Answers

Section B *Marks*

1 David Saliba

		€	€	Marks
(1)	Property transfer tax: 5% of €450,000 = €22,500			1·5
(2)		€	€	
	Consideration		1,250,000	
	Less:			
	Cost of acquisition	955,000		0·5
	Inflation allowance (Note 1)	103,899		1·0
	Maintenance allowance (Note 2)	22,920		1·0
			(1,081,819)	
	Chargeable capital gain		168,181	0·5
	Tax at 35%		58,863	0·5

Note 1 – Inflation allowance: €955,000 x (823·89 – 743·05/743·05) = €103,899

Note 2 – Maintenance allowance: 0·4% x €955,000 x 6 years (2015 – 2009) = €22,920

		Marks
(3)	Property transfer tax: 8% of €350,000 = €28,000	1·5
(4)	Property transfer tax: 7% of €950,000 = €66,500	1·5
(5)	Property transfer tax: 12% of (€210,000 – €155,000) = €6,600	2·0
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Tutorial note: *With effect from 1 January 2015, one final withholding tax of 8% is charged on the value of the property transferred. On a transfer of property not forming part of a project, the applicable final withholding tax rate shall be 5% on the value of the property transferred if the property is transferred before five years from the date of its acquisition. If the property was inherited before 25 November 1992, the final withholding tax is equal to 7% of the transfer value. If the property was inherited after 24 November 1992, a 12% final tax on the difference between the transfer value and the cost of acquisition* (denunzja) *is applicable.*

2 Daniel Holdings Limited (DH)

		€	€	Marks
(1)	Tax payable by DH:	€0 (participation exemption applies)		1·0
	Tax refund claimable by Daniel Roth:	€0		1·0
(2)		€	€	
	Dividend income	16,000		
	Tax charge at 35%		5,600	0·5
	Less: Double taxation relief		(1,600)	0·5
	Tax payable by DH		4,000	
	Tax refund claimable by Daniel Roth: 2/3 x €5,600		3,733	1·0
(3)			€	
	Dividend income		9,000	
	Add: FRFTC (25%)		2,250	0·5
			11,250	
	Tax charge at 35%		3,938	
	Less: FRFTC		(2,250)	0·5
	Tax payable by DH		1,688	
	Tax refund claimable by Daniel Roth: 2/3 x €1,688		1,125	1·0
(4)	Tax payable by DH:	€0 (participation exemption applies)		1·0
	Tax refund claimable by Daniel Roth:	€0		1·0

			Marks
(5)	Tax payable by DH:	€0 (participation exemption applies)	1·0
	Tax refund claimable by Daniel Roth:	€0	1·0
			10

3 Value added tax (VAT)

		Marks
(1)	No VAT is chargeable – pharmaceutical goods are exempt with credit.	1·0
(2)	No VAT is chargeable – this is an intra-EU supply which is exempt with credit.	1·0
(3)	No VAT is chargeable – a person registered under Article 11 does not charge VAT.	1·0
(4)	Output VAT = €175 x 18% = €31·50	1·0
	Tutorial note: *Importation by any person is subject to VAT*.	
(5)	Output VAT = €40,000 x 18% = €7,200	1·0
	Tutorial note: *Importation by any person is subject to VAT.*	
(6)	Output VAT = €4,000 x 18% = €720	1·0
	Tutorial note: *B2B supply of services deemed to take place in Malta.*	
(7)	Output VAT = €21,000 x 18% = €3,780	1·5
	Tutorial note: *Exceeds the acquisition threshold – requires VAT registration under Article 12 and payment of VAT in Malta.*	
(8)	Output VAT = €3,500 x 18% = €630	1·0
	Tutorial note: *B2B supply of services deemed to take place in Malta.*	
(9)	Output VAT = €15,000 x 5% = €750	1·5
	Tutorial note: *Intra-EU B2B acquisition of printed matter; reduced rate applies.*	**10**

4 Hanut Limited (HL)

(a) Tax implications of the disposal of the original store

No tax is payable on the transfer of the store because rollover relief applies. 1·0

The basis of applicability of the relief is that property which had been used in the business for a period of at least three years has been transferred and replaced within one year by an asset used solely for a similar purpose in the business. 1·0

To claim this relief, HL is required to make a declaration to the notary at the time of the contract to exclude the transfer from the scope of the property transfer tax system. 1·0

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(b) Cost of acquisition of new store

	€	
Purchase price	550,000	0·5
Stamp duty	27,500	1·0
	577,500	
Less: Reduction in cost of acquisition due to application of rollover relief (€250,000 – €140,000)	(110,000)	1·5
Cost of acquisition	467,500	
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(c) Tax implications of the sale and leaseback of the new store

The period between the date of acquisition of the new (replacement) store on 15 July 2013 and its subsequent sale on 1 February 2015 is less than two years, so the rollover relief originally claimed is no longer available, leading to the sale of the original store becoming taxable. 1·0

Tax payable on the sale of the original store: 12% x €250,000 = €30,000 1·0

			Marks
Tax payable on the sale of the new store (this transfer is also taxable):			
5% x €750,000 = €37,500			1·0
Therefore, the total tax payable is €67,500.			
			3

(d) The cost of acquisition of the new store would have been €0. — 1·0

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5 The Realty Group

(a) Tax computations for the year of assessment 2016

Kera Limited (KL)

	€	€	Marks
Rental income		650,000	
Less:			
Ground rent	9,000		0·5
Interest expense	200,000		0·5
Maintenance allowance (20% of [€650,000 – €9,000])	128,200		1·0
Total allowable deductions		(337,200)	
Chargeable income		312,800	
Tax charge at 35%		109,480	0·5
Distributable profits:			
Profit before tax as per financial statements		408,500	
Less: Tax charge		(109,480)	
		299,020	0·5
Allocated as follows:			
Immovable property account (€312,800 – €109,480)		203,320	1·0
Untaxed account (balancing figure)		95,700	0·5
		299,020	

Negozju Limited (NL)

	€	€	Marks
Profit before tax as per financial statements		1,053,800	
Add back: Allowance (provision) for irrecoverable debts (disallowed)		10,700	0·5
Chargeable income		1,064,500	
Tax charge at 35%		372,575	0·5
Distributable profits:			
Profit before tax as per financial statements		1,053,800	
Less: Tax charge		(372,575)	
		681,225	0·5
Allocated as follows:			
Maltese taxed account – original allocation (€1,064,500 – €372,575)	691,925		1·0
Re-allocations from MTA to IPA:			
In respect of property 1 (leased from related party at full market value of €250/m^2)	0		1·0
In respect of property 2 (leased from unrelated party)	0		0·5
In respect of property 3 (owned: 220 m^2 at €250/m^2)	(55,000)		1·0
Maltese taxed account after re-allocations		636,925	
Immovable property account		55,000	1·0
Untaxed account		(10,700)	0·5
		681,225	

		Marks
Finanzi Limited (FL)		
	€	
Chargeable income	200,000	
Tax charge at 35%	70,000	0·5
Distributable profits:		
Profit before tax as per financial statements	200,000	
Less: Tax charge	(70,000)	
	130,000	0·5
Allocated as follows:		
Immovable property account (financing of immovable property situated in Malta)	130,000	1·0
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(b) KL's value added tax (VAT) position

KL is required to be registered for VAT.	1·0
The VAT chargeable to NL on the rental is 18% of €650,000 = €117,000.	1·0
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6 Tax computations for the year of assessment 2016

Charles

	Income subject to progressive rates	Income subject to special rates	
	€	€	
Pension income (€2,100 x 12)	25,200		0·5
Director's fee (part-time rules do not apply)	10,000		0·5
Part-time lecturing income (15% part-time rate applies)		4,500	0·5
Local bank interest (€1,530/0·85)		1,800	0·5
Foreign bank interest (€475/0·95)	500		0·5
Local dividend (tax exempt)	0		0·5
Capital gain	3,200		0·5
Less: Home for the elderly fees (capped at €2,500 in total)	(1,250)		0·5
Chargeable income on income subject to progressive rates	37,650		

Charles' tax charge is computed as follows:		
€0 to €8,500 at 0%	0	
€8,501 to €14,500 at 15%	900	
€14,501 to €37,650 at 25%	5,788	
Tax charge	6,688	0·5
Less: Credit for foreign tax (5% of €500)	(25)	1·0
Tax payable on income subject to progressive rates	6,663	
Other tax payable:		
Withholding tax on bank interest	270	0·5
Tax on part-time income (15% of €4,500)	675	0·5
Tax on local dividends at 35%, net of imputation credit at 35% (or do not declare)	0	0·5
Total tax payable	7,608	

Victor			Marks
	€	€	
Gross salary from Telemarketing Limited (€2,200 x 12)		26,400	0·5
Fringe benefits:			
– Private use of company van*		465	1·0
– Reimbursement of private medical expenses		1,500	0·5
– Free products	900		0·5
Less: In-house benefit reduction	(700)		0·5
		200	
– Staff canteen subsidy (not taxable)		0	0·5
– Long service award	2,500		0·5
Less: Exempt portion (€120 x 15)	(1,800)		1·0
		700	
		29,265	
Gross salary from Webmarketing Limited (part-time rules do not apply where main and part-time employers are related parties)		7,800	1·0
		37,065	
Donations (not taxable)		0	1·0
Less: Home for the elderly fees (capped at €2,500 in total)		(1,250)	0·5
Chargeable income		35,815	
Tax payable at progressive rates:			
€0 to €8,500 at 0%		0	
€8,501 to €14,500 at 15%		900	
€14,501 to €35,815 at 25%		5,329	
Tax payable		6,229	0·5
			15

Tutorial note: *The official Fringe Benefit Rules provide that the private use of a company van constitutes a fringe benefit amounting to €465, whereas an Inland Revenue guideline provides that the private use of a company van does not constitute a fringe benefit. In this respect, both €0 and €465 are accepted as correct answers.*