

Examiner's report

F6 Taxation (MLA)

June 2013

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General Comments

The paper consisted of five compulsory questions that broadly tested candidates' knowledge in the following five areas of study: personal tax (25 marks), corporate tax and tax avoidance (30 marks), tax on capital gains (20 marks), VAT (15 marks) and partnerships, wear and tear allowances and branches (10 marks).

Overall, candidates' performance in this session was good. Many candidates demonstrated a good understanding of corporate taxation. Candidates' answers to the question on personal taxation were less confident. A good number of candidates showed a detailed knowledge of the concepts of ordinary residence, residence and domicile. Candidates continue to find the more intricate rules relating to transfers of capital assets to be challenging. Most candidates presented highly coherent answers to questions requiring adjustments to be made to accounting profits. Knowledge of the consequences of tax evasion tends to be insubstantial; in marked contrast, knowledge of the refundable tax credit system tends to be very high. Most candidates showed a good understanding of the tax treatment of fiscally transparent partnerships.

Specific Comments

Question One

Generally, the question was answered quite well.

The first part of this question carried 22 marks and tested student's knowledge of domicile, residence and ordinary residence. A number of candidates showed an incomplete understanding of the concepts of ordinary residence, residence and domicile and the application of the remittance basis of taxation. The tax computation involved individuals who earn income from a number of sources. Most candidates presented good computations demonstrating an ability to segregate and charge to tax profits with different characteristics.

Parts (b) and (c) of the question carried 8 marks and tested students' knowledge of tax compliance obligations and the part-time rules. A number of candidates showed that they are familiar with the tax compliance system which applies to persons who qualify to be considered as 'free-filers', and most demonstrated a good grasp of the part-time rules.

Question Two

This question sought to test candidates' knowledge of tax accounting and the refundable tax credit system, and was answered very well.

The first part required candidates to allocate profits to tax accounts calculating the relevant tax refund by using the most tax efficient means available. Most candidates submitted excellent answers to this part.

The second part asked students to explain the consequences of tax evasion, calculating additional tax and interest payable. Most candidates were able to answer this question quite well.

Question Three

The question carried 20 marks and tested candidates' knowledge of the fundamental concepts relating to the taxation of capital gains and property transfers tax. To perform well, candidates needed to realise that a number of transfers fell within the remit of specific regimes and to demonstrate a good understanding of the remittance basis of taxation.

The first part of the question referred to the balancing statement, the disposal of shares in a company incorporated outside Malta which falls under the definition of a property company and the disposal of shares in a Maltese incorporated company which does not fall under the definition of a property company. Most candidates



were familiar with the theoretical aspect of this topic and demonstrated a good knowledge of the practical side of the subject.

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

Most students showed a good grasp of the subject although a few candidates continue to apply property transfers tax in cases when it should not apply.

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 a number of services and rates of VAT. Most candidates submitted good answers to this part.

Part (b) required candidates to prepare a basic VAT computation for which most candidates submitted excellent answers.

Question Five

Most students showed a very good grasp of the tax treatment of partnerships. A small number of candidates made the mistake of treating a partnership like a company. The section requiring tax adjustments was generally answered well.

The second part referred to the tax treatment of branches. Most students presented excellent answers to this question showing a very good grasp of methods for the elimination of double taxation.