THE ADVANCED DIPLOMA IN INTERNATIONAL TAXATION

June 2026

MODULE 2.07 – MALTA OPTION

ADVANCED INTERNATIONAL TAXATION (JURISDICTION)

TIME ALLOWED – 3¼ HOURS

This exam paper has **three** parts: **Part A**, **Part B** and **Part C**.

You need to answer **five** questions in total. You will **not** receive marks for any additional answers.

You must answer:

- **Both** questions in **Part A** (25 marks each)
- **One** question from **Part B** (20 marks)
- **Two** questions from **Part C** (15 marks each)

Further instructions

- All workings should be made in Euros, unless otherwise stated. Any monetary calculations should be made to the nearest whole Euro. Any necessary time apportionments in your calculations should be made to the nearest whole month.
- You must provide appropriate line breaks between each question, and clearly indicate the start of each new question using the formatting tools available.
- Marks may be allocated for clarity of presentation of your answers.
- The time you spend answering questions should correspond broadly to the number of marks available for that question. You should therefore aim to spend approximately half of your time answering Part A, and the other half answering questions in Parts B and C.
- There is no separate reading time, so you can start typing your answers as soon as the exam begins. However, we recommend that you set aside some time to thoroughly read each question and plan each of your answers.

For your information this paper includes:

Car Fringe Benefit Rates

PART A

You are required to answer BOTH questions from this Part.

1. EuroBridge Enterprises Ltd (EBE) is a company that was incorporated in Luxembourg in 2021.

While EBE is legally domiciled in Luxembourg, it operates from Malta, where its directors reside, all strategic decisions are taken, all accounting records are kept, and its employees – except for those based in its permanent establishment (PE) in the Netherlands – work from a rented office in Malta. EBE is duly empowered to claim the flat rate foreign tax credit.

During the applicable tax year, EBE recorded the following income and expenses:

<u>Income</u>

- A €180,000 dividend from Baltic Green Energy SE, a company registered in Estonia (EU) in which EBE owns 12% of shares. The dividend was exempt from tax in Estonia, and was received into EBE's Maltese bank account.
- A €900,000 gain on the disposal of shares in a Norwegian (non-EU) carbon capture company, in which EBE holds an 8% equity interest albeit no voting rights. The proceeds were received into a Luxembourg bank account.
- €260,000 royalty income from licensing software to a subsidiary incorporated and resident in Germany (EU). This was paid into EBE's Maltese account. No foreign tax paid was paid on this royalty income.
- €400,000 trading income attributable to EBE's PE in the Netherlands (EU). This was not remitted to Malta.
- €90,000 rental income from a warehouse in Romania (EU), paid by a tenant resident in Romania into a Luxembourg bank account.

<u>Expenses</u>

- Salaries of €240,000, attributable equally to the head office in Malta and the Netherlands PE.
- Rent of €50,000, of which €10,000 related to the Valletta office and the remaining €40,000 to the Netherlands PE's premises.
- Intellectual property amortisation of €60,000 which relates to the software that is licenced to the subsidiary in Germany.
- Interest of €35,000 on a bank loan used to acquire the Netherlands PE's assets.
- Legal fees of €25,000 which pertained exclusively to the Malta head office.
- Wear and tear allowances of €45,000, of which €10,000 related to the Malta head office and the remaining €35,000 to the Netherlands PE's assets.
- Municipal taxes in the Netherlands of €28,000.

You are required to allocate each income and expense item to the correct Maltese tax account, and compute EBE's Maltese tax liability. You should assume that EBE claims all applicable exemptions and reliefs, and you are required to provide brief explanations for the tax treatment of each item of income.
(25)

2. Laura Venture is a United Kingdom citizen. She is ordinarily resident but not domiciled in Malta. She lives in Malta for 240 days each year, and intends to remain based in Malta for at least seven years.

Laura's yearly receipts are as follows:

1) €220,000 consulting fees from UK clients for work performed from Malta, paid into a UK bank account.

2) €80,000 dividends received in her Maltese bank account from a 100%-owned Spanish marketing company.

3) €35,000 interest from a bank account in Gibraltar, not received in Malta.

4) €150,000 gains from disposal of cryptocurrency on a US exchange, the proceeds being received in an account held by Laura with a broker established outside Malta.

5) €50,000 rental income from a Maltese apartment situated in Sliema.

6) €120,000 received from a UK occupational pension, paid into a UK bank account.

7) €14,000 royalties from licensing a photography portfolio, paid into a Maltese bank account.

8) €20,000 profits from trading in foreign shares, not remitted to Malta.

9) €9,000 interest from Maltese government stocks, paid into a foreign bank account.

10) €30,000 lump sum compensation for the surrender of tenancy rights over a Maltese office.

You are required to determine Laura's Maltese chargeable income, applying rules on source, remittance, domicile, exemptions, capital and income, and final tax regimes. You should clearly identify the applicable tax rate for each type of income, and provide an explanation for the tax treatment of each item. (25)

PART B

You are required to answer ONE question from this Part.

3. Atlas Global Group (AGG) is a company registered in Malta, which is wholly owned by an individual who is neither resident nor domiciled in Malta. AGG acts as a holding company, with limited day-to-day activities being undertaken.

   It is proposed that AGG shall undertake the following restructuring transactions:

   1) A transfer by AGG of intra-group loans receivable from AGG Finance Ltd (registered in Ireland), a fully owned subsidiary of AGG, to AGG Capital AG (registered in Switzerland), also a fully owned subsidiary of AGG, for a consideration equal to the face value of the loans.

   2) AGG Finance Ltd will distribute its retained earnings to AGG and be liquidated. No deduction may be claimed by AGG Finance Ltd on the distribution made. It has been confirmed that AGG Finance Ltd is not a property company.

   3) A transfer of shares held by AGG in AGG Italia SRL (registered in Italy) to AGG Capital AG; AGG Italia SRL will later be merged into this Swiss entity.

   4) Redomiciliation of AGG Caribbean Holdings Ltd (currently registered in Barbados) to Malta, followed by a subsequent merger into AGG.

   5) Liquidation of AGG Properties Ltd (registered in Malta), a company which was involved in the acquisition, development and sale of residential property in Poland, but had ceased its activities in the months prior to the liquidation. AGG Properties Ltd has a positive retained earnings balance and holds some immovable property in Poland, which will be transferred to AGG as part of the liquidation.

   6) Assignment of intra-group profit-participating loans to the shareholder.

   7) Assignment to the shareholder of a tax refund claim, relating to a distribution by AGG Properties Ltd, under Article 48(4A) of the Income Tax Management Act.

   8) Transfer of usufruct rights over AGG's Maltese office block to the shareholder.

   9) Redomiciliation of AGG to the Netherlands. AGG will cease to be effectively managed and controlled from Malta following the redomiciliation, and will not maintain a permanent establishment in Malta.

   You are required to explain the Maltese income tax implications of each step of the proposed restructuring, including any potential impacts of CFC, mergers, redomiciliation and tax neutrality provisions, refund assignments, immovable property rules, and capital and revenue distinctions. (20)

4. BlueWave Technologies Ltd (BlueWave) is a Maltese-resident company. The following information relates to the year of assessment 2026.

<u>Motor vehicle benefits</u>

- A senior sales manager is provided with a passenger car costing €34,000, acquired in 2023. The vehicle is kept overnight at home, and is used both privately and for work. BlueWave pays for all fuel.
- A technical employee is assigned a van costing €25,000 for daily use; the van is taken home at the end of each working day. BlueWave pays for all fuel.

<u>Accommodation benefits</u>

- BlueWave owns an apartment, acquired in 2023 at a cost of €420,000 and with a current market value of €480,000, which was provided to an engineer for seven months. None of the fringe benefit tax exemptions in respect of the use of property apply.
- A €200,000 loan to a technical employee at a 1.5% interest rate for the purposes of purchasing a secondary residence. The currently applicable benchmark interest rate is 3.2%.
- A €50,000 loan at a 0% interest rate to a shareholder who owns 30% of the issued share capital of BlueWave and also serves as a director.

<u>Share awards</u>

- Employees received 600 shares, at a price of €5 per share. The market value of the shares on the date of the award was €12 per share.

You are required to:

1) **Compute the annual fringe benefit value of the private use of motor vehicles, outlining your reasoning.** (4)

2) **Compute the annual fringe benefit value of the provision of accommodation, outlining your reasoning.** (4)

3) **Compute the annual fringe benefit value of the beneficial loan arrangements, outlining your reasoning.** (4)

4) **Compute the value of the share award benefit and any applicable tax.** (5)

5) **Comment on the extent to which reimbursements paid to employees may constitute taxable fringe benefits.** (3)

Total (20)

PART C

You are required to answer TWO questions from this Part.

5. **You are required to explain how the second Anti-Tax Avoidance Directive has altered the Maltese tax system.** (15)

6. Vertex Capital Ltd is a Maltese-resident company with a 31 December year-end. Vertex Capital Ltd is owned by another Maltese-resident company, Vertex Holding Ltd, which in turn is owned by Mr Vertex, an individual who is not resident in Malta. The company wishes to determine whether to apply the Notional Interest Deduction (NID) for the year of assessment 2026.

You have been provided with the following information regarding Vertex Capital Ltd:

Equity and reserves

- Issued Share Capital: €12,000,000
- Share Premium: €3,000,000
- Positive Retained Earnings: €4,500,000
- Non-interest-bearing shareholder loan: €1,000,000
- Capital contribution (non-refundable): €500,000
- Translation reserve: (€ 800,000)

Chargeable income

The company's chargeable income (before NID) for the year is €3,400,000, all allocated to the Maltese Taxed Account (MTA). In addition, Vertex Capital Ltd also has the following assets:

- €2,000,000 in interest-free loans granted to a subsidiary generating exempt income.
- €1,200,000 in partnership interests yielding exempt income.

Reference rate

- Risk-free rate (Q4 2025) = 2.05%.
- Reference Rate A = 0.0205 + 0.05 = 0.0705 (7.05%).

You are required to:

1) **Calculate the eligible risk capital of Vertex Capital Ltd.** (2)

2) **Compute the NID, determine the maximum allowable NID, and establish any NID carry-forward (assuming that the maximum allowable NID is utilised).** (6)

3) **Compute the allocations to tax accounts, including Final Taxed Account (FTA) allocation and the reallocation from the MTA/FIA.** (3)

4) **Explain the shareholder tax consequences, for the direct and indirect shareholders of Vertex Capital Ltd, under the deemed interest income rule (including the availability of any deductions or exemptions).** (4)

Total (15)

7. MediDerm Clinic Ltd is a private medical and aesthetic centre operating in Malta. It employs dermatologists, cosmetic doctors, psychologists and laser technicians. The clinic offers a mixture of medical treatments, cosmetic procedures and diagnostic services.

For Quarter 4 of 2025, the following supplies were made:

1) Removal of malignant skin lesions carried out by a dermatologist regulated under the Health Care Professions Act.
2) Non-surgical cosmetic treatments (e.g. lip fillers, Botox) performed by a licensed cosmetic doctor without any underlying medical diagnosis.
3) Laser treatment for acne-related scarring prescribed by a dermatologist, as part of a therapeutic plan.
4) Counselling sessions provided by a warranted psychologist.
5) Laser hair removal performed by a trained technician, following a dermatologist's determination that the excessive hair growth was caused by a hormonal disorder.
6) Issue of a medical certificate requested by an employer to assess an employee's fitness for duty.
7) Plastic surgery (rhinoplasty) undertaken solely for aesthetic reasons, without any medical need.

The clinic seeks advice on whether each of the above seven supplies may be exempt from VAT.

You are required to:

1) **Classify the VAT treatment of each of the seven supplies.** (5)

2) **Identify which of these supplies qualify as 'medical care' and explain the applicable criteria.** (4)

3) **Explain the relevance, if any, of the provider's status to the VAT exemption for medical care.** (3)

4) **Explain when aesthetic or cosmetic services may still qualify for VAT exemption, and state whether the medical professional or clinic is required to retain any documentation in this respect.** (3)

Total (15)

8. In 2026, Alpha Ltd, a Maltese company, and its shareholder, Mr Alpha, were involved in multiple transfers of immovable property assets situated in Malta. You have been approached to advise on the applicability of property transfers tax and to determine the correct property transfers tax rate, if any, explaining the legal basis and reasoning in each case.

<u>Case 1 – recent acquisition and development works</u>

In 2025, Alpha Ltd acquired immovable property on which development works, requiring development permission, were subsequently undertaken prior to its disposal in 2026.

<u>Case 2 – transfer to a non-resident</u>

Alpha Ltd transferred an immovable property to a person not resident in Malta; however, the purchaser was controlled by a person who is resident and domiciled in Malta.

<u>Case 3 – transfer of inherited property</u>

Mr Alpha inherited immovable property from a deceased relative in 2010. The property formed part of a project, in relation to which no election was made to opt out of the Property Transfers Tax contemplated in Article 5A of the Income Tax Act (ITA).

You are required to:

1) **Analyse the applicability of the 5% property transfers tax rate and exclusions to Case 1.** (3)

2) **Discuss the exclusion which may apply, under Article 5A(3)(h) of the ITA, on an eventual disposal by the non-resident, in the context of Case 2.** (4)

3) **Explain why Article 5A of the ITA is a final and separate tax regime, distinct from income tax on capital gains under Article 5 of the ITA, in the context of Case 2.** (5)

4) **Determine the applicability of Article 5A(5)(b) of the ITA to Case 3.** (3)

Total (15)

CAR FRINGE BENEFIT RATES

The annual benefit value is calculated as:

(Vehicle use + Fuel value + Maintenance value) x Private use percentage

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%