



Examiner's report

P6 Advanced Taxation (CHN)

December 2008

General Comments

The examination was divided into two sections. Section A consisted of two compulsory questions worth a total of 66 marks. In section B candidates were required to answer two of the three questions worth 17 marks each.

Under the new syllabus, the questions in this paper were practically set and case-oriented, with the requirements of the questions broken up as specific as possible. An average and 'well-prepared' candidate should have been able to follow the requirements and obtain a pass. Section A covered a very broad scope of the syllabus including Question 1 on enterprise income tax (IIT), individual income tax (IIT), turnover tax and customs duty; and Question 2 on business tax (BT), stamp duty (SD), land appreciation tax (LAT) and EIT. The three questions in section B were comparatively shorter and more straightforward. Very few marks were awarded to computations, and candidates were expected to demonstrate their abilities in analysing the questions and presenting their answers with logics and principles rather than detailed calculations. Candidates should also note that marks were available for professional skills in questions 1 and 2. In order to earn these marks candidates had to satisfy the requirement in relation to the format of the document requested (a report in question 1 and a letter in question 2); and to provide clear answers with logical conclusions.

Performance of this paper was fair. Most candidates attempted all four questions and appeared to have allocated the appropriate time for attempting the questions. However, many candidates presented their answers poorly. Candidates are advised to make use of the pre-exam 15 minutes reading and planning time to finish reading all questions, get a full picture of the facts in Questions 1 and 2, understand what exactly the requirements are, identify which two optional questions to be attempted, decide on the priority of the questions to be attempted, and finally, plan the layout and organisation of their answers and roughly allocate the time to each question.

Specific Comments

Question One

The question examined candidates' knowledge of the tax treatment of a representative office, the chargeability of sale of goods to value added tax (VAT) and EIT, and the exposure to IIT. Most candidates were able to demonstrate a good understanding of the tax position of a representative office and its chief representative. However, they were rather weak at the VAT and customs duty implications. Common mistakes included:

- not addressing the source of the income in part (a);
- not understanding that the import customs duty and VAT liabilities were the legal obligations of the importer of goods;
- in using the cost-plus method, many candidates could not properly ascertain the operating expenses, and hence the deemed gross income;
- not advising how the tax liabilities could be minimised in part (b);
- not being familiar with the IIT compliance obligations and penalties;
- not answering in the required format, i.e. not using report format;
- a lot of answers with report format were found to have no ending or conclusion.

Question Two

The question focused on LAT implications and planning. In general, performance was comparatively less satisfactory than Question 1. Although most candidates were rather good at calculating the LAT liabilities, they could not explain their answers clearly, especially in a letter format. Furthermore, they were very weak at providing suggestions as to how exposure to China tax could be mitigated. Common mistakes included:

- not understanding that the sale of a newly constructed building by the unit or individual who constructed the building is also regarded as a taxable labour service subject to BT on a deemed amount of business turnover;

- not understanding the allowable deductions for interest payments, other real estate development expenses, additional deduction and SD in calculating the LAT liabilities;
- not explaining the deductibility of development costs under Art 7 of the LATIR;
- focusing on LAT implications and ignoring the EIT and SD implications for the transfer of property;
- the tax advice provided, if any, was not comprehensive;
- as in Question 1, not answering in the required format, i.e. not using letter format; and not giving an ending to the letter.

Question Three

Part (a) and (b) of the question examined the customs duty and VAT implications of contract processing as opposed to import processing. It was found that most candidates were not able to distinguish the two, or explain correctly the difference. Part (c) examined candidates' understanding of the tax reliefs provided for temporary visitors to China under IIT. Most candidates were quite familiar with the three conditions for exemption and gave rather satisfactory answers.

Question Four

The question was set to examine candidates' knowledge of the taxability of some popular employment benefits – relocation allowance, performance bonus, stock options and housing allowance to expatriates; and to identify possible tax planning ideas. As in question 3, most candidates were quite familiar with the IIT treatments of employment benefits; but some of them could not explain their answers clearly, and were very weak at identifying possible tax planning ideas.

Question Five

The question examined candidates' understanding of the implications of VAT, EIT and IIT on the choice of discount policy to be adopted. Part (a) required candidates to explain the tax factors to be considered in choosing the discount policy. The answers provided by most candidates were overly simple and not comprehensive. Part (b) required candidates to advise on the various tax implications of each of the discount policies and recommend the best one. Performance was satisfactory. Part (c) required candidates to discuss other non-tax factors to be considered before implementing the adopted policy. Many candidates simply ignored the last part.