Fundamentals Level – Skills Module

Taxation (Malta)

Thursday 7 June 2018

F6 MLA MIA

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 2–4.

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.

Paper F6 (MLA)

Think Ahead

ACCA

MIA

SCIENTIA VIGILANTIA

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 2017 (year of assessment 2018) 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%

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%

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	2003	646·84
1989	443·39	2004	664·88
1990	456·61	2005	684·88
1991	468·21	2006	703·88
1992	475·89	2007	712·68
1993	495·60	2008	743·05
1994	516·06	2009	758·58
1995	536·61	2010	770·07
1996	549·95	2011	791·02
1997	567·95	2012	810·16
1998	580·61	2013	821·34
1999	593·00	2014	823·89
2000	607·07	2015	832·95
2001	624·85	2016	838·29
2002	638·54	2017	849·77

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 x A) + (0·2 x B) + (0·4 x 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.

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.

Car fringe benefit rates

Vehicle use	**% of vehicle value**
Vehicle not more than six years old	17%
Vehicle more than six years old	10%

Fuel value	**% of vehicle value**
Vehicle value not exceeding €28,000	3%
Vehicle value exceeding €28,000	5%

Maintenance value	**% of vehicle value**
Vehicle value not exceeding €28,000	3%
Vehicle value exceeding €28,000	5%

Car value	**Private use percentage**
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 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 Proprieta Limited (PL), a company established in Malta, is engaged in the ownership and letting of the following real estate assets in Malta:

(1) Property A valued at €1,200,000, consisting of office premises which are leased on a long-term basis to Avukati Associates, a civil partnership of advocates who practise law in Malta. The partnership is registered for value added tax (VAT) under Article 10 of the VAT Act.

(2) Property B valued at €2,100,000, consisting of office premises which are leased on a long-term basis to Investment Fund Managers Limited (IFML), a company established in Malta which is registered for VAT under Article 12 of the VAT Act.

(3) Property C valued at €450,000, consisting of a residential tenement which is leased out on a long-term basis to a family of individuals who are ordinarily resident in Malta.

(4) Property D valued at €260,000, consisting of tourist accommodation licensed by the Malta Tourism Authority, which is leased out on a short-term basis throughout the year to tourists.

(5) Property E valued at €980,000, consisting of an events venue which is leased out on a short-term basis for not more than 30 days at a time for private events and corporate functions.

For the quarter ended 31 December 2017, PL's turnover (rental income) exclusive of any applicable VAT is as follows:

	Property A	Property B	Property C	Property D	Property E	Total
Rental income	€18,000	€31,500	€ 6,750	€10,400	€29,400	€96,050

During the same quarter, PL incurred the following local repairs and maintenance expenditure. All values are stated exclusive of VAT at the standard rate of 18%, and are supported by proper tax invoices:

	Property A	Property B	Property C	Property D	Property E	Total
	€	€	€	€	€	€
Repairs and maintenance expenses	2,600	4,700	1,000	1,560	4,400	14,260

Required:

For Proprieta Limited's value added tax (VAT) return period for the quarter ended 31 December 2017, calculate:

- **the output tax chargeable;**
- **the input tax creditable; and**
- **the VAT payable/excess credit for the period.**

(10 marks)

2 Rex Limited (RL) is a company incorporated, managed and controlled in Malta, which is engaged in the business of licensing various intellectual property (IP) assets. RL was incorporated on 1 January 2017. None of the direct and indirect shareholders of RL are resident in Malta and/or domiciled in Malta. The financial results for its first financial and fiscal year ended 31 December 2017 are as follows:

	Note	€	€
Revenue			2,210,000
Add:			
Financial income	1	70,000	
Financial expenses	2	(45,000)	
Net financial income			25,000
Add: Dividend income	3		40,000
			2,275,000
Less: Administrative expenses	4		(1,850,000)
Net profit before tax			425,000

Notes:

(1) The financial income for the year of €70,000 consists of:

(i) Net interest income of €50,000 received on an investment of €1,200,000 in an overseas bond whose issuer is situated outside Malta. Foreign withholding tax of 2·5% had been levied on this income. Double tax treaty relief is available and will be claimed in respect of this withholding tax.

(ii) Net interest received from a local bank of €20,000 in respect of the deposit of surplus cash made on a short-term basis. Tax was withheld on this interest in terms of the investment income provisions.

(2) The investment in the overseas bond (as referred to in (1)(i) above) was financed by means of a loan of €1,200,000 made to RL by another company registered in Malta. The financial expenses of €45,000 relate to the annual interest due and paid on this loan by RL in 2017.

(3) Dividend income of €40,000 consists of:

(i) A net dividend of €25,000 received from RL's 25% equity shareholding in an Italian trading company. The shareholding confers a full right to vote and to profits available for distribution, but does not impart any right to assets available for distribution on a winding up. The dividend was paid out of the trading profits of the Italian company, which suffered corporate tax in Italy at a concessional low rate of 4·5%. No withholding tax was suffered on this dividend.

(ii) A gross dividend of €15,000 received from an equity investment in a company registered in Malta and listed on the Malta Stock Exchange. The dividend was paid out of profits taxed at the rate of 35% at the level of the distributing company and allocated to its immovable property account (IPA.)

(4) All the administrative expenses are considered to have been incurred in the production of RL's business income and hence are deductible for income tax purposes.

Additional information:
RL owns and uses premises situated in Malta for the purpose of its business. The aggregate surface area of these business premises is 90 square metres. No part of the premises is rented out from or to another person.

Required:

(a) Calculate Rex Limited's chargeable income subject to the standard rate of corporation tax, and tax payable in Malta for the year of assessment 2018. (6 marks)

(b) Allocate Rex Limited's distributable profits for the year ended 31 December 2017 to the respective tax accounts.

Note: You should assume that no deferred tax needs to be accounted for. (4 marks)

(10 marks)

3 Baltiku Limited (BL) is an investment company registered in Malta. None of the direct and indirect shareholders of BL are resident in Malta and/or domiciled in Malta. During the financial and fiscal year ended 30 June 2017, BL undertook the following capital transactions:

(1) On 1 February 2017, disposed of an investment property situated in Malta (not forming part of a property project) for €450,000. The property had been purchased on 1 July 2016 for €400,000, and duty on documents and transfers of €20,000 had also been paid on the acquisition. Brokerage fees of €22,500, which were duly receipted and recorded by the notary in the deed of transfer, were incurred in connection with the sale of the property.

(2) On 1 April 2017, disposed of an investment property in the UK for €600,000. The property had been acquired on 1 January 2014 for €510,000. On 1 January 2017, improvements costing €15,000 had been incurred in relation to this property.

(3) On 1 August 2017, disposed of its 15% equity shareholding in Pearl Limited, a passive investment sub-holding company, incorporated, managed and controlled in Australia, for €225,000. The investment in Pearl Limited had been made on 1 July 2013 at a cost of €190,000. Pearl Limited is not a property company.

(4) On 1 September 2017, disposed of its 2% ordinary shareholding in Holly Limited, a passive investment sub-holding company, incorporated, managed and controlled in the USA, for €1,450,000. The ordinary shares confer a full right to profits available for distribution and to assets available for distribution on a winding up, but only carry very limited voting rights. The investment in Holly Limited had been made on 1 February 2014 at a cost of €1,200,000. Holly Limited is not a property company.

(5) On 1 October 2017, disposed of its 6% cumulative preference shareholding in Filfla Limited, a trading company registered in Malta, for €220,000. The preference shares had been acquired at their nominal value of €200,000 on 31 March 2015.

Additional information:
BL is not specifically empowered to receive income which falls to be allocated to the foreign income account.

Required:

Calculate the tax payable (if any) by Baltiku Limited in respect of each of the transactions (1) to (5). For any transaction for which no tax is payable, state the reason(s) why.

(10 marks)

4 Jonathan is a divorced individual who was born in Malta and who formerly resided in Malta. Since 2014, Jonathan has been residing and working overseas in Goatland, and envisages that he will continue to do so for the foreseeable future, albeit he expects to return to Malta at some point in the future.

The following information relates to Jonathan's income and capital transactions in respect of the year ended 31 December 2017:

(1) The salary of €80,000 he derived from his overseas employment was received into his personal bank account in Goatland. No part of this income was remitted to Malta.

(2) Rental income totalling €18,000 was received from the long-term letting of his former residence in Malta, which he still owns. The rental income was received directly into Jonathan's personal bank account in Goatland, out of which the following expenses related to the property were also paid in 2017:

- €9,800 for annual interest on the outstanding balance of a bank loan he took out in Malta in order to finance the purchase of this property;
- €500 for ground rent; and
- €1,200 for maintenance expenses.

No part of the rental income was remitted to Malta.

(3) Interest received on his bank account balances was:

	€
Interest on bank accounts in Goatland (not remitted to Malta)	2,900
Interest on bank accounts in Malta	600
	3,500

(4) Capital gains arising from the sale of marketable securities in 2017 were:

- €2,600 from the sale of ordinary shares listed on the Malta Stock Exchange, which was received directly into his bank account in Malta; and
- €1,950 from the sale of ordinary shares in an unlisted foreign company, which was remitted to his bank account in Malta.

Required:

(a) Calculate Jonathan's total income chargeable to income tax in Malta in the year of assessment 2018.

Note: List all of the income and gains referred to in (1) to (4) above, indicating by the use of zero (0) any which will not be subject to tax in Malta and briefly identify why this is the case. (7 marks)

(b) Determine the most beneficial method of taxation in Malta for Jonathan to select for the year of assessment 2018. (3 marks)

(10 marks)

5 June and Paul are married and live in Malta, together with their two children. June was born in Malta and has lived in Malta throughout her life. Paul was born and raised outside Malta, moving to Malta in 2011, the year in which he and June got married. Paul is settled and happy in Malta, although he does not rule out the possibility of moving back to his country of birth together with June and their children, at some point in the future.

June works as an in-house lawyer at a local consultancy services company. Her remuneration and benefits package for 2017 consisted of the following:

(1) A basic gross salary of €58,000 per annum.

(2) Comprehensive worldwide health insurance covering June and her immediate family, for which her employer pays a premium of €1,200 per annum. All other employees of the company only benefit from a domestic health insurance policy with a premium cost of €250 per annum per employee.

(3) A business mobile phone contract costing her employer €70 per month.

(4) The fully paid cost of tuition for a commercial law diploma programme, which is highly relevant to June's employment, costing €3,400. June completed the programme, passing the diploma exam during 2017. In recognition of her achievement, her employer paid June an award of €2,000 on 31 December 2017.

June did not have any other income or gains during 2017.

Paul works as a self-employed personal trainer and provides his services at various gyms throughout Malta. His income from this business activity and from other sources in 2017 was as follows:

(i) The turnover of his self-employed business totalled €44,000. His business expenses during 2017 consisted solely of marketing expenses of €420 and telecommunications costs of €850. During 2017, Paul also purchased a tablet computer costing €1,000 which he uses exclusively for the purposes of his personal training business. He does not own any other fixed assets for the purpose of his business.

(ii) He was appointed a non-executive director of a Maltese company which is actively involved in the local health and fitness industry, for which he received a fee of €8,000 in respect of 2017.

(iii) He realised a capital gain of €15,500 on the sale of shares listed on a foreign stock exchange. No foreign tax was suffered on the gain, and the proceeds from the sale of the shares were not remitted to Malta.

(iv) He received gross interest income of €3,500 from a long-term deposit with a foreign bank. Withholding tax at the rate of 10% was levied on this income. The net interest was received in Paul's savings account with the same foreign bank, and was not remitted to Malta.

(v) He received gross dividend income of €7,000 from shares in a foreign trading company. No foreign corporate taxes were suffered on the profits out of which this dividend was distributed, but withholding tax at the rate of 15% was levied on the dividend. The net dividend was transferred directly to the couple's jointly held bank account in Malta.

June has been designated as the responsible spouse for income tax purposes.

Required:

(a) State, giving reasons, the basis of taxation applicable to June and to Paul respectively for the year of assessment 2018. (3 marks)

(b) Calculate the total chargeable income of, and tax payable by, June and Paul for the year of assessment 2018, using the most beneficial method of tax computation. Clearly identify both the most beneficial method and the total tax payable.

Note: You should list all of the items of income and gains referred to in the question, clearly identifying any items which are exempt from tax or not taxable in Malta. (12 marks)

(15 marks)

6 The North group of companies comprises North Limited (North), West Limited (West), East Limited (East) and South Limited (South). All four companies are incorporated, managed and controlled in Malta.

West was incorporated as a wholly-owned subsidiary of North on 1 June 2017.

North acquired 80% of the shares in East on 1 April 2017. East's financial and fiscal year end was 31 March, however, immediately upon its acquisition by North, arrangements were made to change its financial year end to 31 December in order to coincide with that of the other companies forming the group.

North acquired 60% of the shares in South at its incorporation on 1 January 2016. During 2017, South was placed into liquidation, and was struck off the companies register effective from 31 August 2017.

The financial results of the four companies in the group applicable to the year 2017 were as follows:

	North 1 January to 31 December 2017 €	West 1 June to 31 December 2017 €	East 1 April to 31 December 2017 €	South 1 January to 31 August 2017 €
Profit/(loss) before tax as per financial statements	50,000	90,000	(44,000)	(21,000)
The above profit/(loss) before tax is stated after taking into account the following:				
Depreciation of property, plant and equipment	(56,000)	(45,000)	(14,000)	(2,000)
Accounting profit/(loss) on the sale of securities	14,000	(45,000)	5,000	(2,000)

For tax purposes, the following information is relevant to the four companies for the year ended 31 December 2017:

	North €	West €	East €	South €
Chargeable capital gain/(loss) on the sale of securities	12,000	(20,000)	6,000	(1,000)
Unutilised trading tax losses carried forward from previous years of assessment	–	–	(12,000)	(9,000)
Unabsorbed capital losses carried forward from previous years of assessment	(4,500)	(2,100)	(500)	–
Unabsorbed wear and tear allowances carried forward from previous years of assessment	–	(9,000)	(5,000)	–

During the year 2017, the four companies made the following acquisitions of business assets:

	North €	West €	East €	South €
Fixtures and fittings				
Acquired on 1 January 2017	10,000	–	–	–
Acquired on 1 February 2017 (note 1)	–	–	–	2,000
Acquired on 1 July 2017	–	–	25,000	–
Acquired on 31 December 2017	–	2,000	–	–
Computer software				
Acquired on 1 July 2017 (note 2)	–	–	10,000	–

Notes:

1. The furniture and fittings acquired by South were never put into use.
2. The computer software was acquired by East from North. North had originally acquired this software on 1 September 2016 for €9,000.
3. None of the companies made any other acquisitions or disposals of assets, or carried out any other transactions in fixed assets during the financial and fiscal year ended 31 December 2017.
4. All the plant and machinery acquired by the companies prior to 1 January 2017 and still in use in their respective businesses was fully depreciated for tax purposes and as such carried at a tax written down value of zero as at 31 December 2016

Required:

(a) **In the case of each of West Limited, East Limited and South Limited, state, giving reasons, whether each company will form part of a loss relief group with North Limited, or is otherwise eligible to surrender/claim losses on an intra-group basis for the year of assessment 2018.** (3 marks)

(b) **In respect of each of the four companies, North Limited, West Limited, East Limited and South Limited, for the year of assessment 2018:**

(i) **Calculate the wear and tear allowances claim and any balancing charge or allowance for the year of assessment 2018.** (5 marks)

(ii) **Calculate the chargeable income for the year of assessment 2018.** (4 marks)

(iii) **Identify the amount of any losses available for surrender under group loss relief, together with the potential profits against which they could be claimed.** (1 mark)

(iv) **Calculate the unutilised trading tax losses, unabsorbed capital losses and unabsorbed wear and tear allowances to be carried forward to the year of assessment 2019.** (2 marks)

(15 marks)

End of Question Paper