Specimen Exam

Exam Name: Taxation (E1 MLA)
Time Allowed: 3 hours
Pass Mark: 50%

This exam contains 2 sections:

Section A:
15 questions, each worth 2 marks
30 marks in total

Section B:
4 questions, each worth 10 marks
2 questions, each worth 15 marks
70 marks in total

Note: This specimen examination has been prepared based on legislation passed by 30 September 2025 (to be updated).

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Section A

Question 1

Which TWO of the following transactions relating to property transfers qualify for a tax exemption?

A Property assigned between spouses consequent to a judicial separation
B Property which had been occupied as the owner's own residence for a period of four years, which is sold 16 months after the owner vacated the property
C Property assigned between spouses consequent to a consensual separation
D Sale of property situated in a special designated area

Question 2

On 15 March 2025, Moss Ltd, a company established in Malta selling office furniture, received an order from Sun Ltd, another trading company established in Malta, for the supply of a boardroom table in Malta.

Sun Ltd paid in full for this item on the date of the order, and the boardroom table was delivered by Moss Ltd to Sun Ltd on 30 March 2025.

A tax invoice was issued by Moss Ltd in respect of this supply on 10 April 2025.

The tax periods of Moss Ltd for value added tax (VAT) are based on calendar quarters.

Which of the following is the date when the VAT in respect of the supply of the boardroom table becomes chargeable?

A 10 April 2025
B 22 May 2025
C 15 March 2025
D 30 March 2025

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Question 3

Which of the following statements regarding Class One social security contributions is/are false?

(1) The employer's share as well as the employee's share of social security contributions are to be remitted to the Commissioner for Tax and Customs by the employer on a monthly basis
(2) Class One social security contributions are generally calculated as a percentage of the individual's annual net chargeable income, subject to a maximum cap
(3) Class One social security contributions generally apply to self-occupied individuals
(4) Class One social security contributions are generally calculated as a percentage of the individual's basic weekly wage, without any capping

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

Question 4

Mila is resident in Malta but domiciled outside Malta.

In 2025, she earned foreign source royalty income amounting to €10,000, of which €8,000 was received by Mila directly in her Maltese bank account. The balance of €2,000 was credited to Mila's bank account outside Malta and was not remitted to Malta.

Calculate Mila's chargeable income in respect of this royalty income for the income tax year of assessment 2025.

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Question 5

Which THREE of the following are mandatory details which must be included in a dividend certificate (warrant)?

A Income tax registration number of the company distributing the dividend
B Gross and net (i.e. after deducting tax) amount of the distributed profits in respect of each taxed account
C Any tax chargeable on the company in respect of the distributed profits (including top-up tax)
D Analysis of the profits out of which the dividend is paid, showing separately the amount of profits pertaining to each year of assessment
E Value added tax (VAT) registration number of the company distributing the dividend
F Income tax registration number of the shareholder receiving the dividend

Question 6

Frank is ordinarily resident and domiciled in Malta. He works as a software games developer on a self-employed basis.

On 1 July 2025, he purchased computer equipment for the purpose of his business for €4,400. On 31 December 2025, Frank sold the computer equipment for €2,600.

Frank duly claimed wear and tear allowances on the computer equipment to the maximum extent allowable.

What is Frank's balancing charge/allowance arising in respect of the sale of the computer equipment?

A €700 balancing allowance
B €700 balancing charge
C €150 balancing charge
D €150 balancing allowance

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Question 7

Rio is domiciled outside Malta. He took up residence in Malta on 1 October 2025 and works as a self-employed online marketing consultant. Rio's self-employment activity is his only source of income. Since taking up residence in Malta, his self-employment activity has been physically carried out from his rented residential property in Malta.

Which of the following options shows Rio's first tax year of assessment in Malta, and by when his first Maltese personal income tax return (together with any associated Malta tax liability) is due?

Option	First year of assessment	Tax return due date
1	2025	30 June 2026
2	2025	30 September 2026
3	2026	30 September 2026
4	2026	30 June 2026

A Option 1
B Option 2
C Option 3
D Option 4

Question 8

LocalCo, a company registered in Malta, received a dividend of €20,000 from ForeignCo, a wholly-owned subsidiary company established in Germany (EU).

LocalCo is not empowered to claim the flat rate foreign tax credit (FRFTC).

No foreign tax, whether by way of withholding or otherwise, was incurred on the dividend, nor on the profits out of which the dividend was paid by ForeignCo. However, ForeignCo claimed a tax deduction against its taxable income in Germany with respect to the dividend paid to LocalCo.

Calculate LocalCo's chargeable income for Malta tax purposes in respect of the dividend received from ForeignCo.

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Question 9

Which TWO of the following types of expenditure are blocked from input value added tax (VAT) recovery (i.e. non-deductible)?

A Alcoholic beverages purchased for re-sale
B Costs of a corporate reception organised to entertain the company's most important and loyal customers
C A motor vehicle purchased to provide taxi services
D Costs of a company's annual festive staff party
E Cost of services provided by a musical band to the operator of a restaurant in order to entertain the restaurant's diners
F Cost of leasing a passenger van having a seating capacity of ten persons for the purposes of providing transport to employees

Question 10

Cheryl is ordinarily resident and domiciled in Malta, and her marginal income tax rate is 35%.

In 2026, she sold her holding of 6% 2032 corporate bonds for €109,000. The bonds were issued by Gort Limited, a company registered in Malta. Cheryl had subscribed for €100,000 of the bond issue at par on 1 January 2019.

The corporate bonds are not listed on the Malta Stock Exchange.

What is Cheryl's income tax payable in respect of the capital gain made on the sale of her corporate bonds?

A €0
B €9,000
C €3,150
D €16,350

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Question 11

Terry is an unmarried individual who is a parent to one minor child.

Terry is neither ordinarily resident nor domiciled in Malta. He is a resident and citizen of Norway, a member country of the European Economic Area (EEA).

For the basis year ended 31 December 2025, Terry's total worldwide income was €100,000, of which €30,000 was derived from Malta and was chargeable to tax in Malta.

Calculate Terry's income tax payable in Malta for the year of assessment 2026.

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Question 12

Which of the following statements regarding tax payments is/are true?

(1) The Final Settlement System (FSS) rules provide that an employer is required to withhold income tax and social security contributions at source from employees' wages and salaries (including taxable fringe benefits)
(2) Self-employed persons are required to make three equal payments of provisional tax during the year
(3) Any balance of tax due (after deducting all FSS and/or provisional tax payments made) must be settled immediately within the same deadline as the submission of the income tax return for the year
(4) Statutory interest at the currently prevailing percentage rate per month or part thereof is charged on any income tax which is paid later than its due date

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

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Question 13

Which TWO of the following tax accounting allocations for income derived by a company registered in Malta are correct?

A Bank interest income which has been charged to tax under the investment income provisions is allocated to the final tax account
B Interest income derived from the granting of loans to finance the acquisition and development of immovable property situated in Malta is allocated to the immovable property account
C Dividend income from a foreign subsidiary which qualifies for the participation exemption is allocated to the final tax account
D Income derived from the rental of commercial real estate situated in Malta which has been subject to the 15% tax regime for rental income is allocated to the Maltese taxed account

Question 14

Lydon, an individual who is ordinarily resident and domiciled in Malta, sold his holiday home situated in Switzerland (non-EU) on 10 August 2025 for €680,000. No foreign tax was incurred in respect of the disposal.

Lydon acquired the property on 20 March 2020 for €500,000, and the cost of acquisition adjusted by the relevant index for inflation is €528,800.

On 1 July 2025, property improvements were made in anticipation of the sale which cost €40,000. The proceeds of sale were not remitted to Malta.

Lydon's marginal rate of income tax in Malta is 35%.

What is Lydon's income tax payable for the year of assessment 2026 on the capital gains resulting from the sale of his holiday home?

A €35,420
B €0
C €52,920
D €38,920

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Question 15

Which of the following types of supply is/are taxable in Malta at a reduced value added tax (VAT) rate?

(1) Tourist accommodation
(2) Securities management services provided to a private individual
(3) Water services
(4) Electricity

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

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Section B

Question 16

The following scenario relates to one requirement.

Regal Limited (RL) is a company registered in Malta which is wholly owned by an individual who is not resident in Malta and not domiciled in Malta. In terms of its Memorandum and Articles of Association, RL is empowered to apply the flat rate foreign tax credit (FRFTC).

RL earned the following income and gains for the financial year ended 30 September 2025:

1. A dividend of €24,000 received from a 3% shareholding in Valley Limited (VL), a company resident in Spain (EU). RL bought the shares in VL for €900,000. The investment was sold for €1,000,000 on 31 August 2025. No foreign tax, whether by way of withholding or otherwise, was levied on either the dividend or the gain arising on the sale.

2. A dividend of €50,000 derived from a 100% shareholding in Tonn Limited (TL), a subsidiary company resident in the British Virgin Islands (non-EU). TL's income consisted solely of passive royalties, and no foreign tax was levied on this income. Furthermore, no withholding tax was levied on the payment of the dividend.

3. A dividend of €12,000 derived from a 6% shareholding in Dune Limited (DL), a company resident in Luxembourg (EU). The income of DL consisted solely of passive interest. No withholding tax was levied on the payment of the dividend by DL.

4. Interest income of €90,000 received from various foreign sources. No withholding tax was suffered on the interest income.

During the financial year ended 30 September 2025, RL incurred administrative expenses of €28,000 in the production of its income. The expenses are deductible against RL's various sources of income in proportion to the amount of income from each source.

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Requirement:

Calculate Regal Limited's income tax liability for the income tax year of assessment 2026, clearly showing the chargeable income and tax payable by the company.

Note: You should assume that, to the extent applicable, Regal Limited will elect to apply the participation exemption, and adopt the position which will result in it paying the lowest possible tax.

(10 marks)

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Question 17

The following scenario relates to one requirement.

John and Anna are two unrelated individuals who are ordinarily resident and domiciled in Malta. They jointly own Sala Limited (SL), a company registered in Malta.

SL owns an immovable property situated in Malta which was acquired in 2013 for €324,000. SL was incorporated on 1 January 2013 specifically for the purpose of the property acquisition.

The 2,000 €1 ordinary shares of SL are owned 400 by John and 1,600 by Anna. The shares were subscribed for in full on the incorporation of SL and confer equal shareholding rights in all respects, except that John's shares each carry two votes per share, whereas Anna's shares carry one vote per share.

The statement of financial position of SL as at 30 November 2025 was as follows:

	€
Non-current assets	
Immovable property	324,000
	324,000
Equity	
Share capital	2,000
Retained earnings	222,000
	224,000
Liabilities	
Bank loan	100,000
	324,000

SL is engaged exclusively in renting out its immovable property assets on a long-term basis. The company's financial results for the most recent five years were as follows:

Financial year ended 30 November	**2021**	**2022**	**2023**	**2024**	**2025**
	€	**€**	**€**	**€**	**€**
Profit before tax as per financial statements	44,000	47,400	49,800	51,200	54,100

On 31 December 2025, a prospective buyer offered to buy all the shares in SL from John and Anna at a price of €280 per share (irrespective of the difference in voting rights among the shares). The market value of the immovable property on 31 December 2025 was €600,000.

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Requirement:

Assuming both John and Anna agree to sell all of their shares on 31 December 2025 at the uniform price of €280 per share, calculate the chargeable capital gains for each of John and Anna arising on the sale of their shares in Sala Limited.

Note: You should ignore any deduction for inflation allowance which may be available.

(10 marks)

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Question 18

The following scenario relates to one requirement.

The following events relate to value added tax (VAT) and are independent of each other.

1. Helu Limited (HL) operates a supermarket in Malta. It purchased a consignment of fruit and vegetables from Italy (EU) for the purposes of re-sale within its supermarket. The consignment was transported by the supplier from Italy to HL in Malta.

2. Qala Limited (QL) operates a bookstore in Malta. It purchased a consignment of books from the UK (non-EU) for the purposes of re-sale within the bookstore. The consignment was transported by the supplier from the UK to QL in Malta.

3. Naspli Limited (NL) is an accountancy firm established in Malta. It procures marketing-related consultancy services from a Polish consultancy firm (EU). The supplier is not registered for VAT in Malta but is considered to have an establishment in Malta for VAT purposes.

4. Lewn Limited (LL) is a law firm established in Malta. It procures foreign law advice from a law firm established in the US (non-EU). The supplier is not established in Malta and is not registered for VAT in Malta.

5. Peril Limited (PL) is a firm of architects established in Malta. It provides architectural plans for the proposed redevelopment of a hotel situated in Germany (EU) to a hotel operator established in Germany. The hotel operator is not established in Malta and not VAT registered in Malta. The business customer quotes its German VAT identification number to PL for the purposes of this transaction. PL is not registered for VAT in Germany.

Requirements:

For each of the events listed (1) to (5), assess:

- **whether the transaction is a supply of goods, a supply of services, an intra-community acquisition or an importation for value added tax (VAT) purposes and whether the transaction is deemed to take place in Malta or outside Malta for VAT purposes;**
- **who is liable to account for Maltese VAT and pay any Maltese VAT due and the applicable Maltese rate of VAT or the reason for no Maltese VAT being payable.**

(10 marks)

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Question 19

The following scenario relates to one requirement.

Melissa, a certified fitness trainer, is a single parent who is ordinarily resident in Malta and domiciled in Malta. She is currently engaged in employment discussions with Jewel Limited (JL), a company registered in Malta which operates a chain of fitness centres situated both in Malta and overseas. She has been offered two different proposed remuneration packages by JL.

The first proposed remuneration package is only applicable if Melissa takes up employment with JL exclusively in Malta.

The first remuneration package consists of the following:

1. A basic salary of €26,000 per annum.
2. Statutory and other bonuses amounting to €3,000 per annum.
3. Standard health insurance cover, which is offered to all company employees. The annual premium payable by JL in this respect is €200 per employee.

The second proposed remuneration package is applicable if she takes up employment within a fitness centre situated in another EU country overseas under an employment contract for a period in excess of 12 months (whereby she would only be present in Malta for short vacations not exceeding ten days per annum).

The second remuneration package consists of the following:

1. A basic salary of €24,000 per annum.
2. Statutory and other bonuses amounting to €2,000 per annum.
3. Payment of overseas private school fees amounting to €2,400 for Melissa's child.
4. Premium health insurance cover (instead of the standard health insurance which is offered to all other employees), for which the annual premium payable by JL in relation to Melissa would be €900.
5. An annual travelling cash allowance of €1,000, plus full reimbursement by JL of Melissa's travel expenses for one return trip per annum to Malta, at a cost to the employer of €900.
6. Free meals during lunchtime on working days at the fitness centre's own in-house catering facility, the cost of which to JL is estimated at €800 per annum. There is no part of the catering facility which is reserved for the use of staff. At normal customer prices, this benefit is valued at €1,900 per annum.

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Requirement:

Calculate Melissa's annual net cash salary (i.e. after Malta tax) under each of the two proposed remuneration packages, assuming that she will remain ordinarily resident in Malta and she selects the most beneficial tax options available to her.

Note: You should ignore social security contributions and any foreign taxes.

(10 marks)

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Question 20

The following scenario relates to one requirement

Balluta Limited is a company registered in Malta. It provided the following information relating to its profit or loss for the financial year ended 31 May 2025:

	Note	€	€
Turnover			650,000
Cost of sales			(346,000)
Gross profit			**304,000**
Other income			
Dividend income	1	184,000	
Interest income	2	12,000	
Rental income	3	18,500	
			214,500
			518,500
Administrative and other expenditure			
Advertising and marketing	4	(9,400)	
Audit fees		(5,000)	
Depreciation of property, plant and equipment	5	(14,400)	
Foreign exchange loss	6	(2,200)	
Impairment charge in respect of irrecoverable/impaired debts	7	(7,300)	
Insurance premium costs	8	(3,700)	
Interest expense	9	(12,300)	
Legal and professional fees	10	(6,500)	
Repairs and maintenance of premises	11	(4,200)	
Telecommunications charges		(1,900)	
Travelling costs		(4,800)	
Utility costs		(2,100)	
Wages and salaries		(120,000	
			(193,800)
Profit before tax			**324,700**

Notes:

(1) Dividend income is stated gross of tax and comprises:

	€
Dividends received from untaxed account of distributing company	20,000
Dividends received from immovable property account of distributing company – taxed at 35%	140,000
Dividends received out of tax exempt profits which remain exempt in the hands of shareholders	24,000
	184,000

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(2) Interest income comprises:

	€
Bank interest net of withholding tax in terms of the investment income provisions	10,000
Interest charged on overdue trade debtor balances	2,000
	12,000

(3) Rental income represents rent received in respect of a retail outlet which the company owns and rents out to an unrelated third party at €20,000 per year. The income is reported net of €1,500 ground rent payable by the company on the same retail outlet. The company does not elect to apply the final tax regime in respect of its rental income.

(4) Advertising and marketing expenditure includes a donation amounting to €2,500 made to a charitable institution.

(5) The depreciation expense of €14,400 in the accounts comprises a loss on disposal of a motor vehicle amounting to €3,900, and a depreciation charge on property, plant and equipment of €10,500, calculated as follows:

	Cost	Depreciation up to FY2024	Depreciation up to FY2025	Proceeds on disposal	Loss on disposal
	€	€	€	€	€
Computer equipment	12,000	6,000	3,000		
Non-commercial Motor Vehicle 1	16,000	8,000	0	4,100	3,900
Non-commercial Motor Vehicle 2	30,000	15,000	7,500		
			10,500		**3,900**

The property, plant and equipment was acquired in the year of assessment 2024, and there have been no additions or disposals of these assets since then, other than the disposal of Motor Vehicle 1.

(6) The foreign exchange loss is comprised of:

	€
Realised foreign exchange loss	2,400
Unrealised foreign exchange loss	3,100
Unrealised foreign exchange gain	(3,300)
	2,200

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(7) The impairment charge in respect of irrecoverable/impaired debts is broken down as follows:

	€
Irrecoverable debt written off	3,100
Impairment charge in respect of a specific impaired debt	4,200
	7,300

(8) Insurance premium costs for the year of €3,700 relate to the general business operations of the company.

(9) The interest expense comprises:

	€
Bank overdraft interest	7,300
Interest charged by the Commissioner on late paid income tax	5,000
	12,300

(10) Legal and professional fees include €600 incurred in objecting to a provisional VAT assessment, and €1,500 paid in relation to a legal dispute with a former employee who was dismissed for misconduct. The remaining €4,400 is a retainer fee charged by the company's legal advisor.

(11) Repairs and maintenance of premises comprises:

	€
Repair costs in relation to the rented retail outlet	1,000
Maintenance of the company's operating premises	3,200
	4,200

Requirement:

Prepare a computation of the chargeable income of Balluta Limited for the year of assessment 2026.

Note: You should start the tax computation with the profit before tax figure of €324,700 and include all of the items referred to in the notes, indicating by the use of zero (0) any items for which no adjustment is required.

(15 marks)

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Question 21

The following scenario relates to two requirements.

Laura and Keith commenced a manufacturing/trading activity as a partnership on 1 March 2025. The partners have not elected to treat the partnership as a company for tax purposes. The partnership agreement states that they share profits and losses equally.

The results for the first financial period ended 31 December 2025 were as follows:

	€
Turnover	980,000
Cost of sales	(410,000)
Gross profit	**570,000**
Other income	25,000
	595,000
Administrative and other expenditure	(421,900)
Profit before tax	**173,100**

Other income

Other income comprises a one-off waiver of a loan granted by the partners to finance capital expenditure.

Administrative and other expenditure

Administrative and other expenditure comprises:

	Note	**€**
Motor vehicle running costs	1	34,400
Other expenses	2	63,200
Pension scheme and related expenses	3	22,400
Pre-trading expenses	4	33,500
Repairs and maintenance	5	32,100
Social security contributions	6	2,300
Wages and salaries	7	234,000
		421,900

Notes:

(1) Motor vehicle running costs include lease payments made during the year totalling €18,000 in respect of three leased commercial vehicles, and a penalty which is considered to be of a capital nature amounting to €7,000 since the partnership terminated these lease agreements early (in November 2025).

In replacement, the partnership purchased three commercial vehicles at a cost of €22,000 each and a non-commercial car for one of the partners (namely Laura) at a cost of €27,000. The three commercial vehicles and the car were delivered on 1 December

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2025 and immediately put at the disposal and use of the relevant employees (namely delivery staff) and Laura, respectively.

The employees and Laura are also allowed to use the motor vehicle for their private use. The remaining balance of €9,400 included in motor vehicle costs are running costs incurred during the year by the partnership in respect of its leased and owned vehicles (including fuel costs).

(2) Other expenses consist of the following:

	€
Client entertainment	18,500
Promotional materials	44,700
	63,200

(3) The pension related expenditure includes an amount of €18,000 contributed by the partnership to a pension fund which has been duly approved by the Commissioner for Tax and Customs. The balance of €4,400 was paid to an employee as compensation for injury - however, this amount should be recoverable from the partnership's insurers during 2026.

(4) Pre-trading expenses were incurred by Laura and Keith prior to the commencement of the partnership trading activity. The pre-trading expenses were as follows:

	€
Advertising expenses – incurred on 1 September 2024	19,400
Feasibility study costs – incurred on 1 June 2024	6,000
Staff training – incurred on 1 January 2024	8,100
	33,500

(5) Repairs and maintenance includes capital expenditure to refurbish the factory, consisting of €16,000 incurred on the installation of air conditioners within the factory, and €9,000 spent on fixtures and fittings. The balance of €7,100 was incurred on general routine maintenance.

(6) Social security contributions consist exclusively of the employer’s share of Class One contributions.

(7) Wages and salaries includes salaries paid to Laura and Keith of €60,000 each (covering the period 1 March to 31 December 2025). Any fringe benefits arising in the hands of the relevant employees and/or Laura in respect of the motor vehicles are not included in this expenditure category.

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Requirements:

(a) Calculate the chargeable trading income of the partnership for the year of assessment 2026.

Note: You should commence the computation with the profit before tax figure of €173,100 and include all of the items referred to in the notes, indicating by the use of zero (0) any items for which no adjustment is required.

(11 marks)

(b) Calculate the chargeable income which Laura and Keith are to declare in their personal income tax returns for the year of assessment 2026 in respect of the partnership.

(4 marks)

(15 marks)

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