of at least 15%. 1·5

Cube Trading (Malta) Limited (CTML)

Chargeable income	<u>€295,000</u>	0·5
Tax charge at 35%	€103,250	0·5

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(b) Allocation of distributable profits for the year ended 31 December 2014 to tax accounts**SML**

	€		
Foreign income account (120,000 – 42,000)	78,000	– capital gain derived from an investment situated outside Malta	1·0
Final tax account	76,500	– participation exemption applies	1·0
Untaxed account	<u>(1,000)</u>	– disallowed expenses	1·0
Distributable profits	<u>153,500</u>		

CTML

	€		
First stage allocation to the Maltese taxed account (MTA) (295,000 – 103,250)	191,750	– income derived from a trade or business arising in Malta	1·0
Re-allocation from MTA to immovable property account (IPA) (550 m ² at €250/m ²)	<u>(137,500)</u>	– being the required annual market rent allocation	1·0
Final (net) allocation to MTA	<u>54,250</u>		
Immovable property account	137,500		0·5
Maltese taxed account	<u>54,250</u>		0·5
Distributable profits	<u>191,750</u>		
			<u>6</u>

(c) Cube Holdings (Malta) Limited – dividends received and tax refunds claimable

	Gross €	Tax €	Net €	
Dividend received from SML				
Foreign income account (FIA)	120,000	42,000	78,000	0·5
Final tax account (FTA)	–	–	<u>75,500</u>	0·5
Net dividend			<u>153,500</u>	
Dividend received from CTML				
Immovable property account (IPA)	211,538	74,038	137,500	0·5
Maltese taxed account (MTA)	83,462	29,212	<u>54,250</u>	0·5
Net dividend			<u>191,750</u>	
Tax refunds available:				
6/7ths refund on dividend from SML paid out of the FIA			36,000	1·0
6/7ths refund on dividend from CTML paid out of the MTA			<u>25,039</u>	1·0
Total tax refund which may be claimed by CHML			<u>61,039</u>	
No refund is available on dividends received, which are paid out of the FTA and IPA.				1·0
				<u>5</u>
				<u>15</u>

6 Jake and Joan Vella

Tax payable/refundable for the year of assessment 2015

	€	
Chargeable income		
Salary	5,500	0.5
Bonus	750	0.5
Provision of free meals (non-taxable fringe benefit)	0	1.0
Capital gain on sale of residential home (exempt)	0	1.0
Chargeable business income (working 1)	9,927	
Local dividend income (grossed up)	2,500	1.0
Bank interest income (subject to final withholding tax)	0	0.5
Less: Kindergarten school fee deduction	(1,200)	1.0
Chargeable income	<u>17,477</u>	
Tax liability (joint computation for married couples rates)		0.5
€0 to €11,900 at 0%	0	
€11,901 to €17,477 at 15%	837	
Tax charge	837	0.5
Less: Tax at source on dividends	(875)	0.5
Tax refundable	<u>(38)</u>	

Working 1 – chargeable business income:

	€	
Accounting profit before tax	7,250	
<i>Add back:</i>		
Jake's drawings (€1,000 x 8 months)	8,000	0.5
Part-time book-keeper's salary and FSS	0	0.5
Social security contributions (Class Two)	750	0.5
Non-business utilities costs	260	0.5
Air conditioner cost (capital expense)	680	0.5
Garage tiling and general maintenance	0	0.5
Bad debts written off	0	0.5
Doubtful debts provision	200	0.5
Administrative VAT penalties	450	0.5
Interest payable to the VAT Department	0	1.0
Donation	250	0.5
Depreciation	500	0.5
Less: Capital allowances (working 2)	(8,413)	
Chargeable business income	<u>9,927</u>	

Working 2 – capital allowances:

	€	
Machinery (€24,000/5 years)	4,800	0.5
Commercial truck (€17,500/5 years)	3,500	0.5
Air conditioner (€680/6 years)	113	0.5
	<u>8,413</u>	