
Answers

Section B

Marks

1 Island Insurance Limited

- (a) Island Insurance Limited is engaged exclusively in providing insurance services, which are exempt without credit. 1

However, as it also provides such services to clients established outside the European Union (EU), it has a right to recover input VAT exclusively attributable to these non-EU services. Therefore, it will be registered under Article 10 of the VAT Act to enable it to recover this input VAT.

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- (b) Value added tax (VAT) payable for the quarter ended 30 September 2016

	Value (exclusive of VAT) €	VAT rate/exemption €	VAT €	
Output tax chargeable:				
Insurance services (exempt without credit)	87,700	N/A	–	0.5
Intra-EU acquisition of laptops (reverse charge)	2,300	18%	414	0.5
Services received from outside Malta (reverse charge)				
– Consultancy fees	5,000	18%	900	0.5
– Software licensing fees	4,000	18%	720	0.5
	<u>99,000</u>			
Total output tax for the period			<u>2,034</u>	
Input tax creditable:				
Salaries and wages (out of scope of VAT)	16,200	N/A	–	0.5
Intra-EU acquisition of laptops (reverse charge)	900	18%	162	0.5
Importation of computer peripherals	1,100	18%	198	0.5
Stationery purchased locally	210	18%	38	0.5
Postage stamps (exempt without credit)	130	N/A	–	0.5
Bank charges (exempt without credit)	1,200	N/A	–	0.5
Services received from outside Malta (reverse charge)				
– Consultancy fees	2,200	18%	396	0.5
– Software licensing fees	1,700	18%	306	0.5
Water (exempt without credit)	900	N/A	–	0.5
Electricity	2,100	5%	105	1
	<u>26,640</u>			
Total input tax for the period			<u>1,205</u>	
VAT payable for the period (output tax – input tax)			829	0.5
				8
				<u>10</u>

2 James and Anne

- (a) The transfer made by James is not a transfer of a controlling interest, because the holding is less than 25%. 1
0.5

The transfer made by Anne is a transfer of a controlling interest because:

- Anne is considered a related party to James; 0.5
- the transfers by James and Anne took place within a period of less than 18 months; and 0.5
- the global transfer is from a holding of 25% or more (i.e. 40%) of the issued share capital of Kolonna Limited. 0.5

3

		Marks
(b) Chargeable capital gains for the year of assessment 2018		
Transfer by James (not a transfer of a controlling interest)		
	€	
Consideration (€45 x 20% x 5,000 shares)	45,000	0·5
Cost of acquisition of shares transferred (€1 x 1,000 shares)	(1,000)	0·5
Chargeable capital gain	<u>44,000</u>	
Transfer by Anne (transfer of a controlling interest)		
	€	
Market value of Kolonna Limited:		
Net asset value	144,000	0·5
Immovable property adjustment (€240,000 – €100,000)	140,000	1
Goodwill adjustment (2/5 x €119,300) (W)	47,720	1·5
	<u>331,720</u>	
Market value of global transfer (40% x €331,720)	132,688	0·5
Less: Value taken into account in preceding relevant transfer	(45,000)	1
Market value of shares transferred by Anne	<u>87,688</u>	
Consideration (€48 x 1,000 shares)	48,000	0·5
Transfer value (market value > consideration)	87,688	0·5
Cost of acquisition of shares transferred (€1 x 1,000 shares)	(1,000)	0·5
Chargeable capital gain	<u>86,688</u>	
		<u>7</u>
		10

Working: Profit before tax for the last five years

	€
Financial year ended 31 December	
2016	39,800
2015	32,300
2014	22,400
2013	17,500
2012	7,300
	<u>119,300</u>

3 Coffee Products Trading Limited

	1 Malta trading income	2 Foreign trading income (PE) (note)	3 Foreign trading income (not PE)	4 Passive interest	5 Dividend		
Tax account	Maltese taxed account MTA €	Final tax account FTA €	MTA €	Foreign income account FIA €	FIA €	Immovable property account IPA €	
Chargeable income	220,000	0	90,000	70,000	110,000		2.5
Tax chargeable at 35%	77,000	–	31,500	24,500	38,500		1
Double taxation relief	–	–	(2,000)	–	–		2
Tax payable	<u>77,000</u>	<u>0</u>	<u>29,500</u>	<u>24,500</u>	<u>38,500</u>		0.5
Total tax payable	<u>169,500</u>						
Allocation to tax accounts	143,000	0	58,500	45,500	71,500		
Annual market rent allocation 315 sqms at €250/sqm	(78,750)					78,750	1.5
Final allocation	<u>64,250</u>	<u>0</u>	<u>58,500</u>	<u>45,500</u>	<u>71,500</u>	<u>78,750</u>	
Tax refunds							
6/7ths of (€77,000 x 64,250/143,000))	29,654						1
6/7ths of €31,500			27,000				0.5
5/7ths of €24,500				17,500			0.5
5/7ths of €38,500					27,500		0.5
							10
Total tax refund	<u>101,654</u>						

Note: Participation exemption applies to income from trading operations within a foreign country which is attributable to a permanent establishment.

4 (a) Mark Farrugia – Tax payable for the year of assessment 2017

	Residential property		Commercial property		Total	
	€	€	€	€	€	
Gross rental income		19,200		33,600	52,800	
Interest expense	6,250		–			0.5
Ground rent payable	50		–			0.5
MTA licence fee	120		–			0.5
Further deduction (20% of [€19,200 – 50 – 120])	3,806					1
(20% of €33,600)						0.5
	<u> </u>	(10,226)	<u>6,720</u>	(6,720)	(16,946)	
Chargeable rental income		<u>8,974</u>		<u>26,880</u>	<u>35,854</u>	
Tax at 35%					€12,549	0.5
Final withholding tax at 15% on gross rental income (15% x €52,800)					€7,920	1
Using the final withholding tax system is the most advantageous option resulting in a total tax payable of €7,920.						0.5
						<u>5</u>

(b) Carrie Vella**Computation of chargeable income for the year of assessment 2017**

	€	
Net income for the year ended 31 December 2016	69,400	
Pre-trading expenses:		
Online advertising campaign (disallowed – more than 18 months)	–	0·5
Business feasibility study (disallowed)	–	0·5
Print advertising campaign	(2,700)	0·5
Support staff salary	(5,500)	0·5
Support staff training	(900)	0·5
Formation expenses (disallowed)	–	0·5
Unabsorbed wear and tear allowances from previous business (disallowed)	–	1
Unutilised trading tax losses brought forward from previous business	(14,200)	0·5
Chargeable income for the year	<u>46,100</u>	

Tax payable for the year of assessment 2017

(Computation using parent rates)

€46,100 at 25% less €3,050	8,475	0·5
		<u>5</u>
		<u>10</u>

5 Star Merchandise Limited

Chargeable income for the year of assessment 2017

Basis year ended 30 June 2016

Business income

	€	€	€	
Net profit before tax as per financial statements			936,980	
<i>Add back:</i>				
Advertising		0		0.5
Other promotional expenses		0		0.5
Charitable donations		1,200		0.5
Depreciation		43,500		0.5
VAT Department administrative penalty		250		0.5
VAT Department interest charged		0		0.5
Unrealised currency exchange losses		3,100		0.5
Bad debts written off		0		0.5
Allowance for irrecoverable debts				
– Specific	8,000			0.5
– General	3,500			0.5
		11,500		
Disallowed portion of non-commercial motor vehicle lease expense ($(35,000 - 14,000)/35,000 \times \text{€}12,000$)		7,200		1
Expenditure relating to rental income				
– Repairs and maintenance	1,400			0.5
– Ground rent	500			0.5
– Interest	1,300			0.5
		3,200		
			69,950	
<i>Deduct:</i>				
– Interest income		(45,200)		0.5
– Dividend income		(70,000)		0.5
– Rental income		(25,600)		0.5
			(140,800)	
Income before wear and tear allowances			866,130	
Wear and tear allowances claimed and absorbed				
Lift over ten years ($\text{€}60,000 \times 10\%$)		6,000		0.5
Furniture and fittings over ten years ($\text{€}40,000 \times 10\%$)		4,000		0.5
Computer software over four years ($\text{€}12,000 \times 25\%$)		3,000		0.5
			(13,000)	
Chargeable income for the year			853,130	
Interest income				
		€		
Interest income		45,200		0.5
Dividend income				
		€		
Gross dividend income		70,000		
Less: Dividend received out of Untaxed account		(15,000)		0.5
Less: Dividend received out of FTA profits		(31,000)		0.5
Dividend income		24,000		

			Marks
Rental income			
	€	€	
Gross rental income		25,600	
Ground rent payable	(500)		0·5
Interest expense	(1,300)		0·5
Further deduction (20% of [25,600 – 500])	(5,020)		0·5
		<u>(6,820)</u>	
Chargeable rental income		<u>18,780</u>	
Total chargeable income for the year			
		€	
Chargeable income subject to standard corporate income tax rate			
Business income		853,130	
Dividend income		24,000	
Rental income		18,780	
		<u>895,910</u>	
Group loss claimed and absorbed		(4,000)	1
Chargeable income		<u>891,910</u>	
Interest income (subject to 15% final withholding tax)		45,200	0·5
Total chargeable income		<u>937,110</u>	
			<u>15</u>

6 Dana and Julia

- (a) Dana and Julia will be considered to be ordinarily resident in Malta. 1
- Dana and Julia will not be considered to be domiciled in Malta, although they have been habitually resident in Malta since 2014, because they do not intend to permanently establish themselves in Malta. 2
- 3

(b) Chargeable income for the year of assessment 2017

	€	€	€	
Dana				
Basic salary			55,000	0·5
Fringe benefits				
Vehicle benefit:				
Vehicle use value (17% of €35,000)	5,950			0·5
Fuel value (5% of €35,000)	1,750			0·5
Maintenance value (5% of €35,000)	1,750			0·5
	<u>9,450</u>			
At private use percentage (55%)		5,198		0·5
Housing allowance (€700 x 12)		8,400		0·5
Provision of business mobile phone – exempt		0		0·5
Internet subscription – exempt		0		0·5
Total value of taxable fringe benefits		<u>13,598</u>		
Total chargeable income			<u>68,598</u>	

	€	€	Marks
Julia			
Director's fee		12,000	0·5
Director's indemnity insurance (exempt)		0	1
		<u>12,000</u>	
Other income			
Interest on UK savings deposit (not remitted to Malta)	0		0·5
Interest on Swiss term deposit (remitted to Malta)	1,100		0·5
Remittance of Swiss term deposit principal (not taxable)	0		0·5
Foreign-source royalty income (remitted to Malta)	5,200		0·5
Capital gain on local source preference shares (not taxable)	0		0·5
Remittance of foreign inheritance – capital (not taxable)	0		0·5
Local interest income (taxed by final withholding)	0		0·5
	<u> </u>		
Total taxable other income		6,300	
Total chargeable income		<u>18,300</u>	
			<u>9</u>

(c) Total tax payable for the year of assessment 2017

There is no scope to apply the separate computation because, as a couple in a registered civil union who live together, Dana and Julia are considered as a married couple for Maltese tax purposes. Therefore, none of Julia's income (director's fee income and other unearned income) is eligible for separate computation and so will be aggregated with Dana's income.

1

Joint computation using married rates

	€	
Total chargeable income of Dana and Julia	<u>86,898</u>	
Tax chargeable:		
€86,898 at 35% less €9,905	20,509	0·5
Less: Credit for foreign tax paid on foreign source royalty income (€5,200 x 15%)	(780)	1
	<u>19,729</u>	
Tax payable by assessment	30	0·5
Add: Tax payable by final withholding (€200 x 15%)	<u>19,759</u>	
Total tax payable		<u>3</u>
		15