

# Examiner's report

F6 Taxation (MLA)

December 2011



## General Comments

The paper 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	Partnerships	15
5	Value Added Tax	10

Overall, candidates' performance in this session was good. Many candidates demonstrated a very good understanding of the subjects, particularly in the questions on personal taxation and partnerships.

Candidates need to be able to answer questions about the basic principles of Maltese tax law across the syllabus and there is evidence that some candidates found aspects of the syllabus difficult. Examples from this examination include the refundable tax credit system, property transfers tax, the meanings of fundamental concepts such as 'equity holding' and 'economic activity', and the capital assets transfers which give rise to tax on capital gains.

## Specific Comments

### Question One

This question examined various aspects of personal taxation, and was answered extremely well. Most candidates showed a good understanding of the basic concepts underlying the taxation of persons who receive income and capital gains from sources in Malta and outside Malta, including relevant deductions and exemptions.

Errors included

- Incorrectly applying property transfers tax to the transfer of securities and the transfer of immovable property situated outside Malta
- Confusing the concept of a tax deduction with that of an exemption and credit
- Accounting for tax exemptions as tax deductions, and vice versa
- Applying the participation exemption to individuals when it applies only to companies (there is a similar misconception relating to FRFTC)

The first part of this question carried 14 marks and tested candidate's knowledge of taxable receipts, fringe benefits, salaries, foreign source income, personal deductions and capital gains.

Most candidates answered this question formidably, showing a thorough understanding of the tax treatment of the gains and profits received by Peter and Jane. Knowledge of fringe benefits tax tends to be high, with many candidates demonstrating less confidence in their knowledge of taxable receipts. A few candidates are to be congratulated for knowing that the sale of the coin collection gave rise to a profit which was outside the scope of tax.



The second part carried 4 marks and involved a basic tax computation. Most candidates presented excellent computations, and some went on correctly to apply tax credits when due.

The third part related to the transfer of property situated outside Malta, where the best prepared candidates knew that property transfers tax did not apply to the property in Barbados (property transfers tax applies only to property situated in Malta).

The fourth part related to the transfer of shares in a foreign company. Most candidates answered this question correctly.

The fifth part tested candidates' knowledge of the tax treatment of donations, which tended to be very high.

### **Question Two**

Candidates found this question, which sought to test their knowledge of tax accounting, difficult. A few candidates are to be congratulated for demonstrating a basic grasp of the complex set of rules which govern the refundable tax credit system, and for calculating the tax refund correctly.

The first part of this question required candidates to calculate the tax paid by a company in respect of each of its tax accounts. Most candidates submitted excellent answers to this part of the question.

The second part asked candidates to prepare calculations of the chargeable income and tax refunds due to shareholders. A few candidates answered this question perfectly, and most demonstrated sound knowledge of the basics.

The third part tested candidates' knowledge of annual market rent. Most candidates demonstrated a superficial knowledge of theoretical rules, and some went on to calculate the refunds due. Candidates need to practise applying theory to practice, and presenting computations in the appropriate format. Candidates showed an excellent grasp of FRFTC as it applies to companies.

The fourth part tested candidates' knowledge of group relief. Most candidates demonstrated a good grasp of the subject, and it was pleasing to see that some knew to allocate profits to accounts.

The fifth part related to equity holding, which candidates found challenging to answer well.

### **Question Three**

Question 3, which tested candidates' knowledge of the tax on capital gains arising on the transfer of immovable property, was generally answered well, with some candidates going on to demonstrate a good knowledge of property transfers tax, taxable transfers and exemptions.

This question carried 20 marks and was divided into part (a), part (b) and part (c).

Part (a) sought to test candidates' knowledge of the fundamental concepts relating to the taxation of capital gains and property transfers tax. A few candidates are to be congratulated for showing a good grasp of the rules governing opting out of property transfers tax.

Part (b) involved a number of capital gains computations. Most candidates submitted very good replies to this question.

Part (c) tested candidates' knowledge of chargeable transfers, which candidates found difficult. A few candidates gave good answers to this part.



#### **Question Four**

This question sought to test candidates' knowledge of partnership tax computations and the concept of taxable income, and was answered very well.

The question was divided into two parts and carried a total of 15 marks. Part (a) sought to test candidates' knowledge of the tax treatment of partnerships, tax adjustments, allowable deductions and the tax treatment of personal expenses. Most candidates submitted good answers to this question, and applied the transparency rule to the partnership. Candidates' knowledge of tax deductions tended to be high.

Part (b) required candidates to prepare a personal tax computation with personal deductions. Most candidates submitted excellent answers.

Part (c) was a theoretical question involving converting a partnership. Most candidates demonstrated a grasp of the basic issues involved.

#### **Question Five**

Most candidates prepared outstanding VAT computations in part (a), and demonstrated an excellent grasp of exemptions.

Some candidates are to be congratulated for being able to explain the concept of economic activity.