



Examiners' report

F6 Taxation (HKG)

June 2008

This is the second diet of examination under the new syllabus of Paper F6 (HKG). In general, the syllabus coverage and examination style are largely similar to those of Paper 2.3H except that all five questions are compulsory. Questions 1 and 2 are for a total of 55 marks and the three further questions are for 20, 15 and 10 marks respectively.

A lot of candidates did not attempt all five questions, especially question 5, which was found to be the least attempted and poorest answered. As expected, satisfactory performance was found for questions 1 and 2, in particular the computational parts. Candidates' performance for this diet was satisfactory.

Common errors included workings for computations being difficult to follow at times, due to either the poor display of the logics, or lack of clear labeling of which part of questions the answers were relating to. Many candidates still failed to start a question on a new page and 'tick' the question numbers correctly on the covers of the answer books. Some candidates used confusing terminologies this paper, e.g. 'non-taxable income' was incorrectly termed as 'deductible income' and 'non-deductible expense' was incorrectly termed as 'taxable expense'.

Specific Comments

Question 1

This 25-mark question examined individual's salaries tax and was the highest-scored question. Many candidates did score full mark for the tax computation. Common errors were:

- instead of answering s.8(1A)(c), some candidates mentioned tax credit for the PRC tax paid;
- for those who mentioned s.8(1A)(c), they incorrectly answered that it was not applicable since the PRC tax was paid by the company;
- tuition fee treated as taxable instead of self-education deduction;
- some candidates applied 2/3 to the share option;
- house purchase discount treated as non-taxable;
- MPA not claimed because personal assessment was not elected;
- share option was not taxable because it was UK shares;
- no rental value was calculated because the house was provided offshore;
- only basic allowance was claimed, but dependent parent allowance was claimed; and
- some candidates applied time apportionment to income rather than excluding PRC sourced income from total income; although net figure may be the same, the concept was wrong.

Question 2

As usual, this question was on the subject of profits tax and the majority of the marks were attributable to the profits tax computation. In the depreciation allowance calculation, some candidates listed out different categories of assets, instead of pools of assets by 20% or 30%. This is an error of fundamental concept and is not acceptable. Other common errors found in the tax computation were:

- some candidates prepared a profit and loss account rather than a tax computation;
- disposal of prescribed fixed asset was either ignored, or the carrying value of the computer was added to the tax computation, instead of the sale proceeds;
- some candidates duplicated the prescribed fixed asset deduction and addition to asset pool;
- computer added to 30% pool rather than claimed as prescribed fixed asset;
- hire purchase calculation since 2005/06 was unsatisfactory; not many candidates got this correct;
- for part (b), moving cost was divided by 5;

- s.16 and s.12 deduction rules were confused;
- for part (c), some candidates gave answers on record-keeping requirements and penalty provisions;
- some candidates suggested writing to the IRD seeking exemption; and
- treating tax paid in Canada as being sufficient to get exemption from HK tax.

Question 3

As before, this question was on the subjects of partnership and personal assessment; and the whole question was computational. These topics have been frequently examined before, but unfortunately performance was not encouraging. Common errors included the inability to do the allocation of profit/loss amongst partners. Candidates are advised to practice more with the past papers, and get familiar with the calculation techniques.

Question 4

This question was on property tax and property mortgage loan interest. Performance was quite satisfactory, except that some candidates tried to split the rent-free period into two assessment years. For property mortgage loan interest, some candidates wrongly applied s.16(1) principle. Some applied maximum home loan interest of \$100,000 for the deduction. Some advised setting up a company to own the property in order to get a tax deduction for the loan interest, and some even recommended using the property for home accommodation in order to get the interest deduction. Technically, these recommendations are not incorrect, but they don't seem to be practical or realistic.

Question 5

This question was the least attempted either because of the lack of time or candidates not being sure of what was to be answered. Some candidates chose to answer the concept of permanent establishment, or s.14 charge on the Singapore company, rather than putting focus on the HK tax implications for the HK company making the fee payment. Performance was not satisfactory.