

Fundamentals Level – Skills Module

# Taxation (Malta)

Thursday 7 December 2017



**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.**

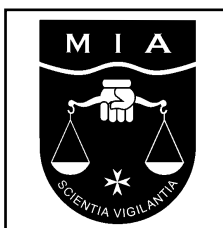
**Do NOT record any of your answers on the question paper.**

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

# Paper F6 (MLA)

Think Ahead

**ACCA**



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 2016 (year of assessment 2017) 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	700	0%
701	3,100	20%
3,101	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:

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

1983	428.06	2000	607.07
1984	426.18	2001	624.85
1985	425.17	2002	638.54
1986	433.67	2003	646.84
1987	435.47	2004	664.88
1988	439.62	2005	684.88
1989	443.39	2006	703.88
1990	456.61	2007	712.68
1991	468.21	2008	743.05
1992	475.89	2009	758.58
1993	495.60	2010	770.07
1994	516.06	2011	791.02
1995	536.61	2012	810.16
1996	549.95	2013	821.34
1997	567.95	2014	823.89
1998	580.61	2015	832.95
1999	593.00	2016	838.29

### 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.

### 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	Percentage of vehicle value	
Vehicle not more than six years old	17%	
Vehicle more than six years old	10%	
<b>Fuel value</b>		
Vehicle value not exceeding €28,000	3%	
Vehicle value exceeding €28,000	5%	
<b>Maintenance value</b>		
Vehicle value not exceeding €28,000	3%	
Vehicle value exceeding €28,000	5%	
<b>Private use percentage</b>		
<b>Car value</b>		
From	To	
€	€	
0	16,310	30%
16,311	21,000	40%
21,001	32,620	50%
32,621	46,600	55%
46,601 and over		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** The following scenarios all relate to value added tax (VAT) and are independent from one another.

- (a) Happy Shoppers Limited (HSL), which operates an independent supermarket in Malta, procures a range of food products from Switzerland. The food products are despatched directly from the supplier in Switzerland and brought into Malta by HSL for sale to customers in its supermarket. (3 marks)
- (b) The operator of a private primary school in Malta is evaluating the possibility of expanding internationally and for this purpose has procured the services of a consultancy firm established in Italy. The Italian consultancy firm does not have any place of establishment or VAT registration in Malta. The consultancy firm invoices the primary school operator directly for its services. (3 marks)
- (c) Tax Accountants Limited (TAL) is a boutique company in Malta offering a range of tax services to both local and international private clients. More specifically, TAL provides the following services:
- (i) Personal income tax return preparation services to Joe Borg, a private individual who is established in Malta.
  - (ii) Personal income tax advisory services to Philip Vachon, a private individual who is established in France.
  - (iii) Personal income tax advisory services to Matt Conway, a private individual who is established in Canada. (4 marks)

**Required:**

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

- **State whether the transaction is a supply of goods, a supply of services, an intra-EU acquisition or an importation.**
- **State the place where the transaction is deemed to take place for value added tax (VAT) purposes.**
- **Where applicable, state who is the person liable to account for VAT and pay any VAT due.**
- **State the applicable Maltese rate of VAT or, if no Maltese VAT is payable, state the reason.**

Note: The mark allocation is shown against each of the scenarios.

**(10 marks)**

- 2 Vic Vella is ordinarily resident and domiciled in Malta. In 2017, Vic undertook the following capital transactions:
1. Sold his shareholding in a Maltese public company listed on the Malta stock exchange for €23,000. Vic had acquired this shareholding in 2011 for €19,400 via a purchase transaction on the Malta stock exchange.
  2. Sold all the intellectual property rights he owned in respect of a literary work to a foreign publishing company for €20,000. Vic had written the literary work in 2010.
  3. Sold an authentic antique watercolour painting for €7,000. Vic had inherited this painting in 2009, at which time it was valued at €4,800.
  4. Sold long-term Malta government bonds bearing a coupon rate of 1.5% for €17,500. Vic had purchased these bonds in 2015 for €15,000.
  5. Sold 3.5% cumulative preference shares issued by a Maltese private company, which is not listed on any stock exchange, for €16,600. He had purchased these shares during 2014 for €13,200.
  6. Sold his 50% shareholding in a Maltese private company, VR Limited (VRL), for €250,000. Vic formed VRL together with his sister Rose, in 2010, when the company was incorporated with a fully paid-up ordinary share capital of €100,000, which Vic and Rose had subscribed for in equal shares at nominal value. All the ordinary shares in VRL confer equivalent voting rights and rights to profits available for distribution. At 31 December 2016, VRL's balance sheet shows a net asset value of €450,000 and its annual profits over the last five full financial years have averaged €30,000. VRL owns an investment property in Malta. This property is recorded in VRL's books at the historical cost of €215,000 but was valued at €320,000 at the date of the disposal of the shares.

Vic pays tax at the marginal personal tax rate of 35%.

**Required:**

**Calculate the chargeable capital gain and tax payable by Vic Vella in respect of each of the above capital transactions. Where an election is available, you should assume that Vic will choose the treatment which results in the lowest tax liability. For any transaction which is exempt from tax or otherwise not subject to tax, state the reason.**

Note: Ignore the effect of any available inflation allowance.

**(10 marks)**

**3** Ibragg Limited (IL) is a trading company registered in Malta. IL's net profit before tax as per its financial statements for the year ended 30 June 2016 is €35,400. This figure was arrived at after taking into account the following items of other income:

- (1) Unrealised foreign exchange gains totalling €1,200.
- (2) Bad debts recovered of €600.
- (3) The profit on the sale of an item of furniture purchased on 1 August 2015 for €1,500 and disposed of on 31 May 2016 for €1,650

The administrative expenses deducted in arriving at the profit figure include the following:

- (i) Payments of a voluntary nature amounting to €1,000.
- (ii) An administrative penalty of €500 levied against the company by the VAT Department in respect of an omission from its value added tax (VAT) returns, and interest on late paid VAT of €120.
- (iii) An increase in the provision for dilapidations expense of €2,500.
- (iv) A specific provision in respect of a doubtful debt of €2,000, an increase in the general provision for doubtful debts of €1,100, and bad debts written off of €300.
- (v) Lease charges of €12,000 paid in respect of a non-commercial motor vehicle with an official list price of €36,000.
- (vi) Cleaning expenses of €250 in respect of which no VAT invoice or receipt has been issued to Ibragg Limited.

**Required:**

**Calculate the chargeable income of Ibragg Limited for the year of assessment 2017.**

**Note:** You should start the computation with the net profit before tax figure and list all of the items referred to in the question, indicating by the use of zero (0) any which do not require adjustment for tax purposes.

**(10 marks)**

- 4 Natasha Formosa is ordinarily resident and domiciled in Malta; her marginal rate of income tax is 35%. During the year ended 31 December 2016, Natasha entered into the following transactions concerning immovable property:
- (1) On 1 February 2016, Natasha sold a terraced house located in Gozo for €260,000. This property had been inherited by her on 15 March 2012, at a declared value of €195,000.
  - (2) On 20 June 2016, Natasha assigned a right which she had obtained in terms of a promise of sale (*konvenju*) in relation to immovable property situated in Malta, which she had originally entered into on 15 December 2015. Natasha made a gain of €2,500 on this assignment.
  - (3) On 14 August 2016, Natasha disposed of an investment property in Sicily for €290,000. This property had been acquired on 1 January 2009 for €186,000. On 1 January 2016, improvements to the property were undertaken at a cost of €25,000.
  - (4) On 15 October 2016, Natasha disposed of an apartment situated in Malta for €450,000. Natasha paid brokerage fees of €26,550 in relation to this sale, which fees were duly recorded and verified by the notary on the deed of transfer. The apartment had been acquired on 30 May 2008 for €305,000.

**Required:**

**With respect to each of the transactions (1) to (4) above, calculate the tax payable in Malta by Natasha Formosa.**

**(10 marks)**



- 5 Paula and Kevin are a married couple, who were both born and raised outside Malta. They do not have any children. Effective 1 January 2016, they moved to Malta to take up residence.

Paula managed to secure an employment in Malta with a Maltese retail commercial bank prior to her relocation to Malta. She took up this position from 1 January 2016, and her remuneration package for 2016 consisted of the following:

1. A basic gross salary of €75,000 per annum.
2. The exclusive use of a brand new company car purchased by her employer for €44,000. The fuel costs for this car are paid directly by Paula and are not reimbursed.
3. Comprehensive worldwide health insurance for which her employer pays a premium of €1,600 per annum. All other employees of the bank benefit from a domestic health insurance policy with a premium cost of €350 per annum per employee.
4. A business mobile phone contract costing the employer €90 per month.
5. Provision of an interest-free loan of €30,000 to Paula immediately upon the commencement of the employment. The main refinancing rate of the Central Bank of Malta at the end of 2015 is to be taken as having been 2.5%.
6. Fully paid enrolment on a professional training programme relevant to her employment costing €3,200. Paula successfully completed this course during 2016 and, in recognition of this achievement, her employer paid Paula an award of €2,500 on 31 December 2016.

Kevin works as a freelance IT consultant. For this purpose on his arrival in Malta, he rented a small unfurnished office in Malta for €5,000 per annum, and purchased furniture costing €2,800 and computer equipment costing €3,200 to enable him to conduct his business effectively. Kevin did not incur any other expenses in connection with his IT consultancy activities.

In 2016, Kevin's revenue from providing IT consultancy services amounted to €105,000. In addition, with effect from 1 April 2016, he was appointed a non-executive director of a Maltese online trading company, for which he receives a director's fee of €1,000 per month.

In addition to the above, Paula and Kevin received the following income during 2016:

- (i) Gross interest income of €4,500 from a long-term deposit in a UK bank. Withholding tax at the rate of 10% was levied on this income. The net interest was received in the couple's current account with the same UK bank, and was not remitted to Malta.
- (ii) Gross dividend income from shares in a French trading company amounting to €7,000. No French 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.
- (iii) On 1 November 2016, Paula and Kevin sold their former residential property situated outside Malta. They had jointly purchased this property in 2013 for €420,000 and sold it for €510,000, crystallising a capital gain of €90,000. Of the proceeds from the sale of this property, €300,000 was used to pay off the outstanding balance of a mortgage they had taken out outside Malta, and the remaining €210,000 of the proceeds transferred to the couple's jointly held bank account in Malta.
- (iv) On 31 December 2016, Paula and Kevin received local gross interest of €2,200 in respect of their bank account in Malta, from which the bank withheld tax at source in terms of the investment income provisions.

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

**Required:**

**Calculate the total chargeable income of and total tax payable by Paula and Kevin for the year of assessment 2017 using the most beneficial method of tax computation.**

**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.

**(15 marks)**

6 Valley Holdings Limited (VHL) is a company which was registered in Malta on 10 January 2016. VHL is managed and controlled in Malta, and is owned by two individual shareholders who are not resident in Malta and not domiciled in Malta.

VHL owns 100% of Valley Operations Limited (VOL), which was registered in Malta on 15 March 2016, and is managed and controlled in Malta.

During its first financial year ended 31 December 2016, VOL derived the following streams of income:

1. Chargeable income from local trading operations within the Maltese market of €185,000.
2. Income from foreign trading operations within the Swiss market which is attributable to a permanent establishment in Switzerland, and which suffered tax in Switzerland at the rate of 4%. The gross chargeable income (before Swiss tax) from this source amounted to €120,000.
3. Income from foreign trading operations within the South African market, which is not attributable to a permanent establishment situated outside Malta. The gross chargeable income (before foreign tax) from this source amounted to €65,000. Foreign taxes of €1,400 were suffered in relation to this income, for which double taxation relief (treaty relief) is available and will be claimed.
4. Gross dividends (before foreign tax) of €20,000 from a 5% ordinary shareholding in Africa Trading Limited (ATL), a trading company domiciled and tax resident outside the European Union (EU), which carries on trading activities outside Malta. Each ATL ordinary share confers a full right to profits available for distribution and to assets available for distribution on a winding up, but carries very limited voting rights. ATL is not a property company. Foreign withholding tax at the rate of 2% was suffered on this dividend. VOL's 5% shareholding in ATL was acquired on 15 January 2016 for €1,500,000.
5. Foreign source investment income received in Malta, which constitutes passive interest and royalties, amounting to €40,000. No evidence of any foreign tax being paid on this income is available, and the company's directors have indicated that they wish to avail of the flat rate foreign tax credit (FRFTC).

**Additional information:**

- (i) On 30 December 2016, VOL sold its 5% shareholding in ATL (as in (4) above) for €1,900,000. No foreign tax was suffered on this share disposal.
- (ii) VOL operates from business premises which it owns in Malta, having a total floor surface area of 220 square metres.
- (iii) Where applicable, VOL will opt to apply the participation exemption.
- (iv) VOL did not have any other income or expenditure during the year 2016.
- (v) VOL will distribute all of its after-tax profits for the year ended 31 December 2016 by way of dividend to VHL. VHL has been duly registered with the Commissioner for Revenue for the purposes of making claims for tax refunds.

**Required:**

**(a) In respect of Valley Operations Limited (VOL) for the financial year ended 31 December 2016:**

- identify the tax account to which each of its streams of chargeable income after tax will be allocated;
- calculate the total tax payable in Malta; and
- calculate the total amount to be allocated to the relevant tax accounts. (13 marks)

**(b) Calculate the income tax refunds, if any, claimable by Valley Holdings Limited on the distribution of VOL's after tax profits. (2 marks)**

**(15 marks)**

**End of Question Paper**