



MALTA
INSTITUTE
OF TAXATION

MIT COURSE ON TAXATION

2024-2025 MODULE B EXAMINATION PAPER

DATE: WEDNESDAY 8th JANUARY 2025

TIME: 17:00 - 19:15HRS (including 15 minutes reading time)

PREMISES: ST ALOYSIUS SIXTH FORM, B'KARA

INSTRUCTIONS:

1. The examination is held in accordance with the Course Regulation. No materials or reference books are to be brought into the examination hall save as allowed by the Regulations.
 2. Dark blue or black ball-point pens should be used.
 3. Use only one side of the writing paper provided. Insert your Index number, the Question number and the Page number on each page. Jottings and drafts are to be clearly cancelled. Please do not write underneath the last line on the writing paper.
 4. Candidates are to answer ANY TWO QUESTIONS.
 5. Each question carries 50 marks.
-

QUESTION 1

Kindly note that this question consists of three parts, and you are required to answer all of the questions included in each of the three parts.

Holdco limited ('Holdco') is a Malta registered company, the shares of which were inherited by five siblings (in equal proportion - 20% each) upon the demise of their father in 2021. The assets of Holdco mainly consist of shares held in a fully owned Malta subsidiary, Logiserv Limited ('Logiserv'), which provides logistical services; and office premises (the 'Property') which is rented to Logiserv. The total value declared by the siblings upon the causa mortis transmission of 100% shareholding in Holdco, for the purposes of the Duty on Documents and Transfers Act ('DDTA') was €2,000,000 (which was also equivalent to the fair market value at the time). None of the five siblings have children.

Matthew and Michael (two of the siblings) are considering several alternatives to divest of their respective 20% interest in the group (particularly the underlying operations of Logiserv) and have approached their other siblings to discuss these alternatives. The parties have engaged a third-party valuation expert who has established a commercial fair market value of Holdco at circa €3,000,000 (€1,200,000 being the fair market value of the Property and the remaining €1,800,000 attributable to Logiserv).

Holdco Limited

Statement of financial position as at 31st December 2024

Assets	€
Property (revalued in 2022)	1,000,000
100% shareholding in Logiserv	1,200,000
Current assets	150,000
Liabilities	
Current liabilities	150,000
Net Asset Value	2,200,000
Equity	
Issued Ordinary Share Capital (€1 per share)	1,500,000
Revaluation Reserve	200,000
Retained Earnings	500,000
Total Equity	2,200,000

Additional notes:

1. The Property was acquired by Holdco in 2019 for €800,000.
2. Current assets of Holdco comprise bank balances and short-term receivables from Logiserv. Current liabilities consist of short-term shareholder loans.
3. The average annual profit before tax of Holdco for the financial periods ending 2020–2024 amounts to €200,000. This amount includes an annual gross dividend of €150,000 received from Logiserv out of the latter's respective current year profits.
4. The net asset value of Logiserv on the basis of its Statement of Financial Position as at 31 December 2024 was €1,500,000; and the average annual profit before tax for the financial years 2020–2024 amounts to €250,000. Logiserv does not own any immovable property or any shareholding in any other company.

The alternatives being considered are the following:

Alternative 1:

Matthew and Michael would each transfer their respective 20% shareholding in Holdco to their other three siblings for a total consideration of €1,200,000 (€600,000 each);

Alternative 2:

Holdco would transfer its assets as follows: (i) the Property to Newco 1 (a company that will be incorporated by Matthew and Michael on a 50%-50% shareholding basis) for a consideration of €1,200,000; and (ii) its shares in Logiserv to Newco 2 (a company that will be incorporated by the other three siblings on a 33.33%-33.33%-33.33% shareholding basis) for a consideration of €1,800,000; and

Alternative 3:

The 600,000 ordinary shares held by Matthew and Michael; and €600,000 of the retained earnings, will be converted into 1,200,000 5% cumulative non-voting preference shares to be held (as to 600,000 each) by Matthew and Michael. Subsequent to the share capital restructuring, Matthew and Michael will only hold preference shares in Holdco, with the ordinary shares being held equally by the other three siblings.

Assume that the transaction will be effected in January 2025.

Required:

You have been approached to provide an outline of the applicable considerations in terms of the Income Tax Act ('ITA') on the three alternatives, specifically to:

Alternative 1

- i. Indicate whether the share transfers by Matthew and Michael in Holdco would, for the purposes of the Capital Gains Rules ('CGR'), constitute a transfer of a controlling interest or not, stating the reasons why
(3 marks)
- ii. Establish the deemed selling price on the basis of the methodology prescribed by the CGR
(14 marks)
- iii. Compute the chargeable capital gain for both Matthew and Michael
(5 marks)
- iv. Compute the Malta income tax liability for Matthew for year of assessment 2026 by applying the most favourable individual tax rates. In this regard it is noted that
 - a. Matthew is not married;

- b. Matthew earns director's remuneration of €48,000 per annum from Logiserv;
- c. Matthew generates rental income of €2,000 per month from the rental of a warehouse to a third party;
- d. the only other income derived during the year would be the capital gain (if any) derived from the share transfer in Holdco.

You are required to apply the individual tax rates included in Annex A.

(8 marks)

Any deduction of inflation allowance should be ignored.

Alternative 2

- v. Briefly comment on the Malta income tax treatment, and establish the tax liability (if any), in terms of Article 5A of the ITA, at the level of Holdco on the transfer of the Property to Newco 1

(6 marks)

- vi. Briefly comment on the Malta income tax treatment, and establish the tax liability (if any), in terms of Article 5 of the ITA, at the level of Holdco on the transfer of the shares in Logiserv to Newco 2

(6 marks)

Alternative 3

- vii. Briefly comment on the Malta income tax treatment, in terms of Article 5 of the ITA, on the share capital conversion (to preference shares) in Holdco. No computations are required

(8 marks)

[TOTAL: 50 marks]

QUESTION 2

Kindly note that this question consists of four parts, and you are required to answer all of the questions included in each of the four parts.

A: Invest SICAV plc ('Invest SICAV') is a Collective Investment Scheme licensed under the Investment Services Act. The shares in Invest SICAV are listed on the Malta Stock Exchange.

The assets of Invest SICAV comprise the following:

1. Immovable property situated in Malta;
2. Shares in a Malta registered company ('Maltaco');
3. Listed bonds in a Malta listed entity ('Bondco');
4. A bank account held with a Malta licensed bank; and
5. A small portfolio of foreign securities (the value of which never exceeds 10% of the value of the assets of the SICAV).

During 2024 Invest SICAV generated the following income / gains:

- A. Rental income from a third-party rental of the immovable property;
- B. Gain on the sale of shares in Maltaco to a third-party foreign investor;
- C. Interest from the bonds held in Bondco; and
- D. Bank interest

Required:

You are requested to provide brief comments on the Malta income tax considerations in relation to the following:

- i. The classification of Invest SICAV (prescribed vs non-prescribed), stating the reasons why;
(3 marks)
- ii. The income / gains derived by Invest SICAV in financial year 2024. You are required to indicate the rate of tax applicable to the respective income stream; and
(12 marks)
- iii. Any capital gain that may be derived by shareholders of Invest SICAV upon the eventual disposal of their shares
(3 marks)

B: The interaction between article 5(9) and 5(9A) of the ITA regulates the tax treatment of transfers of company shares between two qualifying group companies. You are required to provide an overview, of these provisions, making reference to the required criteria and instances in which these provisions would apply, providing examples where necessary.
(10 marks)

C: Martin is a married individual, ordinarily resident and domiciled in Malta. In 2024 he derived the following income and was involved in the following transactions:

- A. Directors' remuneration of €80,000 from his position as a director of a Malta registered company
- B. Martin is a 25% partner in Malta partnership (en nom collectif). In 2024 the partnership incurred a trading loss of €40,000 and has unutilised capital allowances of €30,000. The partnership has not made an election to be treated as a company for Malta income tax purposes
- C. Sale of a three-bedroom villa (situated in Malta) on 31 December 2024 for €1,300,000 (being its fair market value). Martin's father donated the villa to in 2018, and the

property acquisition value declared in the donation deed was €800,000. Martin also generated €2,500 monthly rent from the rent of the villa up until 31 December (being the date of the transfer). Martin had entered into a three-year lease agreement for the period 1 January 2022 – 31 December 2024

- D. Sale of bonds in a Malta public company on which Martin generated a gain of €10,000.

Required:

You are required to calculate Martin's Malta income tax liability for year of assessment 2025 clearly distinguishing between the tax charge computed at the individual progressive rates (as per Annex B) and the tax due in terms of any final tax system.

You should assume that

- i. Martin's spouse did not derive any income during 2024; and
- ii. Martin will opt of the most beneficial tax outcome

(14 marks)

D: Rentco Limited ('Rentco') is Malta registered company that owns a number of properties (situated in Malta) for rental purposes. In 2024 Rentco derived the following rental income from third parties:

- A. Office premises rented for €120,000 per annum. Rentco financed the acquisition of the office by a bank loan on which it incurred €80,000 interest in 2024;
- B. A warehouse rented for €50,000 per annum. The acquisition of the warehouse was financed through equity injected by the shareholders of Rentco.

Required:

You are requested to compute the tax liability for Rentco for year of assessment 2025 outlining the available options and highlight the most favourable Malta income tax outcome.

Assume that the rental income is considered to be 'passive income'.

(8 marks)

[TOTAL: 50 marks]

QUESTION 3

Kindly note that this question consists of four parts, and you are required to answer all of the questions included in each of the four parts.

A: Maria, a 62-year-old Malta resident individual, is the sole shareholder of M Limited ('ML'), a company incorporated under the laws of Malta in the 1990s. ML owns immovable property situated in Malta held for rental income and capital accretion.

On 15th December 2024, Maria, has completed the process of donating the bare ownership of her ordinary shares in ML to her children (descendants in the direct line), whilst retaining the usufruct on such ordinary shares.

ML did not acquire and/or dispose of any immovable property and / or any shares in other companies during 2024.

Maria approached you to briefly comment on the salient Malta income tax and duty considerations in terms of the ITA and DDTA relevant to the donation of the bare ownership of the ordinary shares and compute the tax and duty real market value applicable to the share donation. You should assume that the share donation does not meet all the necessary criteria required for the application of the 1.5% reduced duty rate applicable to share donations between qualifying family members.

(20 marks)

Refer to Annex C for the relevant usufruct rates

M Limited

Statement of financial position as at 31st December 2023

Assets	€
Investment property	4,000,000
Other assets	100,000
Liabilities	
Bank Loan	900,000
Other liabilities	150,000
Net Asset Value	3,050,000
Equity	
Issued Share Capital – Ordinary Shares	550,000
Issued Share Capital – Preference Shares	2,000,000
Retained Earnings	500,000
Total Equity	3,050,000

Additional notes:

1. The properties owned by the company have been recently revalued by an architect at €3,700,000;
2. ML has a 31st December financial year-end;
3. The bank loan of €900,000 financed the acquisition of the Investment Property currently owned by ML;
4. The Preference Shares have been allotted through the capitalisation of a Revaluation Reserve, which had resulted from the revaluation of the Investment Property;
5. ML's profit before tax figures are as follows:
 - FY19 €50,000
 - FY20 €55,000
 - FY21 €60,000
 - FY22 €60,000
 - FY23 €65,000

B: In 2015 Robert acquired 30% shareholding in a Malta Property company MP Limited ('MP') at a cost of €175,000. MRE's only assets consist of immovable property situated in Malta. Robert's shareholding constitutes a controlling interest for the purposes of the CGR solely by virtue of the fact that it represents at least 25% of the issued share capital of MP.

In December 2016 Robert settled a 20% shareholding in MP on trust for the sole and exclusive benefit of his only son Liam. The value of the 20% shareholding at the time of settlement was €230,000 and the trust deed specifically provided that Liam (as the sole beneficiary) has an irrevocable vested right to receive the 20% shareholding in MP settled in trust by his father.

In 2022 the Trustee distributed the 20% shareholding in MP to Liam, at which time the value was €380,000.

Liam is interested in investing in a crypto-currency and in order to raise the necessary liquidity, is considering divesting of his 20% shareholding in MP for €450,000, where the tax market value of 100% shareholding in MP at the time was €2,500,000.

Liam has requested you to provide a brief overview of the key Malta income tax and duty considerations in terms of the ITA and DDTA (supported by calculations where necessary) in relation to the proposed transfer of his 20% shareholding in MP, which is likely to be effected by end of December 2024.

In addition, Liam would also like to understand the key Malta income tax and duty considerations in terms of the ITA and DDTA applicable to the prior MP share transactions involving the trust and his father, namely:

- i. the settlement on trust by his father in 2016;
- ii. the distribution of the shares by the Trustee in 2022; and
- iii. The impact on his father transferring the remaining 10% shareholding in MP a few weeks after Liam's own transfer of the other 20% shareholding.

Any deduction of inflation allowance should be ignored.

(15 marks)

C: RealtyCo Limited ('RealtyCo') and InvestmentCo Limited ('InvestmentCo'), are two companies registered in Malta, and are contemplating entering into a joint venture arrangement, wherein each shall contribute assets to JointVentureCo Limited ('JVCo'), a company that would eventually be owned equally by RealtyCo and InvestmentCo.

JVCo, is the owner of a building (the 'Property') just acquired from a third party for its market value of €2,000,000, and due to be developed. RealtyCo is currently the sole shareholder of JVCo and financed the acquisition with €2,000,000 in funds for the allotment of shares in JVCo (2,000 ordinary shares of €1 each, at a premium of €1,998,000).

Immediately thereafter, InvestmentCo shall contribute shares listed on the Malta Stock Exchange (the 'Investments') to JVCo, and in exchange JVCo shall allot shares to InvestmentCo for the latter to become 50% shareholder in JVCo. InvestmentCo held the Investments as a capital asset, valued at €1,950,000 at the time of the share allotment, but expected to increase to €2,000,000 within a few months. The €1,950,000 capital increase in JVCo consisted of an allotment of 2,000 ordinary shares of €1 each at a premium of €1,948,000.

JVCo is a newly registered company in Malta with no prior activity, and the expected statement of financial position as at the key transaction steps shall be as follows:

JVCo Statement of financial position as at relevant dates (cash and share capital on incorporation have been disregarded)

	Property Acquisition	Investments Contribution
Assets	€	€
Property (at Fair Market Value)	2,000,000	2,000,000
Investments (at Fair Market Value)	0	1,950,000
Net Asset Value	2,000,000	3,950,000
Equity		
Issued Share Capital – RealtyCo	2,000	2,000
Issued Share Capital – InvestmentCo	0	2,000
Share Premium	1,998,000	3,946,000
Total Equity	2,000,000	3,950,000

In this regard you have been requested to briefly comment on the Malta income tax considerations in terms of the ITA (with computations where applicable) relevant to RealtyCo, InvestmentCo and JVCo, with regards to:

- i. The transfer of the Investments; and
- ii. The allotment of shares in favour of InvestmentCo

(10 marks)

D: The Malta Financial Intelligence Analysis Unit (FIAU) has published a factsheet on red flags and high-risk indicators of tax-related money laundering.

You are required to briefly contextualise and comment on one red-flag, by explaining in what circumstances the potential red flag is likely to be indicative of money laundering and/or terrorist financing and/or tax evasion, and whether there may be any justifying and/or mitigating factors to consider. Refer to practical (hypothetical) examples where possible.

(5 marks)

[TOTAL: 50 marks]

-----END OF PAPER-----

Annex A – Individual Tax Rates for 2025 (year of assessment 2026)

TAX RATES			
Chargeable Income (€)			
From	To	Rate	Subtract
Single Rates			
0	12,000	0%	0
12,001	16,000	15%	1,800
16,001	60,000	25%	3,400
60,001	and over	35%	9,400
Married Rates			
0	15,000	0%	0
15,001	23,000	15%	2,250
23,001	60,000	25%	4,550
60,001	and over	35%	10,550
Parent Rates			
0	13,000	0%	0
13,001	17,500	15%	1,950
17,501	60,000	25%	3,700
60,001	and over	35%	9,700

Annex B – Individual Tax Rates for 2024 (year of assessment 2025)

TAX RATES			
Chargeable Income (€)			
From	To	Rate	Subtract
Single Rates			
0	9,100	0%	0
9,101	14,500	15%	1,365
14,501	19,500	25%	2,815
19,501	60,000	25%	2,725
60,001	and over	35%	8,725
Married Rates			
0	12,700	0%	0
12,701	21,200	15%	1,905
21,201	28,700	25%	4,025
28,701	60,000	25%	3,905
60,001	and over	35%	9,905
Parent Rates			
0	10,500	0%	0
10,501	15,800	15%	1,575
15,801	21,200	25%	3,155
21,201	60,000	25%	3,050
60,001	and over	35%	9,050

Annex C

Age of the usufructuary	Percentage of the value of full ownership
where the usufructuary has not completed twenty years of age:	seventy per cent
where the usufructuary has completed twenty years of age but not thirty years:	sixty per cent
where the usufructuary has completed thirty years of age but not forty years:	fifty per cent
where the usufructuary has completed forty years of age but not fifty years:	forty per cent
where the usufructuary has completed fifty years of age but not sixty years:	thirty per cent
where the usufructuary has completed sixty years of age but not seventy years:	twenty per cent
where the usufructuary has completed seventy years of age:	ten per cent.