

Examiner's report

F6 Taxation (MLA)

December 2012

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General Comments

The paper consisted of five compulsory questions that broadly tested candidates' knowledge in personal tax, corporate tax, tax on capital gains, VAT and international taxation and tax avoidance.

Candidates' overall performance in this session was good. Many candidates demonstrated a sound understanding of tax. Some students found questions relating to adjustments to accounting profits rather hard. A few candidates were unclear about the more intricate rules relating to transfers of capital assets and the meanings of, and differences between, tax evasion and tax avoidance.

Candidates are reminded that they need to write clearly and to plan the layout and organisation of the answers. New questions should always be started on a new page, and workings need to be shown, written clearly and labelled so as to be easy to follow. Candidates are advised to study the whole syllabus so as to be able to produce good answers to all five questions. It is important to read the questions and requirements carefully, so as to provide relevant and accurate answers. The marks allocated to each part provide guidance to candidates as to the level of detail they are expected to include in their answers.

Candidates planning to continue their taxation studies at P6 level should be aware that a full and detailed understanding of the whole of the F6 syllabus is assumed at P6. This means that P6 exam questions cannot be answered correctly without the fundamental knowledge learned at F6.

Specific Comments

Question One

Question 1 examined aspects of personal tax and was answered well.

The first part of the question carried 4 marks and tested students' knowledge of domicile and residence, and was answered exceedingly well.

The second part of the question carried 13 marks and tested students' knowledge of the jurisdiction to tax, the tax treatment of income and capital gains, income from employment and fringe benefits, income from foreign investments, the maintenance allowance and personal deductions, and expenses of a private/domestic nature.

Most candidates showed a very good understanding of the basic concepts underlying the taxation of persons who receive employment income, including fringe benefits, from sources within and outside Malta and applied the relevant deductions and exemptions. Few students know to account for profits derived from the disposal of foreign securities as income rather than capital gains where the taxpayer trades in shares.

The third part of the question consisted of a personal tax computation, to which most students submitted excellent responses.

A number of candidates did not know the tax implications of the donation of shares, which was tested by the fourth part of the question.

The fifth part tested the tax treatment of royalties. To answer this part, students needed to be familiar with the tax treatment of profit streams from intellectual property.



Question Two

Question 2 sought to test candidates' knowledge of adjustments for tax purposes and tax accounting. Candidates are reminded of the need to thoroughly understand the rules which govern the allocation of profits to tax accounts.

The first part of this question required candidates to calculate the tax paid by a company in respect of its trading activities. A number of candidates submitted good answers to this part of the question because they were able to present a computation which clearly demonstrated they had practised making tax adjustments. Students who did not know when to add back and when to deduct an item found this part challenging.

The second part asked students to allocate profits to tax accounts. A few students are to be congratulated for being able to identify the profits which stood to be allocated to the foreign income account, an area of considerable practical importance in the industry. The majority of students were very well prepared with respect to the way the IPA allocation works.

Question Three

Question 3 sought to test candidates' understanding of the tax on transfers of capital assets and roll over relief. Most students are familiar with the essential mechanics of a capital gains computation.

This question carried 20 marks and tested candidates' knowledge of the fundamental concepts relating to the taxation of capital gains and property transfers tax.

The first part of the question referred to roll over relief. Most candidates demonstrated good knowledge of the practical side of the subject but few fully understood the theoretical aspects of this topic.

The particular topics that were tested in the second part of the question included property transfers tax, capital gains tax on property transfers and capital gains on the transfer of securities and business.

Most students showed a good grasp of these areas but some students continue to apply property transfers tax in cases when it should not apply. A few students did well to recognise that the participation exemption applied to one of the transfers, and knew when not to tax emphyteutical grants, and when and how to tax business permits. Generally, students need to extend their knowledge in this area.

Question Four

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

Part (a) sought to test candidates' knowledge of VAT on rent and excess credit. Most candidates submitted good answers to this part and some also knew the relevant deadlines.

Part (b) of the question asked candidates to prepare a balancing statement. Most candidates submitted excellent answers and were aware of the special rules that apply to non-commercial motor vehicles.

Question Five



Question 5 asked candidates to differentiate between tax avoidance and tax evasion. A few students showed a very good grasp of the concepts of tax evasion and tax avoidance, but many found this challenging. Most students presented very good answers to the second part of question which examined their understanding of mechanisms for the elimination of international double taxation.