Suggested solution

Section A

1 A and C

Property which is assigned between spouses consequent to a judicial or consensual separation is tax exempt.

Statements relating to transactions B and D are incorrect as they are both in principle taxable.

2 A

10 April 2025

The date of the tax invoice prevails since this is issued by no later than the 15th day of the month following the earlier of the date of delivery (30 March 2025) and the date of payment (15 March 2025).

3 B

Statements 2 and 3 are false because they both refer to Class Two social security contributions, which are applicable to self-employed/self-occupied individuals, rather than Class One, which applies to employed individuals.

Statement 4 is partially true, in that Class One social security contributions are generally calculated as a percentage of the individual's basic weekly wage, however they are subject to a cap.

Statement 1 is true.

4 €8,000

The correct answer is €8,000, i.e. only the €8,000 income received in Malta.

Mila is taxable on a source and remittance basis.

5 B, C and D

These are all mandatory details which must be included in a dividend certificate (warrant).

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6 A

€2,600 proceeds less tax written down value (€4,400 – 25%) = €700 balancing allowance

Full wear and tear allowances are given in the year of acquisition (despite being acquired halfway during 2025) and no wear and tear allowances are given in the year of disposal (despite being sold on the last day of the year).

7 D

First tax year of assessment is 2026, covering basis period ended 31 December 2025.

The tax return due date (and any related settlement tax due date) is 30 June 2026.

8 €20,000

€20,000 dividend income is the chargeable income as the participation exemption is disapplied due to tax deduction claimed by ForeignCo.

9 B and D

Costs of a corporate reception organised to entertain the company's most important and loyal customers and costs of a company's annual festive staff party are both blocked from VAT recovery (i.e. they are not deductible).

10 A

Bonds do not participate in the profits of the company and their return is limited to a fixed rate of return; as such, they fall outside the scope of the charge to income tax on capital gains. Therefore, the income tax payable is €0.

11 €7,785

€30,000/€100,000 x ((€100,000 x 35%) - €9,050) = €7,785 – exceeds application of non-resident rates on €30,000.

12 C

Statements 1, 3 and 4, are all true.

Statement 2 is false since the provisional tax instalments are of 20%, 30% and 50% respectively, instead of making three equal payments.

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13 A and B

The correct answers are A and B, as these two tax accounting allocations are correct.

Statements C and D are not correct. Income relieved by the participation exemption is now allocated to the Untaxed account, albeit until a few years ago it was allocated to the final tax account.

Income subject to the 15% tax regime for rental income is allocated to the final tax account.

14 A

	€
Consideration	680,000
Cost of acquisition adjusted for inflation	(528,800)
Improvements	(40,000)
Maintenance allowance (0.4% x 5 years x 500,000)	(10,000)
Chargeable capital gain	**101,200**

Income tax charge on the capital gain at 35% = €35,420

Capital gains tax regime applies, rather than property transfer tax regime, because the property in question in situated outside Malta.

15 C

Tourist accommodation is subject to 7% VAT, whereas electricity is subject to 5% VAT. Effective 2024, securities management is subject to 12% VAT.

Water services are exempt without credit when supplied by a public authority and are otherwise VAT taxable at the standard rate.

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Section B

Question 16

Regal Limited

Income tax computation for the year of assessment 2026		
	Participation exemption applies	**Participation exemption does not apply**
	€	**€**
Dividend from company resident in Spain	0	24,000
Capital gain on disposal of company resident in Spain	0	100,000
Dividend from company resident in the BVI	0	50,000
Dividend from company resident in Luxembourg	12,000	
Interest income		90,000
	12,000	**264,000**
Relieved by participation exemption	(12,000)	
FRFTC (25% x €264,000)		66,000
Less: deductible expenditure (€28,000 x €264,000/(€264,000+€12,000))		(26,783)
Chargeable income		**303,217**
Tax @ 35%		106,126
Less FRFTC		(66,000)
Tax payable		**40,126**

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Question 17

John and Anna – Chargeable capital gains

Calculation of market value percentage applicable to John's shares:

Y = (0.4 x A) + (0.2 x B) + (0.4 x C)

= (0.4 x 20%) + (0.2 x (400 x 2)/(400 x 2) + 1,600) + (0.4 x 20%)

= (0.4 x 20%) + (0.2 x 33.33%) + (0.4 x 20%)

= 22.67%

Calculation of market value percentage applicable to Anna's shares:

Y = (0.4 x A) + (0.2 x B) + (0.4 x C)

= (0.4 x 80%) + (0.2 x 1,600/(400 x 2) + 1,600) + (0.4 x 80%)

= (0.4 x 80%) + (0.2 x 66.67%) + (0.4 x 80%)

= 77.33%

Calculation of the market value of the shares in Sala Limited:

	€	**€**
Net asset value as per financial statements at 30 November 2025		224,000
Adjustment in respect of value of immovable property		
Market value of immovable property	600,000	
Cost of immovable property	(324,000)	
		276,000
Goodwill adjusting (working)		98,600
Market value of shares		**598,600**

Working – goodwill adjustment:

Profit before tax for the year ended	**€**
30 November 2021	44,000
30 November 2022	47,400
30 November 2023	49,800
30 November 2024	51,200
30 November 2025	54,100
	246,500
2/5ths thereof	98,600

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Calculation of chargeable capital gain made by John:

	€	€
Market value (22.67% x €598,600)	135,703	
Consideration (€280 x 400 shares)	112,000	
Higher of consideration and market value (being a transfer of a controlling interest)		135,703
Less: Cost of acquisition		(400)
Chargeable capital gain		**135,303**

Calculation of chargeable capital gain made by Anna:

	€	€
Market value (77.33% x €598,600)	462,897	
Consideration (€280 x 1,600 shares)	448,000	
Higher of consideration and market value (being a transfer of a controlling interest)		462,897
Less: Cost of acquisition		(1,600)
Chargeable capital gain		**461,297**

Tutorial note: both transfers constitute a transfer of a controlling interest for tax purposes on the basis that: John's shares are vested with 33.33% voting rights; Anna's shareholding is 80%.

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Question 18

Value added tax (VAT)

Scenario number	Nature of transaction	Place of transaction – Malta or outside Malta	Person liable to account for/pay Malta VAT	Applicable Malta VAT rate or reason why no Malta VAT is chargeable
1	Intra-Community acquisition	Malta	HL	0% (food for human consumption is exempt with credit)
2	Importation	Malta	QL	5% (reduced rate applicable to printed matter)
3	Supply of services	Malta	Polish supplier *(Tutorial note: reverse charge is disapplied as supplier is established in Malta)*	18%
4	Supply of services	Malta	LL	18%
5	Supply of services	Germany *(Tutorial note: service in connection with immovable property situated in Germany)*	Not applicable (place of supply is Germany)	No Malta VAT is chargeable (place of supply is Germany)

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Question 19

Melissa

First remuneration package (Malta-based)	**€**
Basic salary	26,000
Bonuses	3,000
Standard health insurance	0
Annual chargeable income	**29,000**
Malta tax charge at parent rates (€29,000 x 25% less €3,050)	(4,200)
Chargeable income after tax	**24,800**
Net cash salary (i.e. after Malta tax)	**24,800**

Second remuneration package (overseas-based)	**€**
Basic salary	24,000
Bonuses	2,000
School fees	2,400
Premium health insurance (€900 – (€200 x 3) exempt portion)	300
Travelling allowance	1,000
Paid return trip to Malta	900
Free lunches (€1,900 – (€700 in-house benefit reduction)	1,200
Annual chargeable employment income	**31,800**
Malta tax charge at parent rates (€31,800 x 25% less €3,050) = €4,900	
Malta tax charge at overseas employment rate (most beneficial) ((€31,800 x 15%)	(4,770)
Chargeable income after tax	**27,030**
Less: non-cash income items	
School fees	(2,400)
Health insurance	(300)
Paid return trip to Malta	(900)
Free lunches	(1,200)
Net cash salary (i.e. after Malta tax)	**22,230**

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Question 20

Balluta Limited

Income tax computation for year of assessment 2026 (basis year ended 31 May 2025)

Adjustment of profit per financial statements for tax purposes	**€**	**€**
Profit before tax as per financial statements		324,700
Add back:		
Charitable donation (note 4)	2,500	
Depreciation (note 5)	10,500	
Loss on disposal of motor vehicle (note 5)	3,900	
Foreign exchange losses (note 6)		
Realised foreign exchange losses	0	
Unrealised foreign exchange loss	3,100	
Unrealised foreign exchange gain	(3,300)	
Irrecoverable/impaired debts (note 7)		
Irrecoverable debt written off	0	
Impairment charge in respect of a specific impaired debt	4,200	
Interest expense (note 9)		
Bank overdraft interest	0	
Interest on late paid income tax	5,000	
Legal fees (note 10)	0	
Repair costs in relation to the rented retail outlet (note 11)	1,000	
		26,900
Deduct:		
Dividends (note 1)		
IPA dividends	0	
Untaxed dividends	(20,000)	
Exempt dividends (FTA)	(24,000)	
		(44,000)
Interest (note 2)		
Interest subject to final tax	(10,000)	
Interest charged on overdue trade debtor balances	0	
Further 20% deduction against rental income (note 3)	(3,700)	
Wear and tear allowances (note 5)		
Computer equipment (25% x €12,000)	(3,000)	
Non-commercial Motor Vehicle Two (20% x €14,000 capped cost)	(2,800)	
Balancing allowance (working)	(4,812)	
		(24,312)
Chargeable trading income		**283,288**

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Working – balancing allowance:

	€
Original capped cost	14,000
Wear and tear allowances (2 years x 20% x €14,000)	(5,600)
Tax written down value	**8,400**
Proceeds on disposal (capped) (€4,100 x €14,000/€16,000)	(3,588)
Balancing allowance	**4,812**

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Question 21

Laura and Keith

(a)

Partnership computation of chargeable trading income for the year of assessment 2026

	€
Profit before tax as per financial statements	173,100
Add back:	
Lease expense (commercial motor vehicles)	0
Penalty for termination of lease (capital nature)	7,000
Motor vehicle running costs	0
Client entertainment	0
Promotional materials	0
Compensation expense recoverable from insurance	4,400
Contribution to approved pension fund	0
Advertising expenses incurred six months prior to 1 March 2025	0
Feasibility study costs incurred nine months prior to 1 March 2025	6,000
Staff training incurred 14 months prior to 1 March 2025	0
Capital expenditure – air conditioners	16,000
Capital expenditure – fixtures and fittings	9,000
General routine maintenance	0
Social security contributions	0
Wages and salaries	0
Less:	
Waiver of loan	(25,000)
Wear and tear allowances:	
Commercial motor vehicles ((3 x €22,000)/5)	(13,200)
Non-commercial motor vehicle (€14,000 capped/5)	(2,800)
Air conditioners (€16,000/6)	(2,667)
Fixtures and fittings (€9,000/10)	(900)
Chargeable trading income	**170,933**

(b)

Chargeable income from partnership for Laura and Keith (year of assessment 2026)

	Laura	Keith	Total
	€	€	€
Share of chargeable trading income	85,467	85,467	170,933
Partners' salaries	60,000	60,000	120,000
Vehicle fringe benefit (working)	259		259
	145,726	**145,467**	**291,192**

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Working – calculation of Laura's vehicle fringe benefit:

	€
Car use value – 17% x €27,000	4,590
Car use value – 3% x €27,000	810
Fuel value – 3% x €27,000	810
	6,210
Private use at 50% (annual value)	3,105
Pro rata value (chargeable fringe benefit – 1/12 thereof	259

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Mark scheme

Section A

Questions 1 – 15 (all questions worth two marks)

Maximum 30 marks

Section B

Question 16

a	Regal Limited – Income tax computation for year of assessment 2026:	
	Dividend – Spain	1
	Capital gain – Spain	1
	Dividend – BVI	1
	Dividend – Luxembourg	1
	Interest income	1
	Participation exemption	1
	FRFTC calculations	2
	Deductible expenditure	1
	Tax calculation	1
Total 10 marks		

Question 17

	John and Anna – Chargeable capital gains:	
	Calculation of MV percentage – John	1
	Calculation of MV percentage – Anna	1
	Calculation of market value of shares in Sala Limited:	
	- Net asset value	0.5
	- MV – immoveable property	0.5
	- Cost – immoveable property	1
	Working – goodwill adjustment:	
	- Profit before tax	1
	- Calculation of 2/5ths	1
	Calculation of chargeable gains – John:	
	- MV	0.5
	- Consideration	0.5
	- Higher of MV and consideration	0.5
	- Cost of acquisition	0.5
	Calculation of chargeable gains – Anna:	
	- MV	0.5
	- Consideration	0.5
	- Higher of MV and consideration	0.5
	- Cost of acquisition	0.5
Total 10 marks		

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Question 18

	Value added tax (VAT):	
	Intra-Community acquisition	2
	Importation	2
	Supply of services (NL)	2
	Supply of services (LL)	2
	Supply of service (PL)	2
Total 10 marks		

Question 19

	Melissa:	
	First remuneration package (Malta):	
	- Basic salary	0.5
	- Bonuses	0.5
	- Standard health insurance	0.5
	- Tax at parent rate	0.5
	Second remuneration package (overseas):	
	- Basic salary	0.5
	- Bonuses	0.5
	- School fees	0.5
	- Premium health insurance	1
	- Travelling allowance	0.5
	- Return trip	0.5
	- Free lunches	1
	- Tax at parent rates	0.5
	- Most beneficial approach	0.5
	- Tax at overseas employment rates	0.5
	- Deductions (0.5 each)	2
Total 10 marks		

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Question 20

	Balluta Limited – Income tax computation for year of assessment 2026:	
	Adjustment of profits	
	- Charitable donation	0.5
	- Depreciation	0.5
	- Loss on disposal – motor vehicles	0.5
	- Foreign exchange losses	1.5
	- Irrecoverable/impaired debts	1
	- Interest expense	1
	- Legal fees	0.5
	- Repair costs	1
	- Dividends	1.5
	- Interest income	2
	- Rental income	1
	- Wear and tear allowances	2
	Working – balancing allowance:	
	- Original capped cost	0.5
	- Wear and tear allowances	0.5
	- Proceeds on disposal (capped)	1
Total 15 marks		

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Question 21

a	Laura and Keith - Partnership computation of chargeable trading income for year of assessment 2026:	
	Lease expense	0.5
	Penalty – termination of lease	0.5
	Motor vehicle – running costs	0.5
	Client entertainment	0.5
	Promotional materials	0.5
	Compensation expense	1
	Pension fund	1
	Advertising	0.5
	Feasibility study costs	0.5
	Staff training	0.5
	Air conditioners	0.5
	Fixtures and fittings	0.5
	General routine maintenance	0.5
	Social security contributions	0.5
	Wages and salaries	0.5
	Waiver of loan	0.5
	Wear and tear allowances (0.5 each)	2
Maximum 11 marks		
b	Chargeable income from partnership for year of assessment 2026:	
	- Share of chargeable trading income	0.5
	- Partners salaries	0.5
	Working – Laura's vehicle fringe benefit	
	- Car use value – 17%	0.5
	- Car use value – 3%	0.5
	- Fuel value – 3%	0.5
	- Private use	0.5
	- Pro-rata value	1
Maximum 4 marks		
Total 15 marks		

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