
Answers

Section B

Marks

1 (a) Happy Shoppers Limited (HSL)

The transaction constitutes an importation of goods into Malta by HSL.	1·0
The importation is deemed to take place in Malta.	0·5
The person liable to account for and pay value added tax (VAT) is HSL (being the importer).	0·5
No VAT is applicable as food for human consumption is exempt with credit for Maltese VAT purposes.	1·0
	<u>3</u>

(b) Private school operator

The transaction constitutes an intra-EU supply of services.	0·5
The supply is deemed to take place in Malta (where the business customer is established).	1·0
The person liable to account for and pay the VAT is the private school operator (reverse charge applies).	1·0
The applicable rate of Maltese VAT is the standard rate of 18%.	0·5
	<u>3</u>

(c) Tax Accountants Limited (TAL)

(i) Services to a Maltese non-business customer

The transaction constitutes a supply of services by TAL.	0·5
The supply is deemed to take place in Malta (where the supplier is established).	0·5
The person liable to account for and pay the VAT is TAL.	0·5
The applicable rate of Maltese VAT is the standard rate of 18%.	0·5

(ii) Services to a French non-business customer

The transaction constitutes a supply of services by TAL (as (i) above).	
The supply is deemed to take place in Malta (where the supplier is established).	0·5
The person liable to account for and pay the VAT is TAL.	0·5
The applicable rate of Maltese VAT is the standard rate of 18% (as above).	

(iii) Services to a Canadian non-business customer

The transaction constitutes a supply of services by TAL (as (i) above).	
The supply is deemed to take place in the Canada (where the customer is established).	0·5
The supply is outside the scope of Maltese VAT (no person is liable to account for or pay VAT).	0·5
Therefore no Maltese VAT is chargeable.	

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2 Vic Vella

Chargeable capital gains and tax payable

1. Shares in a Maltese company

No chargeable capital gain and hence no tax charge.	
Reason: Gains on the transfer of shares in companies listed on the Malta stock exchange are specifically exempt from tax.	1·0

2. Intellectual property rights

Chargeable capital gain: €20,000	1·0
Tax payable: €7,000 (€20,000 x 35%)	0·5

3. Antique painting

No chargeable capital gain and hence no tax charge.	
Reason: Paintings fall outside the scope of charge to income tax on capital gains.	1·0

4. Malta government bonds

No chargeable capital gain and hence no tax charge.	
Reason: Bonds do not constitute securities chargeable to income tax on capital gains.	1·0

5. Preference shares in a Maltese private company

No chargeable capital gain and hence no tax charge.

Reason: Preference shares with a fixed rate of return do not constitute securities chargeable to income tax on capital gains.

1.0

6. Ordinary shares in a Maltese private company

The disposal constitutes the transfer of a controlling interest.

Calculation of market value:

	€	€	
Net asset value		450,000	0.5
Add: Goodwill adjustment (2/5 of past 5 years' profits = €30,000 x 2)		60,000	1.0
Market value of immovable property	320,000		
Book value of immovable property	(215,000)		
		<u>105,000</u>	1.0
Market value		<u>615,000</u>	
Market value of portion pertaining to Charles's shareholding (50%)		<u>307,500</u>	0.5
Since the market value is higher than the consideration, the market value will be taken for the purposes of the capital gains computation		307,500	0.5
Cost of acquisition (50% of €100,000 ordinary share capital)		(50,000)	0.5
Chargeable capital gain		<u>257,500</u>	
Income tax charge on capital gain at 35%		90,125	0.5
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3 Ibragg Limited

Chargeable income for the year of assessment 2017

	€	€	
Profit before tax as per financial statements		35,400	
Adjustments for tax purposes			
Other income			
1. Unrealised foreign exchange gains	(1,200)		1.0
2. Bad debts recovered	0		1.0
3. Profit on sale of capital asset bought and sold during the same fiscal year (no balancing charge/allowance)	(150)		1.0
		<u>(1,350)</u>	
Administrative expenses			
(i) Payments of a voluntary nature	1,000		0.5
(ii) VAT administrative penalty	500		1.0
Interest on late paid VAT	0		1.0
(iii) Increase in provision for dilapidations expense	2,500		0.5
(iv) Increase in provision for doubtful debts – specific	2,000		0.5
Increase in provision for doubtful debts – general	1,100		0.5
Bad debts written off	0		0.5
(v) Disallowed portion of motor vehicle lease expenses (€12,000 x (€36,000 – €14,000)/€36,000)	7,333		1.5
(vi) Expenses not supported by VAT document	250		1.0
		<u>14,683</u>	
		<u>48,733</u>	
			<u>10</u>

4 Natasha Formosa

Tax payable on transactions in immovable property

(1) House in Gozo

Property transfer tax: 12% of (€260,000 – €195,000)	€7,800	2.0
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(2) Assignment of right

Income tax: (35% of €2,500)	€875	1.5
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Tutorial note: Gains or profits on the assignment of a right obtained in terms of a promise of sale (konvenju) are invariably considered to be income from a trade, business, profession or vocation.

(3) Investment property in Sicily

	€	€	
Consideration		290,000	0.5
Cost of acquisition 1 January 2009			
Adjustment for inflation	186,000		0.5
Inflation index for 2008 743.05			
Inflation index for 2015 832.95			
((€186,000 x 832.95/743.05) – €186,000)	<u>22,504</u>	(208,504)	1.0
Improvements 1 January 2016		(25,000)	1.0
Maintenance allowance (0.4% x 7 years x €186,000)		<u>(5,208)</u>	1.0
Chargeable capital gain		<u>51,288</u>	
Income tax charge on capital gain at 35%		<u>17,951</u>	0.5

(4) Apartment in Malta

	€	
Transfer value	450,000	0.5
Brokerage fees	<u>(26,550)</u>	0.5
	<u>423,450</u>	
Property transfer tax at 8%	<u>33,876</u>	1.0

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5 Paula and Kevin

Chargeable income and tax payable for the year of assessment 2017

	€	€	€	
Paula				
Basic salary			75,000	0·5
Vehicle fringe benefit:				
Vehicle use value (17% of €44,000)	7,480			0·5
Fuel value (fuel costs borne by employee)	0			0·5
Maintenance value (5% of €44,000)	2,200			0·5
	<u>9,680</u>			0·5
At private use percentage (55%)		5,324		0·5
Health insurance benefit (€1,600 – (€350 x 3))		550		1·0
Business mobile phone (exempt)		0		0·5
Provision of interest free loan				
Value of benefit (€30,000 x 2·5%)	750			0·5
Less: In-house benefit reduction	<u>(700)</u>			0·5
		50		
Business training course (exempt)		0		0·5
Award on completion of course		<u>2,500</u>		0·5
Total value of taxable fringe benefits			<u>8,424</u>	
Total			<u>83,424</u>	
Kevin				
Turnover from IT consultancy services			105,000	0·5
Less: Allowable deductions:				
Rent		5,000		0·5
Wear and tear allowances:				
Furniture (€2,800/10 years)	280			0·5
Computer equipment (€3,200/4 years)	<u>800</u>			0·5
		<u>1,080</u>		
			<u>(6,080)</u>	
Chargeable income from IT consultancy services			<u>98,920</u>	
Director's fees (9 x €1,000)				
(charged in the hands of the responsible spouse)			<u>9,000</u>	0·5
Total			<u>107,920</u>	
Other income:				
Foreign source interest income (not remitted)			0	0·5
Foreign source dividend income (remitted)			7,000	0·5
(with a credit for foreign tax paid see below)				
Foreign source capital gain on sale (not taxable)			<u>0</u>	1·0
			<u>7,000</u>	
Total chargeable income subject to progressive rates			<u>198,344</u>	
Local bank interest income subject to final withholding tax			<u>2,200</u>	0·5
Tax payable for the year of assessment 2017				
Final withholding tax on local bank interest income (2,200 x 15%)			<u>330</u>	0·5
Separate computation				
Paula				
€83,424 at 35% less €8,725			<u>20,473</u>	0·5
Kevin				
€114,920 at 35% less €8,725			31,497	0·5
Less: Credit for foreign tax paid on interest (€7,000 x 15%)			<u>(1,050)</u>	1·0
Tax payable			<u>30,447</u>	

Marks

Joint computation

€198,344 at 35% less €9,905	59,515	0.5
Less: Credit for foreign tax paid on interest	(1,050)	
Tax payable	<u>58,465</u>	

The most beneficial method of tax computation is therefore the separate computation resulting in total tax payable of €51,250 (330 + 20,473 + 30,447).

0.5

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6 (a) Valley Operations Limited

Tax payable for the financial year ended 31 December 2016

Income stream	1 Malta trading income	2 Foreign trading income (PE)	3 Foreign trading income (not PE)	4 Dividend	5 Passive interest and royalties	6 Gain on sale of shares	
Tax account	Maltese taxed account (MTA) €	Final tax account (FTA) €	MTA €	FTA €	Foreign income account (FIA) €	FTA €	
Gross chargeable income	185,000	120,000	65,000	20,000	40,000	400,000	
Add: Flat rate foreign tax credit (FRFTC)					10,000		0.5
Less: Deduction for any foreign taxes not creditable	—	(4,800)	—	(400)	—	—	1.0
Chargeable income	<u>185,000</u>	<u>115,200</u>	<u>65,000</u>	<u>19,600</u>	<u>50,000</u>	<u>400,000</u>	
Tax chargeable at 35%	64,750	0*	22,750	0*	17,500	0*	3.0
Less: FRFTC					(10,000)		0.5
Less: Double taxation treaty relief	—	—	(1,400)	—	—	—	0.5
Tax payable	<u>64,750</u>	<u>0</u>	<u>21,350</u>	<u>0</u>	<u>7,500</u>	<u>0</u>	

* The participation exemption applies to income streams 2, 4 and 6.

Total Malta tax payable €93,600

Allocation to tax accounts

	€	€	
MTA:			
Stream 1 (185,000 – 64,750)	120,250		0.5
Stream 3 (65,000 – 22,750)	42,250		0.5
	<u>162,500</u>		
Less: Transfer to immovable property account (IPA) (220sqms x €250/sqm)	(55,000)	107,500	1.0
FTA:			
Streams 2, 4 and 6 (115,200 + 19,600 + 400,000)		534,800	1.0
FIA:			
Stream 5 (40,000 – 7,500)		32,500	1.0
IPA: Transfer from MTA		55,000	0.5
Total		<u>729,800</u>	

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		Marks
(b) Tax refunds claimable on distribution to Valley Holdings Limited		
	€	
MTA:		
6/7ths of (€64,750 x (€120,250 – €55,000)/€120,250)	30,115	1·0
6/7ths of €22,750	<u>19,500</u>	0·5
	49,615	
FIA:		
2/3rds of €7,500	<u>5,000</u>	0·5
Total refund	<u>54,615</u>	<u>2</u>
		<u>15</u>

Tutorial note: The investment in ATL satisfies the criteria for an equity holding. Furthermore, the value of the equity investment upon acquisition satisfied the minimum requirement of €1,164,000, and the investment was held for the required minimum uninterrupted period of at least 183 days, hence satisfying the criteria for a participating holding.

Further, with regard to the dividend, as ATL derives its income from an active trade or business, it satisfies the safe harbour condition that it does not have more than 50% of its income derived from passive interest or royalties.