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# Answers

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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. 1

1  
2

(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	<u>2,100</u>	5%	<u>105</u>	<u>1</u>
	<u>26,640</u>			
Total input tax for the period			<u>1,205</u>	
VAT payable for the period (output tax – input tax)			<u>829</u>	<u>0·5</u>
			<u>8</u>	
			<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

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

**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	<u>7,300</u>
	<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	Final tax account		Foreign income account		Immovable property account	
	MTA €	FTA €	MTA €	FIA €	FIA €	IPA €	2.5
Chargeable income	220,000	0	90,000	70,000	110,000		1
Tax chargeable at 35%	77,000	–	31,500	24,500	38,500		2
Double taxation relief	–	–	(2,000)	–	–		0.5
Tax payable	77,000	0	29,500	24,500	38,500		
<b>Total tax payable</b>	<b>169,500</b>						
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	64,250	0	58,500	45,500	71,500	78,750	
<b>Tax refunds</b>							
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
							<b>10</b>
<b>Total tax refund</b>	<b>101,654</b>						

**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	6,720	1
(20% of €33,600)			0.5
	(10,226)	(6,720)	(16,946)
Chargeable rental income	8,974	26,880	35,854
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
			<b>5</b>

(b) Carrie Vella

*Marks*

**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	
Disallowable portion of non-commercial motor vehicle lease expense $([35,000 - 14,000]/35,000 \times €12,000)$		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 ( $€60,000 \times 10\%$ )	6,000		0·5
Furniture and fittings over ten years ( $€40,000 \times 10\%$ )	4,000		0·5
Computer software over four years ( $€12,000 \times 25\%$ )	3,000		0·5
		(13,000)	
Chargeable income for the year		853,130	
<b>Interest income</b>			
Interest income	45,200		0·5
<b>Dividend income</b>			
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		

		<i>Marks</i>
<b>Rental income</b>		
Gross rental income	€	€
Ground rent payable	(500)	25,600
Interest expense	(1,300)	0·5
Further deduction (20% of [25,600 – 500])	<u>(5,020)</u>	0·5
	(6,820)	
Chargeable rental income		<u>18,780</u>
<b>Total chargeable income for the year</b>		
	€	
Chargeable income subject to standard corporate income tax rate		
Business income	853,130	
Dividend income	24,000	
Rental income	<u>18,780</u>	
	895,910	
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

<b>(a) Dana and Julia will be considered to be ordinarily resident in Malta.</b>	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
	<u>3</u>

### (b) Chargeable income for the year of assessment 2017

	€	€	€
<b>Dana</b>			
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)	<u>1,750</u>		0·5
	9,450		
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>	

			<i>Marks</i>
	€	€	
<b>Julia</b>			
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>6,300</u>	
Total taxable other income		<u>6,300</u>	
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%)	<u>(780)</u>	1
Tax payable by assessment	19,729	
Add: Tax payable by final withholding (€200 x 15%)	<u>30</u>	0.5
Total tax payable	<u>19,759</u>	
		<u>3</u>
		<u>15</u>