

Examiner's report

F6 Taxation (MLA)
December 2014



General Comments

The examination consisted of five compulsory questions that broadly tested candidates' knowledge in various key areas of study within the syllabus. Section A contained question 1 (corporate taxation) for 30 marks and question 2 (partnership and individual taxation) for 25 marks. Section B comprised Question 3 (taxation of share transfers) for 20 marks, Question 4 (value added tax) for 15 marks and Question 5 (taxation of overseas employment and fringe benefits) for 10 marks.

Overall, candidates' performance in this session was somewhat disappointing.

A majority of candidates attempted all five questions, suggesting little evidence of inordinate time pressure. Where questions were left unanswered by candidates, this appeared to be due to a lack of knowledge or poor exam technique.

Many candidates demonstrated a good understanding of tax computations. Candidates generally performed well on the tax computation aspects of questions 1, 2 and 5. The questions some candidates found most challenging were the narrative components of question 1 and question 3. This appeared to be due mainly to candidates not being sufficiently conversant with the Maltese tax refund system and the participation exemption regime, and to certain candidates having an incomplete understanding and inability to properly apply the tax rules governing the transfer of shares.

Specific Comments

Question One

Parts (a) and (b) of Question 1, for 5 marks and 7 marks respectively, were answered poorly by a number of candidates. These required the identification of the eligibility of a company to Malta tax refunds, and the applicability or otherwise of the participation exemption to income from investee companies. It is important for candidates to carefully read the question posed and clearly answer that and only that, rather than straying beyond what was asked for, as no credit can be given for any part of a candidate's response that goes beyond the requirements of the question.

Part (c) for 13 marks required a computation of chargeable income and calculation of the tax charge and tax payable by the company. Most candidates demonstrated an ability to identify and quantify the various sources of income, allocate same to the respective tax accounts, and to calculate the tax payable taking advantage of available credits and reliefs. However, some candidates did fail to properly account for double taxation relief within the calculation, and sometimes allocated income to the incorrect tax account.

Part (d) for 4 marks was a knowledge-based question, requiring a statement of the definition of a group of companies for group relief purposes. Some candidates were unable to articulate clearly the essentials of the definition, in certain instances delving instead into other conditions for the applicability of group relief.

Part (e) carried 1 mark and required two yes/no answers in relation to the rules governing the intra-group transfer of losses between different tax accounts. Several candidates failed to answer this part of the question correctly.

Question Two

The partnership's income tax computation (namely part (a) of Question 2, carrying 15 marks) was prepared largely correctly by a significant proportion of candidates. However, a number of candidates failed to properly take into account certain adjustments, in particular those relating to transactions between the partnership and



the partners themselves, indicating that some candidates lacked a full appreciation of the tax treatment of partnerships.

Part (b) for 7 marks required the calculation of the total chargeable income of the partners, including their respective share of the partnership income as well as income from other sources. While this part of the question was answered broadly correctly by most candidates, several candidates incorrectly concluded that the partners' non-partnership income was eligible to the 15% rate of tax applicable to part-time work. A significant number of candidates also disregarded the vehicle fringe benefit attributable to one of the partners.

Finally, part (c) for 3 marks required a calculation of the individual income tax charge of each of the partners using the most beneficial method of computation. This part of the question was answered correctly by most candidates.

Question Three

This 20-mark question was composed of two parts.

Part (a) carried 7 marks and required defining the concept of a transfer of a controlling interest for capital gains purposes and applying this definition to the two share transfers set out in the question. While most candidates were broadly correctly able to define and identify a transfer of a controlling interest, it was disappointing that some candidates were unable to do so, reflecting a poor understanding of this fundamental concept.

Part (b) carried a total of 13 marks and required a computation of the capital gain chargeable to tax in respect of the two share transfers set out in the question. Most candidates who were able to identify a transfer of a controlling interest were also able to calculate the market value of the company for capital gains purposes using largely the correct methodology. However, weaknesses were evident in valuing the global transfer and netting off the value taken into account in the preceding transfer.

Question Four

This 15-mark question tested candidates' applied knowledge of value added tax (VAT) computations. The question set out details of the transactions undertaken by a business in respect of a particular VAT period.

Part (a) for 11 marks required a computation of output tax, input tax and the resulting VAT payable or excess credit for the period. This was answered largely correctly by a significant proportion of candidates, reflecting a general improvement in candidates' overall appreciation of VAT. However, several candidates did demonstrate an incomplete understanding of the application of the reverse charge mechanism.

Part (b) for 1 mark required candidates to state the VAT return filing deadline date, which was answered correctly by most candidates.

Part (c) carried 3 marks and required an explanation of how a VAT excess credit can be used and, if not used, a statement of by when a VAT refund would become payable. A significant proportion of candidates answered this part of the question correctly, at least in part.

Question Five

This 10-mark question concerned the scenario of a Maltese individual engaged in employment overseas.

Part (a) for 3 marks required an explanation of the individual's residence and domicile status, and thus of the individual's basis of taxation in Malta. Part (b) for 4 marks required a calculation of the individual's chargeable income, which included benefit-in-kind components. Finally, part (c) for 3 marks required a statement of the most beneficial method of tax computation and a calculation of the individual's tax charge for the year. Question 5 was answered particularly well by a majority of candidates.

