

Applied Skills

# Taxation – Malta (TX – MLA)

Tuesday 4 June 2019



**Time allowed:** 3 hours 15 minutes

This question paper is divided into two sections:

Section A – ALL 15 questions are compulsory and **MUST** be attempted

Section B – ALL SIX questions are compulsory and **MUST** be attempted

Tax rates and allowances are printed on pages 2–5.

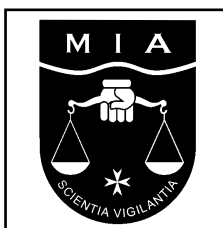
**Do NOT open this question paper until instructed by the supervisor.**

**Do NOT record any of your answers on the question paper.**

**This question paper must not be removed from the examination hall.**

MLA  
–  
TX

Think Ahead



The Association of Chartered  
Certified Accountants

The Malta Institute of  
Accountants

## SUPPLEMENTARY INSTRUCTIONS

1. Calculations and workings need only be made to the nearest € unless stated otherwise
2. All apportionments should be made to the nearest month unless stated otherwise
3. All workings should be shown in Section B

## TAX RATES AND ALLOWANCES

The following tax rates and allowances for 2018 (year of assessment 2019) are to be used in answering the questions.

### Individual income tax

#### Resident individual tax rates

##### Married couples – joint computation

€	€	Rate	Subtract – €
0	to 12,700	0%	0
12,701	to 21,200	15%	1,905
21,201	to 28,700	25%	4,025
28,701	to 60,000	25%	3,905
60,001	and over	35%	9,905

##### Other individuals

€	€	Rate	Subtract – €
0	to 9,100	0%	0
9,101	to 14,500	15%	1,365
14,501	to 19,500	25%	2,815
19,501	to 60,000	25%	2,725
60,001	and over	35%	8,725

#### Parents maintaining a child/paying maintenance

€	€	Rate	Subtract – €
0	to 10,500	0%	0
10,501	to 15,800	15%	1,575
15,801	to 21,200	25%	3,155
21,201	to 60,000	25%	3,050
60,001	and over	35%	9,050

#### Non-resident individuals

€	€	Rate
0	to 700	0%
701	to 3,100	20%
3,101	to 7,800	30%
7,801	and over	35%

**Note:** In the case of non-resident EU/EEA individuals whose worldwide income is not derived from Malta as to at least 90%, the tax liability is capped as follows:

$$\frac{\text{Malta chargeable income}}{\text{Worldwide income}} \times \text{Tax charge if worldwide income is charged at the applicable resident individual tax rates}$$

### Corporate income tax

Standard rate 35%

### Notional interest deduction (NID)

$$Y = A \times B$$

Where:

‘Y’ represents the interest on risk capital that an undertaking is entitled to claim in the relevant year of assessment;

‘A’ represents the reference rate;

‘B’ represents the risk capital of the undertaking for the accounting period ending in the year preceding the year of assessment.

For the purposes of the NID, the yield to maturity on Malta Government Stocks with a remaining term of 20 years is assumed to be 2%.

### **Annual market rent (tax accounting)**

The annual market rent of immovable property situated in Malta owned and used by a company for the purpose of its activities (excluding property which is rented by the said company to other parties) is calculated by multiplying the aggregate surface area in square metres of all floors of such premises so owned and used by €250 per annum.

### **Value added tax (VAT)**

Standard rate	18%
Reduced rate – general	5%
Reduced rate – accommodation in premises required to be licensed in virtue of the Malta Travel and Tourism Services Act	7%

### **VAT small undertaking (Article 11) thresholds**

	Entry threshold €	Exit threshold €
Economic activities consisting principally in the supply of goods	35,000	28,000
Economic activities consisting principally in the supply of services with a relatively low value added	24,000	19,000
Other economic activities	20,000	17,000

### **Capital allowances**

#### **Industrial buildings and structures**

Initial allowance	10%
Wear and tear allowance	2%

#### **Plant and machinery**

Wear and tear allowance as indicated in the question where applicable.

Minimum number of years over which items of plant and machinery are to be depreciated:

	Years
Computers and electronic equipment	4
Computer software	4
Motor vehicles	5
Furniture, fixtures, fittings and soft furnishings	10
Equipment used for the construction of buildings and excavation	6
Catering equipment	6
Aircraft airframe or engine	6
Aircraft engine or airframe overhaul	6
Aircraft interiors and other parts	4
Ships and vessels	10
Electrical and plumbing installations and sanitary fittings	15
Cable infrastructure	20
Pipeline infrastructure	20
Communication and broadcasting equipment	6
Medical equipment	6
Lifts and escalators	10
Air conditioners	6
Equipment mainly designed or used for the production of water or electricity	6
Other machinery	5
Other plant	10

## Capital gains

### Capital gains index of inflation

1988	439.62	2004	664.88
1989	443.39	2005	684.88
1990	456.61	2006	703.88
1991	468.21	2007	712.68
1992	475.89	2008	743.05
1993	495.60	2009	758.58
1994	516.06	2010	770.07
1995	536.61	2011	791.02
1996	549.95	2012	810.16
1997	567.95	2013	821.34
1998	580.61	2014	823.89
1999	593.00	2015	832.95
2000	607.07	2016	838.29
2001	624.85	2017	849.77
2002	638.54	2018	859.63
2003	646.84		

### Applicability of increase for inflation

$$\frac{\text{Cost of acquisition/improvements}}{1} \times \frac{\text{index(yd)} - \text{index(ya)}}{\text{index(ya)}}$$

Where:

index(yd) is the index for the year immediately preceding that in which the transfer is made;

index(ya) is the index for the year immediately preceding that in which the property in question had been acquired or completed, whichever is the later, or, when it relates to improvements, for the year immediately preceding that in which the cost of carrying out the improvements was incurred.

### Market value percentage attributable to shares in a company

$$Y = (0.4 \times A) + (0.2 \times B) + (0.4 \times C)$$

Where:

A is the percentage of the issued share capital represented by the nominal value of the shares;

B is the percentage of the total voting rights in the company attached to the shares;

C is the percentage of the profits available for distribution to the ordinary shareholders attributable to the holder of the shares.

### **Car fringe benefit rates**

Annual value of benefit = (vehicle use + fuel value + maintenance value) x private use percentage

<b>Vehicle use</b>	<b>% of vehicle value</b>
Vehicle not more than six years old	17%
Vehicle more than six years old	10%
<b>Fuel value</b>	<b>% of vehicle value</b>
Vehicle value not exceeding €28,000	3%
Vehicle value exceeding €28,000	5%
<b>Maintenance value</b>	<b>% of vehicle value</b>
Vehicle value not exceeding €28,000	3%
Vehicle value exceeding €28,000	5%
<b>Car value</b>	<b>Private use percentage</b>
Not exceeding €16,310	30%
Exceeding €16,310 but not €21,000	40%
Exceeding €21,000 but not €32,620	50%
Exceeding €32,620 but not €46,600	55%
Exceeding €46,600	60%

**Section A – ALL 15 questions are compulsory and MUST be attempted**

Please use the grid provided on page two of the Candidate Answer Booklet to record your answers to each multiple choice question. Do not write out the answers to the MCQs on the lined pages of the answer booklet.

Each question is worth 2 marks.

- 1 Janet is an unmarried individual, who is ordinarily resident and domiciled in Malta. She pays income tax at the marginal rate of 35%.

Janet is employed as a full-time accountant, and also runs a part-time business providing yoga classes. The yoga business is registered for value added tax (VAT). During the basis year ended 31 December 2017, Janet's chargeable income from her yoga business was €18,000.

**Assuming Janet selects the most beneficial method of taxation, what is the income tax liability in respect of her part-time yoga business for the year of assessment 2019?**

- A €4,300
- B €6,300
- C €3,900
- D €2,700

- 2 A limited liability company owns office premises situated in Malta which it leases to Peter, an individual sole trader. Peter is registered for value added tax (VAT) under Article 10 and uses the leased premises for the purpose of his economic activity. The monthly rent due for the leased premises, exclusive of any applicable VAT, is €3,400.

**What is the VAT payable, if any, on each of the monthly rental instalments paid by Peter?**

- A €0 (exempt with credit)
- B €612
- C €0 (exempt without credit)
- D €238

- 3 Sporting Limited (SL) is a company incorporated in Luxembourg, but managed and controlled in Malta. SL's income of €420,000 for its financial year ended 31 December 2018 consisted exclusively of investment income arising in Luxembourg. All of this income was received directly into SL's bank account in Luxembourg, and was not remitted to Malta. SL's only expenses in its financial year ended 31 December 2018 consisted of professional and statutory fees amounting to €7,800.

**What is the corporate income tax payable by Sporting Limited in Malta for the year of assessment 2019?**

- A €0
- B €147,000
- C €144,270
- D €78,750

- 4 Paula is a self-employed musician, who is domiciled outside Malta. She took up residence in Malta on 1 May 2018 and accordingly registered for income tax purposes in Malta.

**What is Paula's first year of assessment for income tax in Malta, and the date by which she should submit her first Maltese income tax return and pay any associated settlement of her tax liability?**

- |   | Year of assessment | Tax return and settlement tax due by |
|---|--------------------|--------------------------------------|
| A | 2018               | 30 June 2018                         |
| B | 2019               | 31 March 2019                        |
| C | 2018               | 31 December 2018                     |
| D | 2019               | 30 June 2019                         |

- 5 Dwejra Limited (DL) is a company which is registered and domiciled in Malta. During the year ended 31 December 2018, DL received foreign source interest income of an investment nature of €90,000, and incurred expenditure of €6,800 in the production of this income. The distributable profits resulting from this source of income were allocated to the foreign income account (FIA). No evidence of any foreign tax paid is available and DL wants to avail of the flat rate foreign tax credit (FRFTC).

**What is the corporate income tax payable by Dwejra Limited in respect of its foreign source income for the year of assessment 2019?**

- A €14,495
- B €16,875
- C €0
- D €29,120

- 6 In relation to value added tax (VAT), which of the following qualify as exempt with credit supplies?

- (1) A supply of health services
- (2) A supply of pharmaceutical goods
- (3) A transfer of immovable property
- (4) A supply of insurance services

- A 1, 3 and 4
- B 1 and 2
- C 2 only
- D None of the above

- 7 In relation to social security contributions, which of the following statements are TRUE?

- (1) Self-employed individuals are generally subject to Class 1 social security contributions
- (2) Employed individuals are generally subject to Class 2 social security contributions
- (3) Social security contributions payable by the self-employed are generally calculated as a percentage of the individual's annual net income
- (4) Social security contributions payable by the employed are generally calculated as a percentage of the individual's basic weekly wage or salary

- A 1 and 3 only
- B 2 and 4 only
- C 3 and 4 only
- D 1, 2, 3 and 4

- 8 Sarah is a self-employed businesswoman who runs a chain of cafeterias. On 1 July 2018, Sarah purchased a new car at a cost of €60,000. The car is to be used solely for business purposes.

**What is the wear and tear deduction which Sarah will be allowed against her trading income for the year of assessment 2019?**

- A €1,400
- B €0
- C €2,800
- D €12,000

- 9 ABC Limited (ABC), a company trading within the Maltese domestic market, has a financial and fiscal year ending on 30 June.

ABC's income tax returns have consistently been filed on time, and the tax payable according to the most recent returns has been as follows:

Year of assessment	Tax payable €
2015	27,000
2016	22,000
2017	28,000
2018	35,000

**What is the amount of ABC Limited's first provisional tax instalment due in respect of the basis period ending 30 June 2019, and the date by which this first instalment is due?**

- A €7,000, due by 30 April 2019  
B €7,000, due by 31 August 2018  
C €5,600, due by 30 April 2019  
D €5,600, due by 31 August 2018
- 10 IPR Limited (IPR), a company incorporated and tax resident in Malta, is an intellectual property holding company which owns a number of registered copyrights.

On 31 December 2018, IPR disposed of one of its copyrights, Copyright X, for €105,000. Copyright X had been acquired by IPR as an investment during 2015 for €60,000. During 2018, IPR paid wages of €20,000 to an employee who is responsible for the administration of the company's copyrights. No deduction in respect of the amortisation of Copyright X has ever been claimed by IPR.

**What is IPR Limited's charge to income tax on the capital gain arising on the disposal of Copyright X?**

- A €15,750  
B €8,750  
C €0  
D €12,600
- 11 W Limited owns 70% of X Limited and 75% of Y Limited.
- X Limited acquired 80% of ZA Limited on the incorporation of this company on 1 May 2018 and 90% of ZB Limited on 1 April 2018.
- Y Limited was liquidated on 30 June 2018.
- All five companies are resident exclusively in Malta for tax purposes, and have a financial and fiscal year ending on 31 December.

**Which of the five companies will NOT be eligible for group loss relief in the year of assessment 2019?**

- A Y Limited and ZA Limited  
B ZB Limited only  
C ZA Limited and ZB Limited  
D Y Limited only



- 12** During 2019, Sophie sold her 18% shareholding in DEF Limited (DEF), a company registered in Malta, for €3,500, when the market value of the shares for capital gains purposes was €4,500. Sophie had acquired the shares during 2012 on original subscription at their par value of €1,800. The shares carry full, proportionate voting rights and rights to profits available for distribution, but do not confer a right to appoint or nominate a director to DEF's board.

Sophie's marginal income tax rate is 35%.

**What is Sophie's tax liability on the sale of her DEF Limited shares?**

- A €945
- B €1,225
- C €0
- D €595

- 13** PQR Limited (PQR) is a trading company, which is registered for value added tax (VAT). In March 2019, PQR's purchase transactions included the following:

	€
– Goods for resale to a customer outside the European Union (EU)	5,000
– Petrol for the directors' company cars	2,500
– Customer entertainment expenses	1,200
– Rent paid for the company's business premises	4,000

All of the above transactions were subject to 18% VAT, and the amounts are stated exclusive of VAT.

**What is the total input VAT claimable by PQR Limited in respect of the above purchase transactions?**

- A €2,286
- B €900
- C €1,620
- D €1,350

- 14** Adrian owns office premises in Malta which he leases to an unrelated law firm on a long-term basis. For 2018 Adrian's results from this activity are as follows:

	€
Rental income	24,000
Less:	
Cleaning expenses	(800)
Repairs and maintenance	(2,100)
Ground rent payable	(400)
Professional fees	(600)
Interest paid on the loan to finance the acquisition of the property	(4,100)
Net profit before tax	<u>16,000</u>

Adrian's marginal income tax rate is 35%, and he always chooses the most tax efficient option available to him.

**What is the tax payable on Adrian's chargeable income from his rental activity for the year of assessment 2019?**

- A €3,600
- B €5,600
- C €5,173
- D €2,217

**15 The disposal of which of the following assets will give rise to a capital gain chargeable to income tax?**

- (1) Securities with a fixed rate of return
- (2) Business goodwill
- (3) Immovable property
- (4) Patents, trademarks and trade names

- A** 1, 2 and 3
- B** 2, 3 and 4
- C** 1, 2 and 4
- D** 3 and 4 only

**(30 marks)**

**Section B – ALL SIX questions are compulsory and MUST be attempted**

Please write your answers to all parts of these questions on the lined pages within the Candidate Answer Booklet.

- 1** The following scenarios all relate to value added tax (VAT) and were carried out during 2019 by three independent businesses.
- (a)** Sporting Apparel Limited (SAL) is a business which is established in Malta and registered for value added tax (VAT) under Article 10.
- (i)** SAL sold a pair of specialist sports shoes to a private individual customer in Australia (outside the European Union (EU)) and transported the shoes from Malta directly to the customer's home address in Australia.
- (ii)** SAL sold cycling accessories to a private individual customer established in France (within the EU). These accessories were purchased by SAL from the warehouse of a wholesaler physically located in France, and transported by SAL directly from the warehouse to the customer's home address in France.
- (b)** Lex Advocates (LA) is a law firm constituted as a partnership, which is established in Malta and registered for VAT under Article 10.
- (i)** LA provided legal services to a private individual customer established in Germany (within the EU).
- (ii)** LA provided legal services to a private individual customer established in Libya (outside the EU).
- (c)** Strategy Consult LLP (SC) is a consultancy firm established in Canada. SC does not have any establishment in Malta and is not registered for VAT in Malta.
- SC provided consultancy services to AZ Bank plc (AZB), a retail bank established in Malta. AZB is engaged exclusively in providing banking services within the domestic Maltese market and is registered for VAT under Article 12.

**Required:**

**For each of the transactions in scenarios (a), (b) and (c):**

- **state whether the transaction is a supply of goods or a supply of services;**
- **state the place where the transaction is deemed to take place;**
- **where applicable, state the person liable to account for the VAT and pay any VAT due to the authorities; and**
- **state the rate of Maltese VAT applicable or if no Maltese VAT is payable, state the reason why.**

**(10 marks)**

- 2** Callum Jones is an individual, who is ordinarily resident and domiciled in Malta. His marginal income tax rate is 35%. During the year ended 31 December 2018, Callum entered into the following transactions:
- (1) On 1 March 2018, sold an investment property in France for €540,000. This property had been acquired in February 2014 for €390,000. Immediately prior to the sale, improvements to the property were undertaken at a cost of €55,000.
  - (2) On 15 June 2018, sold a penthouse apartment situated in Malta for €375,000. Brokerage fees of €22,125 were paid in relation to this transfer, and these fees were duly recorded and verified by the notary on the deed of transfer. The apartment had been acquired in 2011 for €260,000.
  - (3) On 15 September 2018, assigned a right which he had obtained in terms of a promise of sale (*konvenju*) in relation to immovable property situated on the island of Gozo. This right had originally been acquired on 30 December 2017. Callum registered a gain of €6,800 on the assignment.
  - (4) On 1 December 2018, sold a maisonette situated in Malta for €335,000. Callum had inherited this property in 1990, and at the time of the *causa mortis* transmission it was valued at €210,000.
- None of the properties have ever been occupied by Callum as his principal residence.

**Required:**

**In respect of each of the transactions (1) to (4) above, calculate the tax payable in Malta by Callum Jones.**

**(10 marks)**

- 3** Marek Limited (ML) is a company, which was incorporated in Luxembourg (within the EU) on 1 January 2018, but is managed and controlled in Malta. ML is wholly owned by two private individuals, who are neither ordinarily resident nor domiciled in Malta. ML does not have any local trading operations within the Maltese market.

During its first financial year ended 31 December 2018, ML derived the following sources of income and gains, all of which were received directly in Malta:

- (1) Foreign source passive royalty income of €60,000, in relation to which no relief for double taxation will be claimed.
- (2) Income from trading operations attributable to a permanent establishment of ML in Farland (outside the European Union (EU)). The total chargeable income as computed for Malta tax purposes is €105,000. No foreign tax was suffered on this income.
- (3) Income from other overseas trading operations, which is not attributable to a permanent establishment situated outside Malta. The total chargeable income as computed for Malta tax purposes is €75,000. Foreign tax of €5,000 was suffered in relation to this income, for which double tax relief (treaty relief) is available and will be claimed.
- (4) A capital gain of €50,000 from the disposal of a 20% equity investment in Outer Limited, a company registered outside the EU. Outer Limited is not a property company, derives its income entirely from passive interest, and is not subject to any form of taxation. No relief for double taxation will be claimed in relation to this income.
- (5) Dividends of €35,000 received from a 6% ordinary shareholding in Inner Limited, a company registered in Portugal (within the EU). Each ordinary share in Inner Limited confers full, proportional voting rights and rights to profits available for distribution, but carries no rights to assets available for distribution on a winding up. Inner Limited is not a property company, and does not carry out any active trade or business. No relief for double taxation will be claimed in relation to this income, and no deduction is available against the taxable income of Inner Limited in Portugal, its state of residence, with respect to the dividend paid to ML.

Where applicable, ML will opt to apply the participation exemption.

ML will distribute all of its after-tax profits for the year ended 31 December 2018 by way of dividend to its two shareholders, both of whom have been duly registered with the Commissioner for Revenue for the purposes of making claims for tax refunds.

**Required:**

- (a) In respect of Marek Limited, for its financial year ended 31 December 2018:**

- identify the tax account to which each of its streams of chargeable income after tax will be allocated; and
- for each stream, calculate the tax payable in Malta and the amount of the tax account allocation.

(7 marks)

- (b) Calculate the tax refunds which can be claimed by Marek Limited's shareholders.**

(3 marks)

**(10 marks)**

**4** Jennie Bonello is an individual, who is ordinarily resident and domiciled in Malta. During 2018, Jennie undertook the following capital transactions:

- (1) Sold a rare antique clock for €12,000. Jennie had inherited this clock in 2013 when it was valued at €8,800.
- (2) Sold long-term corporate bonds with a value of €28,700. The bonds have a coupon rate of 4.75% and were issued by a foreign company which is not registered in Malta. Jennie had purchased these bonds in 2012 for €22,300.
- (3) Sold her minority shareholding in a Maltese public limited company, listed on the Malta stock exchange, for €6,900. Jennie had acquired these shares in 2015 for €5,700, through a direct share purchase on the stock exchange.
- (4) Sold her shareholding in Bonello Enterprises Limited (BEL), for €175,000. BEL is a Maltese private limited liability company, which is owned by Jennie and other members of her family. Jennie had acquired her shares on the incorporation of BEL in 2011, when the company issued fully paid-up ordinary share capital with a nominal value totalling €250,000. Jennie subscribed for 25% of these ordinary shares at their nominal (par) value of €62,500. No transactions affecting the share capital of BEL have taken place since its incorporation.

All the issued shares in BEL confer a full, proportionate percentage entitlement to profits available for distribution to the ordinary shareholders. However, Jennie's 25% shareholding confers no voting rights as all rights to vote are vested in the remaining 75% shareholding, held by the other family members.

At 31 December 2018, BEL's statement of financial position shows a net asset value of €925,000 and its annual profits over the previous five full financial years 2013 to 2017 have averaged as follows:

Average annual profits before tax	€116,600
Average annual profits after tax	€84,400

BEL does not own any immovable property, nor hold any shares in other companies.

- (5) Sold a trademark registered in her name since 2014 to a major local retail business operator for €14,500. Jennie had developed and registered the trademark herself and had not incurred any direct financial costs in this regard.

Jennie's marginal income tax rate is 35%. Where an option is available, Jennie will always choose the alternative which is most tax-efficient and results in the lowest tax liability.

**Required:**

**Calculate the chargeable capital gain and tax payable by Jennie Bonello in respect of each of the above capital transactions. In the case of any transaction which you treat as exempt from tax or otherwise not subject to tax, briefly state the reason.**

**(10 marks)**

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Question 5 begins on page 16.**

- 5 Anna and Colin are a married couple, who live together in Malta. They have one child, who attends a private primary school in Malta, approved by the Minister.

Anna was born in Malta and has lived in Malta all of her life. She works as a management consultant at a leading agency. As part of her employment duties, she is occasionally required to undertake work-related business trips outside Malta. She also has a separate contract as a part-time lecturer with a wholly owned subsidiary of her main employer, which provides educational courses.

Colin was born in the UK to parents who are ordinarily resident and domiciled in the UK. In 2012, Colin relocated and settled in Malta indefinitely, to live with his wife Anna.

In the basis year 2018, Anna received the following income and benefits from her main employment:

	€
(1) Gross basic salary	45,000
(2) Professional subscription costs paid for by her employer	750
(3) One-off cash bonus	3,500
(4) Reimbursement for business travel and accommodation costs	2,500
(5) Subsistence allowance in relation to work-related travel	250
(6) Business mobile phone contract paid for by her employer	€65 per month
(7) Internet subscription for business purposes paid for by her employer	€20 per month
(8) The use of a new company car (fuel, maintenance and all other vehicle-related costs are all paid for by her employer)	valued at €32,000

In the basis year 2018, Anna also received part-time employment income of €5,400 from the subsidiary of her main employer in respect of her lecturing services.

Anna did not have any other income during the basis year 2018.

Colin does not have a full-time occupation in Malta. He holds the office of non-executive director of a local insurance company on a part-time basis, for which he receives an annual director's fee of €24,000. The insurance company also pays for an insurance policy which provides Colin with director indemnity cover against any potential liability which may arise from his office. This indemnity policy costs the insurance company €900 per annum.

In addition to the above, Colin received the following income and gains during the basis year 2018:

- (1) Interest of €850 on a savings deposit account which he holds with a UK bank. No foreign tax was suffered on this interest income. The interest was credited to the same UK savings deposit account, and was not remitted to Malta.
- (2) Interest of €950 on the maturity of a fixed-term deposit of €25,000 which he held with another UK bank. No foreign tax was suffered on this interest income. The full amount of €25,950 representing the principal and interest was transferred to Colin's bank account in Malta.

In 2018, Colin transferred an inheritance of €50,000 from his current account with a UK bank to a new deposit account with a Maltese bank. On 31 December 2018, Colin was credited with gross interest of €600 in respect of this deposit, from which the bank withheld tax at source in terms of the investment income provisions.

Anna and Colin incurred the following relevant expenditure during the basis year 2018:

- (i) School fees for their child of €4,000.
- (ii) School transport fees of €250.
- (iii) Fees of €3,500 in respect of Anna's mother's accommodation in a home providing for the care of the elderly.

Anna is designated as the responsible spouse for tax purposes.



**Required:**

- (a) State, giving brief reasons, the basis of taxation applicable to Anna and Colin for Malta tax purposes during the year of assessment 2019. (2 marks)

- (b) Calculate the total chargeable income of Anna and Colin for the year of assessment 2019.

Note: You should list all of the items of income and expenditure referred to in the question, indicating by the use of zero (0) any items which are exempt from tax or not taxable in Malta. (12 marks)

- (c) Calculate the total tax payable on assessment (i.e. excluding tax withheld at source on investment income) by Anna and Colin for the year of assessment 2019. (1 mark)

**(15 marks)**

- 6 Amery Limited (AL) is a company registered in Malta, which is engaged exclusively in the provision of consultancy services within the local Maltese market. AL is not a property company, does not hold any investments, and does not derive any income directly or indirectly from immovable property situated in Malta. All of the share capital of AL (100%) is owned by Jackie Brown, an individual who is neither resident nor domiciled in Malta. Jackie is duly registered with the Commissioner for Revenue for Malta tax refund purposes.

For income tax purposes, the chargeable trading income (before any notional interest and before tax) of AL for its financial year ended 31 December 2018 is €320,400.

AL's statement of financial position as at 31 December 2018 is summarised as follows:

	€	€
Assets		<u>2,450,000</u>
<b>Equity</b>		
Share capital	100,000	
Share premium	650,000	
Retained earnings	<u>300,000</u>	
		1,050,000
<b>Liabilities</b>		
Bank loan facility (9% interest rate)	400,000	
Loan from shareholder (4% interest rate)	625,000	
Loan from shareholder (non-interest bearing)	<u>375,000</u>	
		<u>1,400,000</u>
		<u>2,450,000</u>

**Required:**

- (a) Determine the interest rate at which a notional interest deduction (NID) may be claimed, and calculate the qualifying risk capital of Amery Limited as at 31 December 2018. (3 marks)
- (b) Calculate Amery Limited's chargeable income and income tax charge for the year of assessment 2019 assuming:
- (i) no NID is claimed; and (1 mark)
- (ii) an election is made to claim a NID. (2 marks)
- (c) Allocate Amery Limited's after-tax distributable profits to the applicable tax account(s), and calculate the total tax refunds claimable by Jackie Brown if the profits are distributed as a dividend and assuming:
- (i) no NID is claimed; and (3 marks)
- (ii) the maximum available NID is claimed. (6 marks)

Note: Clearly identify the applicable tax accounts under each alternative.

**(15 marks)**

**End of Question Paper**