

Examiner's report

F6 Taxation (MLA)

June 2012

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General Comments

The paper consisted of five compulsory questions that broadly tested candidates' understanding in the areas of personal tax, corporate tax, tax on capital gains, partnerships and value added tax.

Overall candidates' performance in this session was good. Many candidates demonstrated a good understanding of the subject areas, producing excellent answers to questions on personal taxation and partnerships. A small number of candidates were unable to answer questions relating to some basic principles of Maltese tax law. Candidates tended to find the questions examining knowledge of the refundable tax credit system and property transfers tax challenging, and a significant number were unable to demonstrate a good understanding of tax accounting and tax refunds.

Specific Comments

Question One

The 30 mark personal tax question 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) but some candidates were unable to submit accurate answers to questions dealing with personal deductions (school fees and maintenance).

The first part of the question carried 2 marks and tested candidates' knowledge of domicile and residence, which most candidates answered well.

The second part of the question carried 18 marks and tested candidates' knowledge of jurisdiction to tax, income from employment, fringe benefits, income from foreign investments, maintenance allowance, personal deductions and expenses of a private/domestic nature.

Most candidates presented excellent computations but many did not deal with maintenance allowance or personal deductions correctly. Alimony payments paid to non-resident spouses are fully deductible, but school fees paid to non-resident schools are not deductible at all.

The third part of the question related to a temporary resident. A few candidates are to be congratulated for demonstrating sound knowledge of Article 13. Most candidates knew that foreign source income would not be taxed in Malta but the reasons given were often inaccurate.

Question Two

This 25 mark question sought to test candidates' knowledge of tax accounting, and was answered very well by a small number of candidates. Most candidates did not demonstrate a basic grasp of the complex set of rules which govern the refundable tax credit system, and were unable to calculate the tax refund and allocate profits into the correct tax accounts.

The first part of this question required candidates to calculate the tax paid by a company in respect of each of its tax accounts. A small number of candidates did well to submit good answers to this part of the question, and dealt correctly with FTA allocations. Most candidates were familiar with the context of a participating holding but were unable to account for it accurately. Very few candidates knew the tax treatment of foreign source rental income, the income which should be allocated to the IPA, or how to deal with the untaxed account.

The second part of question 2 requested candidates to prepare a tax refund calculation, which is of considerable importance in practice, but few candidates possessed the knowledge required to do this.

Question Three

This question carried 20 marks and sought to test candidates' knowledge of the fundamental concepts relating to the taxation of capital gains and property transfers tax, and was well answered.

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

Most candidates showed a good grasp of the subject but some continue to apply property transfers tax in cases when it should not. Candidates are reminded that property transfers tax is not applied to immovable property situated outside Malta, or to shares.

Candidates also need to know the correct tax treatment upon the disposal of chargeable assets which are neither securities nor real estate.

Question Four

Answers to this question, which sought to test candidates' knowledge of partnership tax computations and the concept of taxable income, 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 and the maintenance allowance

Most candidates submitted very good answers to this question. Candidates are reminded that maintenance allowance applies to passive rental income.

Part (b) of the question required candidates to prepare a balancing statement. Most candidates submitted excellent answers, as well as demonstrating awareness of the special rules which apply to non-commercial motor vehicles.

Question Five

Most candidates produced very good answers to this 10 mark question which tested their knowledge of taxable and non-taxable supplies, showing a good grasp of the subjects examined and correctly applying the tax rates and rules relating to place of supply.