

Examiner's report

F6 Taxation (MLA)

December 2013



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 (personal taxation) for 30 marks and question 2 (corporate taxation) for 25 marks. Section B comprised Question 3 (taxation of capital transfers) for 20 marks, Question 4 (tax accounting and application of refundable tax credit system) for 15 marks and Question 5 (value added tax) for 10 marks.

Overall, candidates' performance in this session was satisfactory.

Most 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 personal and corporate tax computations and the refundable tax credit system. Candidates generally performed particularly well on questions 1, 2(a), 2(b), and 3(a). The questions a number of candidates found most challenging were questions 3(b) and 5. This was mainly due to certain candidates not understanding and applying the tax rules governing the transfer of capital assets well enough, and a poor grasp of value added tax respectively.

Specific Comments

Question One

Question 1 was generally answered well by most candidates.

Part (a) for 5 marks required candidates to comment on residence, domicile and basis of taxation. This was answered well by most candidates.

Part (b) for 17 marks required a computation of personal income chargeable to tax. Most candidates performed well on this part of the question, although a significant proportion of candidates failed to apply correctly certain advanced fringe benefit rules, particularly the in-house benefit reduction.

Part (c) for 5 marks required a calculation of tax payable using the most beneficial method of computation. Most candidates demonstrated an ability to calculate tax payable using the available methods, and selecting the most advantageous method. However, some candidates failed to take account of double taxation relief and tax at source on dividend income within the calculation.

Finally, part (d) for 3 marks necessitated the identification of a change of domicile, and a calculation of the resulting effect on the tax payable. While almost all candidates correctly identified a change of domicile, a number of candidates did not actually calculate the resulting difference in tax payable as required by the question.

Question Two

The corporate tax computation (namely parts (a) and (b) of Question 2, carrying a total of 19 marks) was generally performed well by a significant proportion of candidates. However, a number of candidates failed to properly take into account certain adjustments, such as the disallowed portion of the non-commercial motor vehicle lease expense and group loss relief.



Part (c) for 4 marks required the allocation of current year distributable profits among the tax accounts. A number of candidates performed poorly in this regard.

Finally, part (d) for 2 marks required an identification of the withholding tax consequences on the distribution of untaxed dividends to individuals resident in Malta. This was answered well by most candidates.

Question Three

This 20-mark question addressed the taxation of capital transfers.

Part (a) carried 3 marks and required candidates to list six types of asset or interest which are subject to income tax on capital gains in terms of the Income Tax Act. Most candidates were able to answer this question correctly.

Part (b) carried a total of 17 marks and addressed the scenario of Mediterranean Limited. The question required an explanation of the tax treatment of six capital transactions undertaken by Mediterranean Limited, including, where applicable, a calculation of the tax payable on each of these transactions. A considerable number of candidates failed to address one or more of the capital transactions satisfactorily. Difficulties were particularly apparent in relation to the application of the participation exemption and the tax regime applicable to transfers of immovable property situated outside Malta.

Question Four

This 15-mark question tested candidates' basic applied knowledge of the refundable tax credit system, including tax accounting. The question set out six distinct streams of income, each of which was to be dealt with separately. A small number of candidates overlooked the latter requirement, and attempted to calculate tax refunds on an aggregate basis. Candidates are reminded to follow the instructions set out in the question, as this will facilitate proper presentation of the answer. Overall, most candidates demonstrated a good understanding of the refundable tax credit system.

Question Five

This 10-mark question contained eight sub-requirements, which tested candidates' knowledge of basic value added tax concepts and place of supply rules.

The requirement verb in each of the sub-questions was to "state", and therefore a brief, to-the-point answer was expected. Candidates are generally reminded to carefully consider the requirement verb at the beginning of the question, in order to help them to understand the nature of the answer required.

A number of candidates demonstrated a poor grasp of value added tax, and as a result scored poorly in this question. It is recommended that candidates ascribe due importance to all aspects of the syllabus in their studies, including value added tax.