



Examiner's report

F6 Taxation (MLA)

June 2011

General Comments

The examination consisted of five compulsory questions that broadly tested candidates' knowledge in the following five areas of study:

Question Number	Area of study	Marks
1	Personal tax	30
2	Corporate tax	25
3	Tax on capital gains	20
4	Partnership en commandite tax computation	15
5	Value added tax	10

Candidates' overall performance in this session was good. In particular, candidates answered questions 1 and 5 very well.

Many candidates demonstrated a basic understanding of the subject but a few were unable to answer questions relating to some fundamental concepts of Maltese tax law. Candidates need to improve their knowledge of tax accounting, and to be able to apply tax theory to practice; they need to be able to determine the amount after tax to be allocated to relevant tax accounts and the amount of the tax refund and to know how to calculate the most advantageous tax relief available.

During the examination, candidates should give thought to the organisation of their answers and show what they are attempting to do, using clear workings.

Specific Comments

Question One

Overall the Personal Tax question was answered very well.

Part (a) carried 2 marks. Candidates found this initial question relating to the concept of ordinary residence and domicile difficult to answer correctly.

Parts (b) and (c) carried 18 marks and 2 marks, respectively, and broadly sought to test candidates' knowledge of personal tax matters (tax computation of persons who are married and living together). The specific areas that were tested in this question comprised computation of income from employment and self employment and fringe benefits tax on cash allowances.

The question involved the tax treatment of:

- Salaries
- Personal deductions
- Disallowable expenditure
- Foreign source income (interest, dividends, royalties)
- The part-time rules
- The worldwide basis of taxation
- The application of relief for double taxation
- Private and domestic expenditure

Most candidates displayed good knowledge of the taxation of employment income including fringe benefits and the computation of the tax due by a married couple living together (including relevant deductions and exemptions).

There were candidates who did not point out that Anja is subject to the worldwide basis of taxation, nor taxed her foreign source income. Some candidates tend to confuse the concept of deduction with that of an exemption: they are familiar with the theoretical rules governing deductions and exemptions but find it hard to apply such rules in their tax computations, so account for tax exemptions as tax deductions and vice versa.

The third part of the question consisted in three short questions which carried 2 to 4 marks. Topics examined in the three short questions included the part-time rules, 56 (17) ITA and the maintenance allowance. Knowledge of the rules which govern maintenance allowance is fundamental in computations and candidates need to ensure they know the basic rules which govern maintenance allowance. Few candidates explained that, under the deduction of expenses in relation to immovable property rules, interest expenditure, licence fees and ground rents are deductible.

Question Two

This question sought to test candidates' knowledge of tax accounting, which candidates found difficult to answer well. A few candidates demonstrated a basic understanding of the complex set of rules which govern tax accounting and were able to calculate the tax refund.

Part (a)(i) required candidates to explain the tax treatment of distributions from each account, and part (a)(ii) requested candidates to prepare calculations of the chargeable income and tax refunds due to shareholders. Candidates tended to give an overview of the theoretical rules but proved unable to calculate the refunds due or the chargeable income of the shareholders. The issue relating to the theoretical tax refund proved especially demanding. Candidates need to practise the application of theory into practice, so as to be able to prepare accurate computations.

Part (b) involved groups of companies, with most candidates submitting excellent responses to the theoretical questions. A small number of candidates pointed out that under Maltese law a UK resident company cannot surrender losses to a resident company.

Question Three

This 20 mark question sought to test candidates' knowledge of the tax on capital gains arising on the transfer of immovable property, and was generally answered well with most candidates demonstrating a good grasp of the basic Article 5 capital gains rules relating to the tax treatment of transfers of immovable property.

Candidates' knowledge of property transfers tax was often incorrectly applied to immovable property situated outside Malta and sometimes even to shares. Candidates need to ensure they know the rules surrounding taxable transfers and exemptions, and in particular that the remit of Article 5A is restricted to immovable property situated in Malta (viz. the definition of property contained in 5A). Other errors included not recognising the transfer of DCL II as a transfer which is tax exempt in terms of the participation exemption, or that the transfer of a business gives rise to a taxable transfer.

Question Four

This question sought to test candidates' knowledge of partnership tax computations and the concept of taxable income. The question was divided into two parts and carried a total of 15 marks.

Part (a) sought to test candidates' knowledge of:

- Tax accounting and the way tax accounting impacts on distributions
- Double taxation relief
- Foreign source income which was not subject to foreign tax
- Calculation of profits available for distribution

Candidates found this question difficult to answer well. Workings were generally shown but were at times incomplete and hard to follow.

Part (b) of the question required candidates to apply the tax transparency rules which apply to partnerships. Many candidates were aware of the fact that alimony payments give rise to special tax consequences but did not demonstrate this with clear computations.

Question Five

It is satisfying to note a continued improvement in the level of candidates' preparedness for this question relating to VAT. Excellent responses to this question were submitted.