



# Examiner's report

## F6 Taxation (HKG)

June 2009

### General Comments

This is the fourth diet of examination under the new syllabus of Paper F6 (HKG). Questions 1 and 2 are for a total of 55 marks and three further questions are for 20, 15 and 10 marks respectively, with an approximate 6:4 split requirement for computation and essay respectively. Candidates' performance for this diet was slightly better than expected. Satisfactory performance was found in Questions 1 and 2, in particular the computational parts. Quite a few candidates failed to attempt all the five questions especially Question 5, which was also the poorest answered question.

Common errors include workings to computations were at times difficult to follow due to either poor display of the logics or lack of clear labeling of which part of the questions the answers were relating to. Many candidates still failed to start a question on a new page and/or tick the question numbers correctly on the covers of the answer books. The use of confusing terminologies are still common, e.g. 'non-taxable income' was wrongly termed 'deductible income' and 'non-deductible expense' was wrongly termed 'taxable expense'.

### Specific Comments

#### Question One

This 25-mark question examined salaries tax. Most candidates managed to score high marks for this question. However, some candidates combined their answers to parts (a) and (b) together by applying Goepfert principles to the case. This may in some cases cause some marks to be lost if the candidates did not present the fundamental general principles as required in part (a). Candidates are therefore strongly advised to read the requirements of the questions carefully. Other common mistakes included:

- including either the day of arrival or date of departure, but not both, in calculating the number of days of visits in Hong Kong;
- including both the day of arrival and date of departure in calculating the number of days for time apportionment purposes;
- failing to ascertain the leave days attributable to Hong Kong service;
- instead of assessing the housing allowance in full, rental value was calculated;
- taxing the rental for the serviced apartment directly paid by the employer;
- taxing the interest savings on the staff loan provided by the employer;
- mortgage loan repayment was deducted instead of interest;
- mortgage loan interest was mistakenly treated as home loan interest and applied the ceiling;
- failing to make the election for personal assessment; and
- the tax concession was not available to non-Hong Kong residents.

#### Question Two

This question was on profits tax and the majority of the marks were attributable to the profits tax computation. However, the performance on this question was less satisfactory than expected. On the depreciation allowance calculation, some candidates listed out different categories of assets instead of pools of assets by 20% or 30%; and some included the hire purchase assets in the pool. This is an error of fundamental concept and is not acceptable. Other common errors found in the tax computation included:

- some candidates did a profit and loss account rather than a tax computation;
- presentation of basis period for the tax computation was wrong;
- compensation payment and legal fee for the new lease contract were wrongly treated as deductible;
- failing to allow the tradename registration cost;
- no breakdown or workings were shown for the interest income added back;
- computer added to 30% pool rather than claimed as prescribed fixed asset;
- some candidates duplicated prescribed fixed asset deduction and addition to the asset pool; and
- brought forward losses were offset against tax payable rather than assessable profits.

For parts (b), the performance was poor. A lot of candidates were not aware that sub-letting is regarded as a 'business' carried on by the company; and that the rental income from sub-letting is not chargeable to property tax as the company is not the owner. Many candidates were not able to explain clearly the treatment of bad debts, the taxability of interest income and the deductibility of the compensation payment.

### **Question Three**

This question was on a partnership; and the whole question required computations only. This topic has been frequently examined before and the examiners did expect a very good performance for this question. However, the outcome was a bit disappointing. Some candidates did score full or nearly full marks, but some did make certain fundamental errors or mistakes. This included the inability to do the allocation/reallocation of profit/loss among partners; and for different periods following a change in partnership. Moreover, some candidates applied the wrong tax rates; and not all candidates understood the loss reliefs available to corporate partners.

### **Question Four**

This question focused on tax administration in the context of tax filing requirements. Tax administration has been one of the topics frequently ignored by candidates. As most candidates had not prepared well for this topic, they tended to give incorrect or over-simplified answers. Performance was, in general, far from satisfactory.

### **Question Five**

Question 5 was on the deductibility of service fees. Performance was extremely unsatisfactory. This question was the poorest answered; and the one not answered by those who did not attempt all the questions either because of the lack of time or candidates were not sure what was to be answered. It would appear that candidates for this paper tend to avoid studying theories or fundamental principles or concept. With the change in the examination requirement that all questions are compulsory, candidates are strongly urged to study each and every topic of the syllabus. Given that Paper F6 is at fundamental level, it is to the advantage of the candidates to study all aspects of the syllabus so as to prepare themselves for advancing to the professional level. In part (a), apart from the general tax deduction rule under s.16(1), most candidates were not able to explain the general requirements which must also be met before a tax deduction is allowed. In part (b), instead of explaining the application of s.20(2), most candidates gave irrelevant answers on tax evasion and penalties.