

Examiner's report

F6 Taxation (MLA)

December 2010



General Comments

The December 2010 F6 Taxation (Malta variant) paper consisted of five compulsory questions that broadly tested candidates' knowledge in the following five areas of study:

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

Overall candidates' performance was disappointing. Many candidates failed to demonstrate a grasp of some fundamental principles of Maltese tax law. A number of candidates did not attempt all parts of each question, so were unable to pick up the marks available. Candidates are advised to prepare for the examination by studying all areas of the syllabus. Poor presentation made answers difficult to follow - candidates are advised to give careful thought to the layout and organisation of their answers.

Specific Comments

Question One

Generally, the Personal Tax question was answered well. Most candidates showed a good understanding of the basic concepts underlying the taxation of persons who are married and living together although few were in a position to answer the first part of this question, relating to the concept of responsible spouse.

The second part of the question carried 26 marks 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
- Fringe benefits tax
- The tax treatment of interest and rental income
- Various aspects of capital gains
- Article 56 (17) ITA and the tax credit given to women returning to employment

Overall, the performance of candidates in this part question was good. Most candidates demonstrated their knowledge of the following topics:

- the taxation of employment income including fringe benefits
- the computation of Category 1 Fringe benefits
- the computation of the tax on rental income including maintenance allowance

Common mistakes in this question included the following:

- lack of knowledge of the tax system which applies to women returning to work
- erroneous tax treatment of school fees. Most candidates were aware that special tax implications are associated with these fees but were unable to apply theoretical rules in a practical situation.



Question Two

This question sought to test candidate's knowledge of tax accounting, and was answered correctly by very few candidates. Most candidates did not demonstrate understanding of the relatively complex rules which govern tax accounting.

The first part of this question required candidates to allocate profits to tax accounts and compute chargeable income. Most candidates allocated most, if not all, profits to the wrong tax accounts. Some candidates showed a high level knowledge of rules relating to the surrendering of losses and FRFTC, however, poor presentation made answers difficult to follow. The majority of candidates presented excellent schedules of capital allowances. The group loss relief computations were heavily reliant on the answer to the first part of the question, with candidates who did not fare well in that part finding it difficult to score highly here.

Question Three

Question 3 sought to test candidates' knowledge of the tax on capital gains arising on the transfer of immovable property and was not well answered, with most candidates being unable to identify and compute the tax on the different options. This question carried 20 marks and was divided into four parts.

Part (a) sought to test candidates' knowledge of the fundamental concepts relating to the taxation of capital gains.

The particular topics that were tested in this question included the transfer of a controlling interest and the adjustment for goodwill

Most candidates demonstrated a grasp of the basic rules, were aware of the special tax treatment of a controlling interest and the adjustments which must be made, knew that they had to provide for the inflation index on the property and knew how to calculate goodwill. A few candidates were capable of coherently applying all the complex rules in practice, thereby demonstrating they were up to speed.

The majority of candidates displayed a good knowledge of the tax treatment of the transfer of a non-controlling interest.

Most candidates answered questions (b), (c) and (d) well - they quickly realised that the transfer of shares by Henry Harthill was tax exempt because the assets of the company are not wholly or principally immovable property in Malta: similarly, they realised that Chicago Ltd and Denver Holdings Ltd constitute a group and intra-group transfers are exempt from tax.

Question Four

Answers to question 4, which sought to test candidates' knowledge of partnership tax computations and the concept of taxable income, was answered in a satisfactory manner.

Question 4 was divided into three parts and carried a total of 15 marks.

Part (a) sought to test candidates' knowledge of the tax treatment of partnerships, fringe benefits, capital allowances and the adjustments required to the profit as per financial statements to arrive at taxable income with respect to depreciation and wear and tear allowances.

Most candidates showed a good grasp of the tax treatment of capital allowances and fringe benefits, although they were less able to demonstrate a basic knowledge of the tax treatment of tax transparent entities.



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 presentation of computations was confused making their answers difficult to follow.

Candidates' responses to part (c) were disappointing. A number of candidates demonstrated a lack of understanding of compliance matters, and others did not attempt this part question at all.

Question Five

It is satisfying to note candidates' preparedness for this question relating to VAT. It appears that candidates dedicated more time to studying this subject, which was reflected in the generally good performance.

This question carried 10 marks and requested candidates to prepare a basic VAT computation. Most candidates could have presented their answers better, nonetheless were able to demonstrate an understanding of the theoretical aspects of the computation.