

Examiner's report

F6 (MLA) Taxation

December 2016

General Comments

There were two sections in the examination paper and all of the questions were compulsory. Section A consisted of 15 multiple choice questions of two marks each, which covered a broad range of syllabus topics. Section B had four questions worth 10 marks each and two longer questions worth 15 marks, each testing the candidates' understanding and application of key areas in Maltese taxation.

The following paragraphs report on each section and focus on some of the key learning points.

Specific Comments

Section A

Section A questions seek to provide a broad coverage of the syllabus; accordingly, candidates should study all areas of the F6 MLA syllabus in order to be in a good position to answer Section A questions correctly.

It was pleasing to note that the majority of candidates attempted all of the questions. Overall performance in this section has continued to improve over the previous session, with many candidates achieving a good mark in this section. A good performance in Section A greatly facilitates the task of obtaining an overall pass in this exam, and therefore candidates are encouraged to devote due importance to this section, which accounts for 30% of the overall mark allocation.

A large majority of candidates incorrectly answered the following question, which is reviewed with the aim of giving future candidates an indication of the types of questions asked and guidance on dealing with such exam questions.

Sample Question for Discussion

AMZ Ltd is a company registered in Malta with a financial and fiscal year end of 31 December. On 1 February 2015 AMZ Ltd purchased a brand new company motor car at its list price of €40,000. The motor car is used exclusively by the managing director as her company motor car, and all of the vehicle's running costs are paid for by AMZ Ltd.

What is the taxable value of the managing director's car benefit for the year of assessment 2016?

- A €5,445
- B €5,940
- C €0
- D €6,480

This question tested the ability of candidates to correctly calculate the fringe benefit value of the provision of a company car, including calculation of the vehicle use value, fuel value and maintenance value of the car, as well as application of the private use percentage. The relevant formulas in this respect are provided in the "Tax Rates and Allowances" section of the examination paper, and most candidates did apply the formulas correctly. However, most candidates failed to recognise that the fringe benefit was provided for eleven months rather than for a full year. It is important that candidates read questions carefully and correctly in order to

avoid missing an important piece of information that could lead, as in the case at hand, to candidates choosing a distracter answer rather than the correct answer.

Section B

Question One

This 10-mark question set out four different streams of income, and in respect of each of these required the identification of the applicable tax account, the computation of the tax payable in Malta as well as any income tax refund claimable by the shareholder upon a dividend distribution. While many candidates performed satisfactorily in this question overall, a large proportion of candidates failed to recognise that the participation exemption can apply to foreign permanent establishments. Some candidates also incorrectly concluded that income from operations outside Malta which is not attributable to a permanent establishment should be allocated to the foreign income account rather than to the Maltese taxed account.

Question Two

This question carried 10 marks and tested candidates' applied knowledge of value added tax (VAT) by requiring the calculation of output tax and input tax of the various transactions entered into by a services business established in Malta, having clients based both in Malta as well as overseas. A substantial proportion of candidates performed very well in this question, demonstrating that in their studies candidates are continuing to devote the required attention to this important and compulsory part of the syllabus.

It may be pertinent to point out that several candidates did overlook the fact that outsourced services received from foreign firms – whether established in the EU or outside the EU – are deemed to take place in Malta (that is to say, where the business customer is established) and therefore trigger both an output tax charge as well as a corresponding input tax credit (as the taxpayer in question is entitled to full recovery of input VAT.)

Question three

This 10-mark question tested candidates' knowledge of individual taxation, including identifying the basis of taxation applicable to the individual taxpayer in question. Several candidates failed to identify that the taxpayer in the question was domiciled but not ordinarily resident in Malta, and as a result the income tax computation was undertaken using an incorrect basis of taxation. Otherwise, on an overall basis candidates performed satisfactorily in this question. Most candidates did, however, failed to recognise that interest on bank accounts in Malta is tax exempt in this case, on the basis that the taxpayer in question is not resident in Malta.

Question four

This question, carrying 10 marks, involved the transfer of a controlling share interest. It required the determination of the market value of the company for income tax on capital gains purposes, including the calculation of goodwill and adjustment for the market value of immovable property. Adjustment for inflation in respect of the immovable property held by the company was also expected. Most candidates performed reasonably well in this question, which is considered an improvement considering that transfers of controlling share interests have historically been an area of weakness for several candidates at this level. However, very few candidates recognised the need to apply the new statutory formula for calculating the market value percentage attributable to the shares being transferred.

Question Five

This 15-mark question set out the scenario of a company having four sources of income and gains.

Part (a) carried 9 marks and required the computation of the chargeable income, tax charge and resulting distributable profits in respect of each of the sources of income and gains. The question also required candidates to clearly identify the reason for any exemption, which not all candidates followed. As a result, even where an exemption was correctly applied, without specifying the reasons it was not possible to award such candidates the full marks possible in this respect. Even where candidates did state the reasons for applying the exemption, most candidates did not specifically refer to the fact that for the participation exemption to be applicable, the investee company must not be a property company. Several candidates were also unable to calculate the distributable profits resulting from a capital gain upon a sale of shares to which the participation exemption applies.

Part (b) of the question carried the remaining 6 marks and required the allocation of the distributable profits to the applicable tax accounts as well as a calculation of the income tax refunds claimable by the shareholders upon a dividend distribution. Weaknesses in allocating profits to the correct tax accounts was evident in the case of several candidates, particularly as regards allocations to the final taxed account as well as the second stage allocation to the immovable property account in respect of the deemed annual market rent of property owned and used within the business.

Question Six

This question carried 15 marks and consisted of a partnership income tax computation for two sisters who are both ordinarily resident and domiciled in Malta.

Part (a) carried 9 marks and required the computation of the chargeable income of the partnership, including adjusting the profit before tax figure as per the profit and loss statement for tax purposes.

Part (b) of the question carried the remaining 6 marks and required the allocation of the chargeable income of the partnership between the partners, also calculating the partners' individual chargeable incomes and corresponding income tax charges for the year.

This question was generally answered well, with most candidates demonstrating a good appreciation of the basic concepts of partnership tax computations, including calculation of wear and tear allowances, as well as individual tax computations. A common area of weakness was the incorrect inclusion of a balancing charge in respect of a capital asset that was bought and subsequently sold in the same year.

A number of candidates also incorrectly treated interest payable on an overdue trade debt as non-tax deductible.