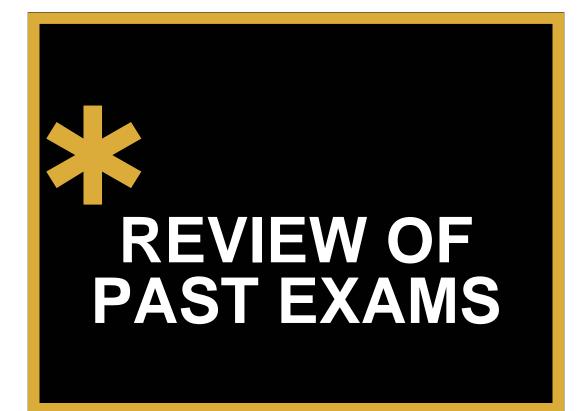
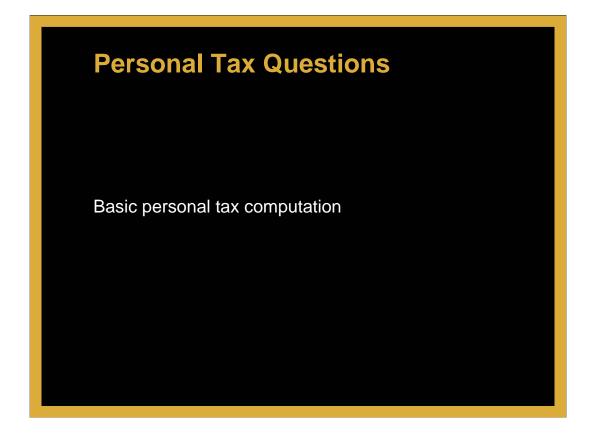


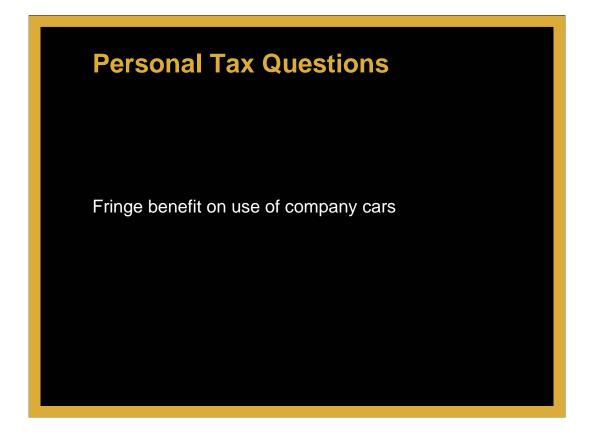
A large number of candidates possess sufficiently good knowledge of the principles required to compute a basic personal tax computation



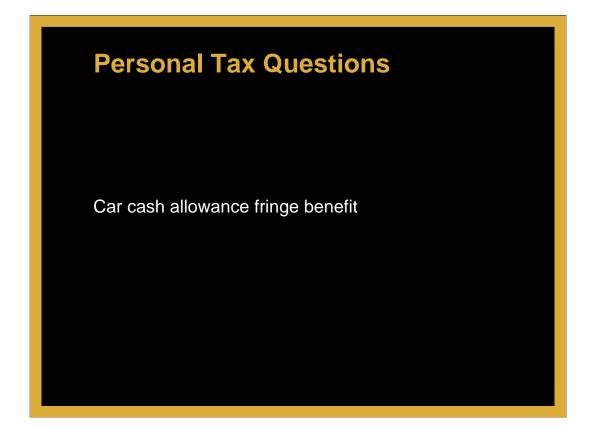




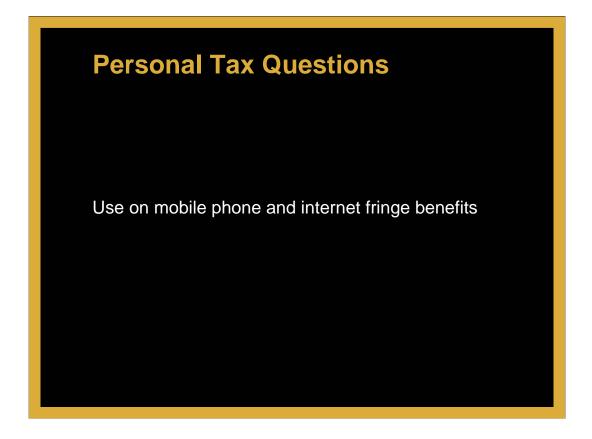
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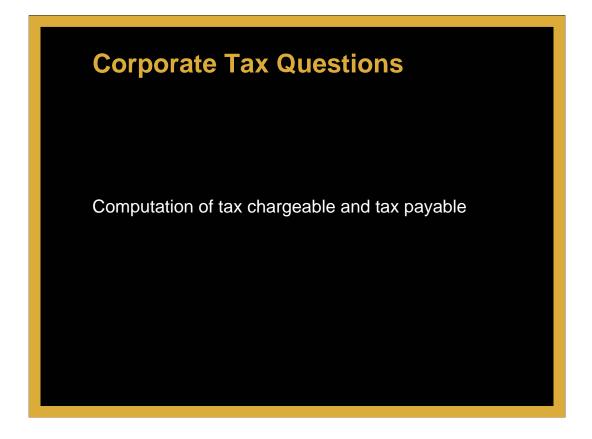
Most candidates correctly compute the fringe benefit on the use of company cars. It is to be noted that from the June 2008 session the applicable percentages that are to be taken into account for the car use value, maintenance value, fuel value and private use value are being provided to candidates.



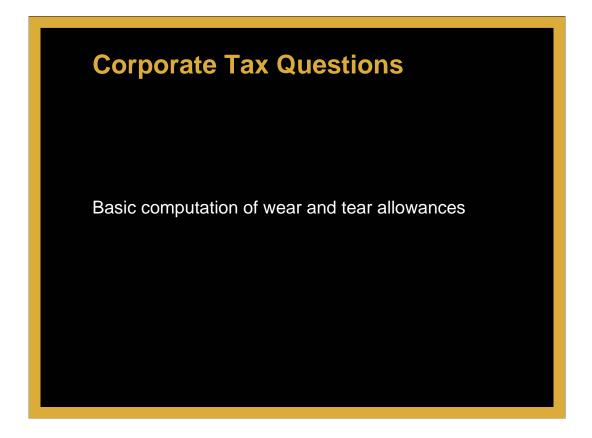
Candidates are generally conversant with the provisions regulating the fringe benefit on car cash allowances received by employees, including the computation of the maximum amount that is exempt from tax.



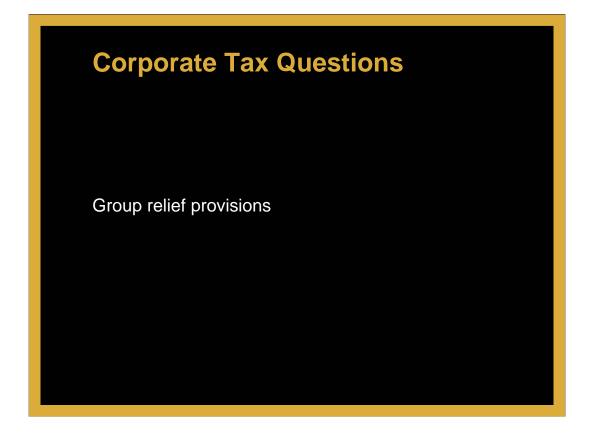
Most candidates are aware that the provision by an employer to his employees of mobile telephony services and internet services is not subject to tax if the employee makes use of the mobile telephony services and internet for the purposes of the employer's business.



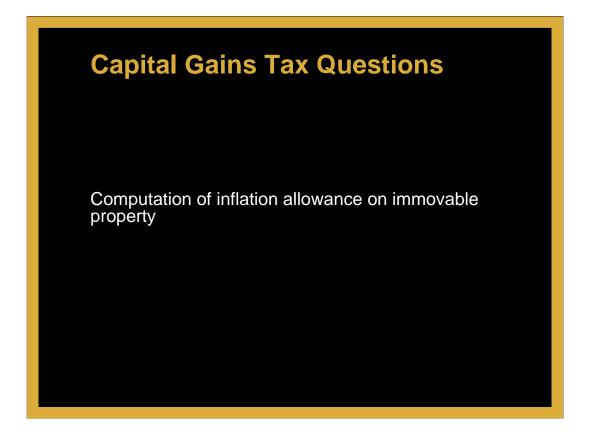
Most candidates have a good knowledge of the sequence of steps required to correctly compute the tax payable by a company, that is by first computing the chargeable income and the tax charge, followed by a deduction for double tax relief and finally a credit for the tax paid at source or by way of provisional tax, which finally results in the tax payable or refundable to the company.



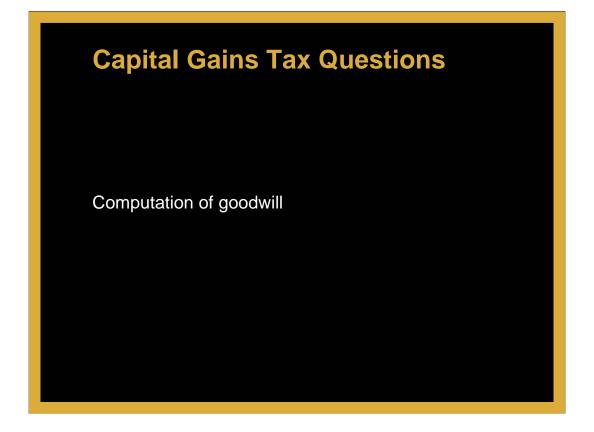
Except for some mistakes relating to assets bought or sold part way through a year, candidates normally do well in computing wear and tear allowances and in correctly adjusting the profit as per accounts by adding back depreciation and deducting wear and tear allowances.



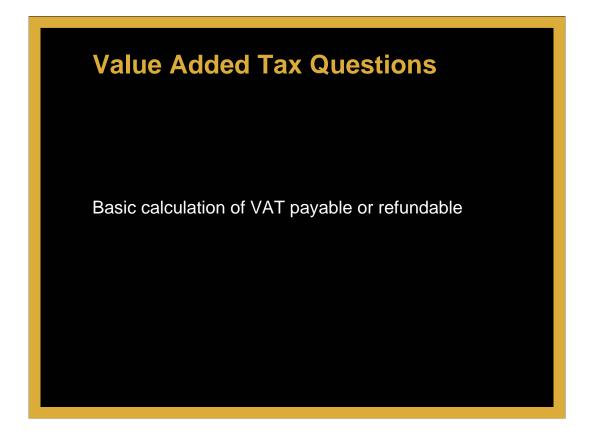
Most candidates do well in questions testing their knowledge of the group relief provisions and correctly transfer losses from one tax account to the other and from one company to another company within the group.



A good number of candidates can correctly compute the inflation allowance that is allowable with respect to immovable property, both with respect to disposals of such immovable property as well as disposals of shares in a company that owns immovable property.

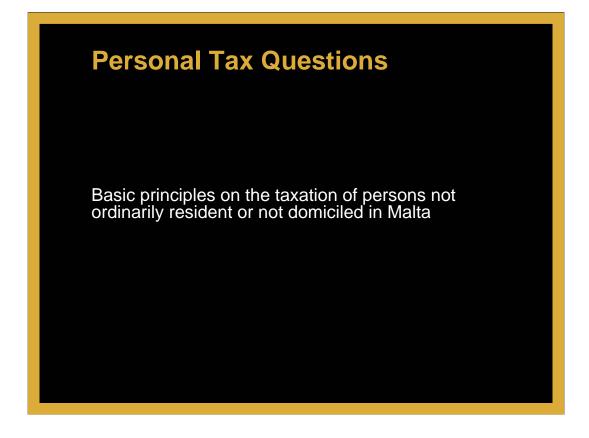


Most students know how to compute a company's goodwill for the purposes of determining the market value of shares in a company, albeit a common mistake is that of disregarding losses incurred in some particular years of the five-year relevant period, when the law actually states that only an <u>overall</u> loss in the five relevant periods is to be considered as zero goodwill.

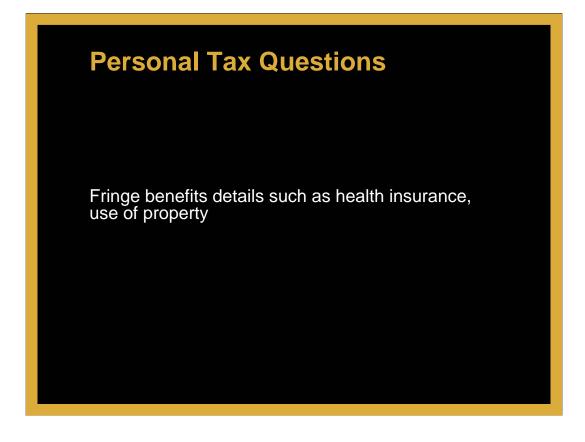


Candidates tend to do well when answering questions requiring from them a basic computation of the VAT payable or refundable on a number of transactions



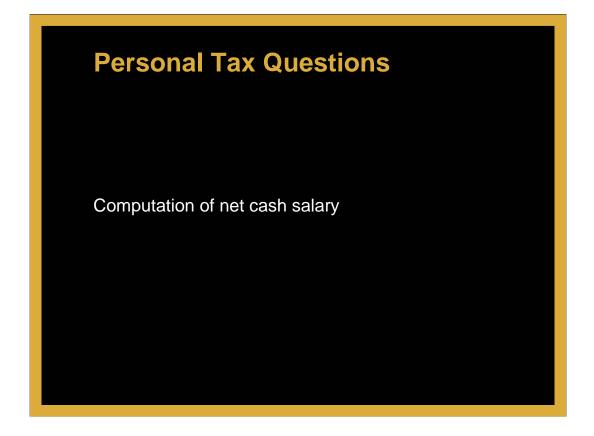


A good number of candidates are unaware of the fundamental principles regulating the taxability or otherwise of persons who are not ordinarily resident or not domiciled in Malta. Such candidates fail to understand that income and capital gains arising in Malta are always taxable in Malta (subject to the provisions of double tax treaties); income that arises outside Malta is subject to tax in Malta only if remitted to Malta; capital gains that arise outside Malta are not taxable even if remitted to Malta.

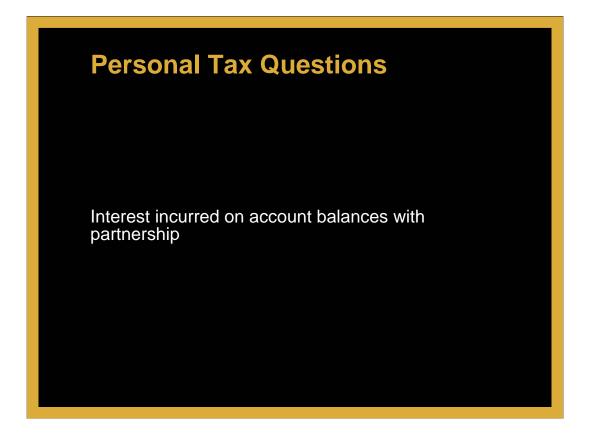


A number of candidates do not have a detailed knowledge of the Fringe Benefits Rules. An example is the rule that, in order to be tax exempt, a health insurance cover has to be available to most of the company's employees and that persons at a managerial level can receive a tax exempt health insurance costing three times that available to the rest of the employees.

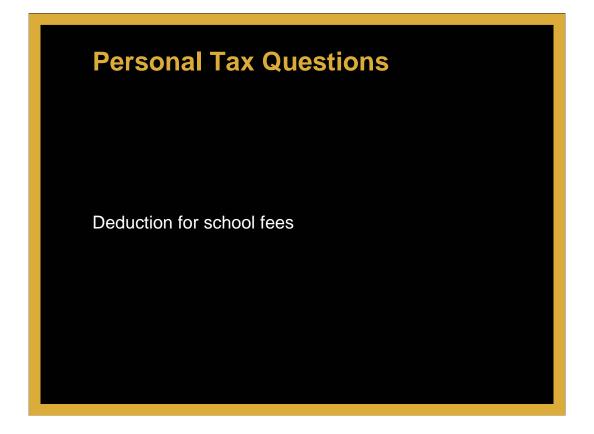
Another example is the computation of the fringe benefit on the use of property by employees. Most candidates are unaware that the computation has to be based on the market value of the property when it was first used by the employee.



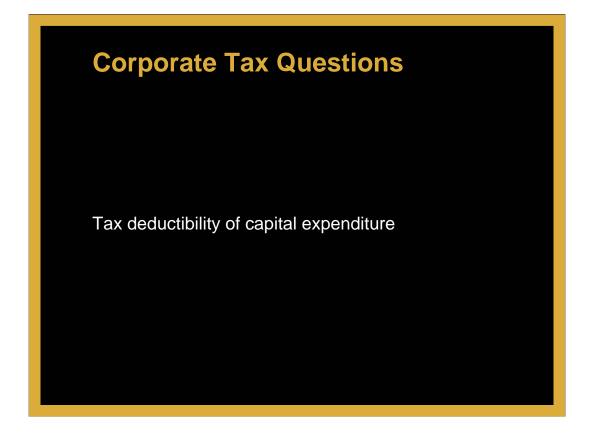
Most candidates fail to distinguish between what constitutes cash income and cash expenses from other income, such as fringe benefits that do not involve cash transactions. This leads to the often incorrect computation of the net cash salary receivable by employees.



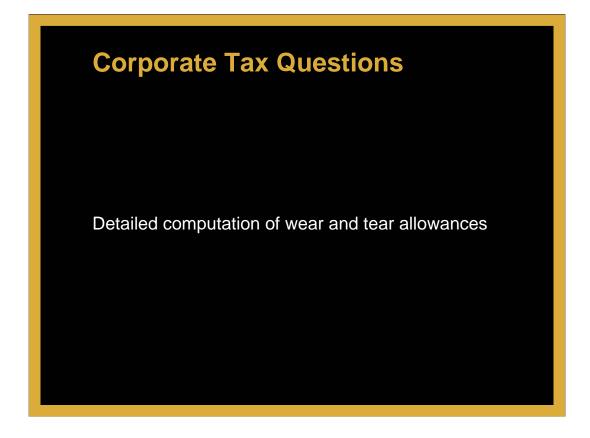
A good number of candidates incorrectly treat as a tax deductible expense the interest incurred by a partner on his/her account balances with a partnership without taking into consideration whether the interest incurred is in the production of the person's income or otherwise.



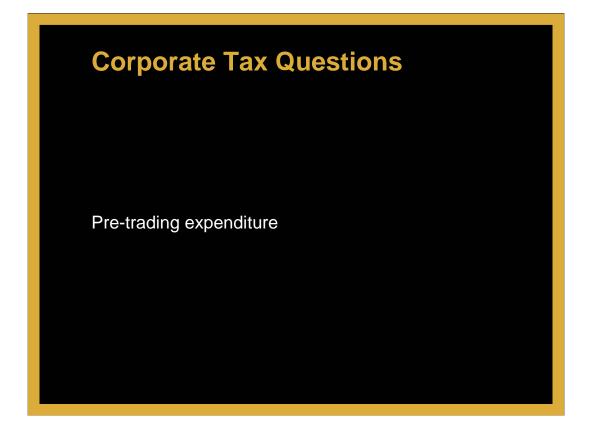
Some candidates are unaware that the amount that is tax deductible with respect to the payment of school fees is different with respect to children attending primary and secondary schools and are also unaware that such tax deduction is capped at a different level for each of the two categories.



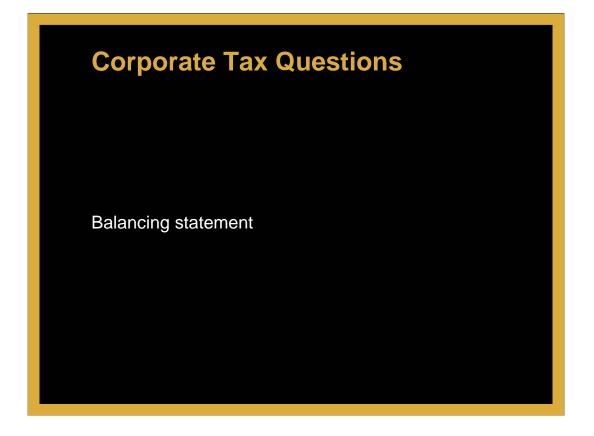
Some candidates fail to distinguish between expenses of a capital nature and others of an income nature. This leads to a common mistake that expenses of a capital nature are deducted in arriving at chargeable income instead of being capitalized and wear and tear allowances taken, where applicable.



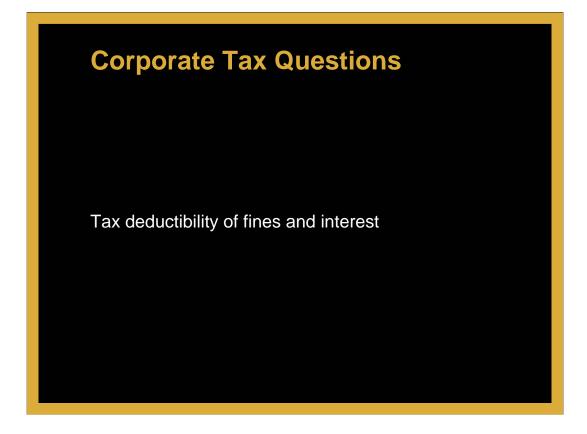
A number of candidates are unaware of the rule that with respect to assets bought during the year preceding the year of assessment, a full year's wear and tear allowance can be availed of, whilst with respect to assets sold during the year preceding the year of assessment, no wear and tear allowances can be availed of. This results in candidates wrongly apportioning the wear and tear allowances on the basis of the number of months during which such assets were owned in the year immediately preceding the year of assessment.



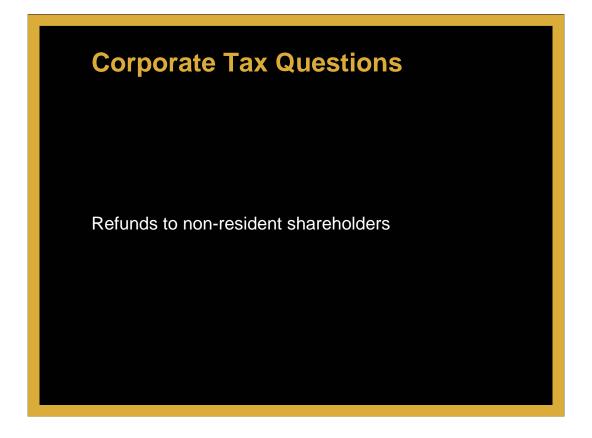
Most candidates are not fully conversant with the principle that pre-trading expenditure is generally not a tax deductible expense unless it falls within the categories of expenses listed in Legal Notice 88 of 2002 and incurred within eighteen months before the trading activity starts. This lack of knowledge leads to common mistakes such as the incorrect deductibility of all pre-trading expenditure or conversely the non-deductibility of expenses which in terms of the Legal Notice referred to above, are tax deductible.



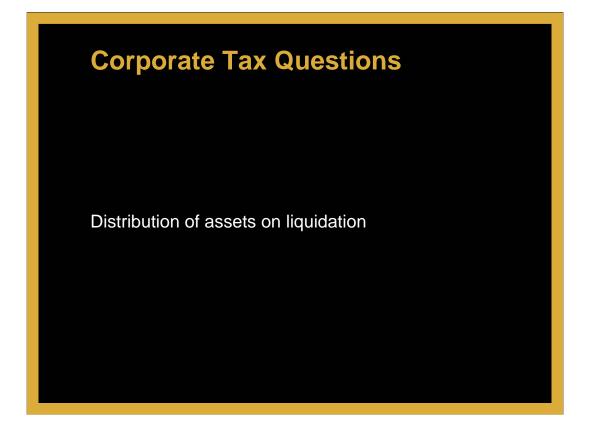
A number of candidates incorrectly make a balancing statement with respect to assets on which no wear and tear allowances have been claimed, either because the type of asset is not an eligible asset on which wear and tear allowances can be claimed or else the asset was bought in the same year that it was sold, such that no wear and tear allowances had yet been claimed.



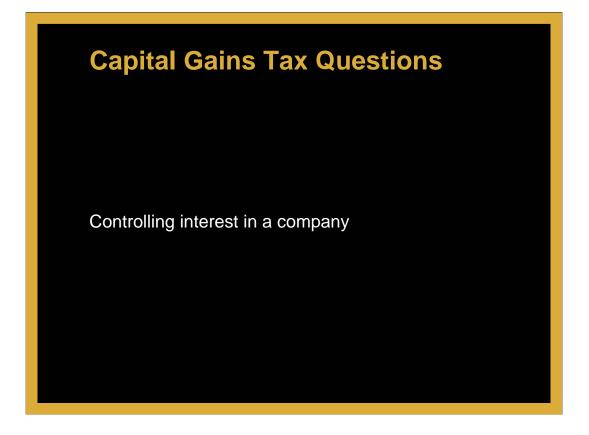
Some candidates fail to understand the basic tax rule that an expense is only allowable if it is incurred in the production of the income. This leads to common mistakes such as the tax deductibility of fines or penalties incurred in terms of the Income Tax Acts or the Value Added Tax Act, which are clearly not incurred in the production of the income. Some candidates are also unaware of the provisions of article 74 of the VAT Act which specifically refers to the taxability and deductibility of interest received or paid under the VAT Act and the non-deductibility of penalties paid in terms of the same Act.



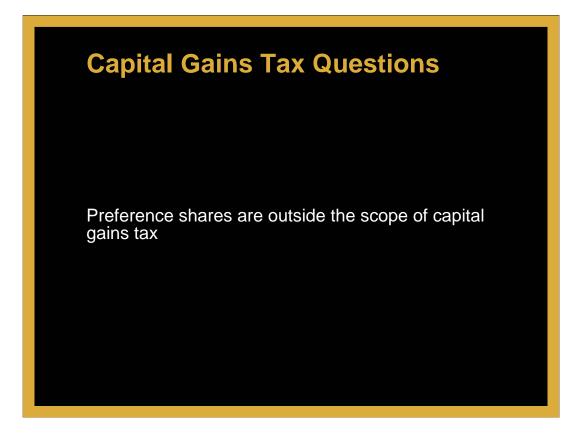
A significant number of candidates find it difficult to compute the tax refund due to non-resident shareholders on certain dividend distributions from Maltese companies. A common mistake is the failure to advise on the benefit of distributing profits allocated to the foreign income account participating holding that entitles non-residents to a full refund of the tax paid in Malta by the distributing company.



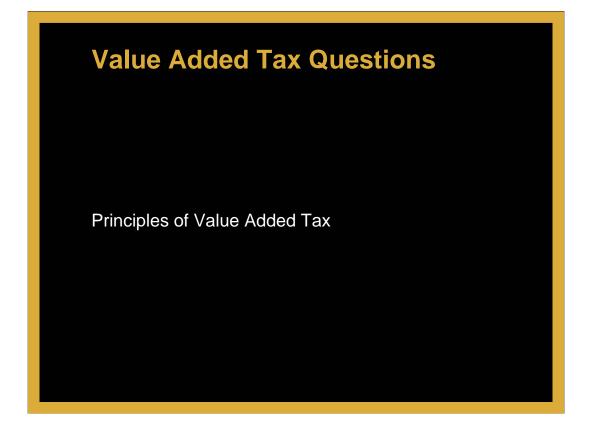
Most candidates are unable to correctly compute the amounts available for distribution on the liquidation of a company and the tax consequences arising from such a liquidation. This only requires knowledge of a few basic principles, such as, the non-taxability of the return of share capital to the shareholders and the treatment as dividends of retained earnings distributed to shareholders in the course of the company's winding up.



Though most candidates possess a good basic knowledge of what makes a shareholding in a company a controlling interest, a number of candidates do not have the depth of knowledge required to ascertain the consequences that this has on the computation of the chargeable gain, such as the requirement to revalue any immovable property owned by the company, the requirement to revalue the shares of companies in which there is more than a 10% shareholding, including the revaluation of property held by such companies, etc.



A number of candidates fail to appreciate the fact that securities that have a fixed rate of return, of which preference shares are an example, are outside the scope of capital gains tax. This leads to common mistakes, such as the bringing to charge to tax the gain realized on the transfer of preference shares and the failure to exclude from the determination of the market value of a company, that part of the value that is attributable to preference shares, in order to arrive at the value attributable to the ordinary shareholders.



It is clear that a high proportion of candidates do not give due importance to the Value Added Tax question. It has been repeatedly observed in the last several sessions that the VAT question is either avoided altogether, when papers allowed for a choice, or replied to very unsatisfactorily when the VAT question became obligatory. It is clear that most students do not devote the necessary time to familiarize themselves with even the basic principles of VAT.

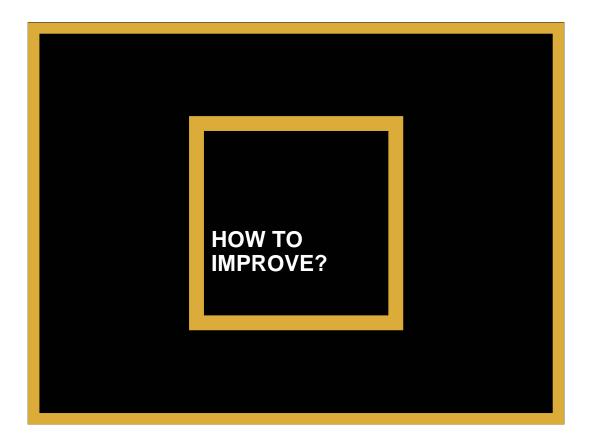




### **Basic tax principles**

More stress must be made to teach students the basic tax principles, which is worryingly lacking in too many candidates:

- Is the length of the courses sufficient to enable tutors to exhaustively cover the topics?
- Could it be that tutors go into detailed computations before students have grasped the principles?
- Do students devote sufficient time to this subject?



### A principle a day ...

Tutors should consider innovative ways to reach out to students and help them learn basic tax principles.

For example, preparing a number of "cards" each one with a single tax principle, making it easier for students to learn the principles that will help them do well in the examination.

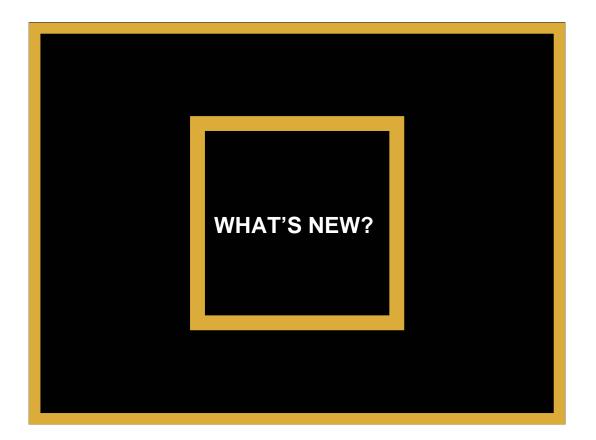
# Be logical and take care of presentation

Students should be taught to be logical in their thinking.

This will automatically reflect in a better presentation of their answers in the exam paper.

Too many answers give the impression to the marker that candidates' thinking is confused and illogical.





## 2007 new tax regime

The new tax provisions introduced in 2007 will feature increasingly in future exams:

- Tax accounting (IPA, FTA)
- Rules regarding dividend distributions



## Structure of paper

The structure of the F6 paper will not be changing in the coming sessions



