

Examiner's report

F6 Taxation (HKG)

June 2010

The ACCA logo consists of the letters 'ACCA' in a bold, white, sans-serif font, centered within a solid black square.

General Comments

This paper had a standard coverage of topics, except commencement of partnership business and depreciation allowance examined in Question 3. Questions 1 and 2 were 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.

Most candidates attempted all five questions, although there was some evidence of poor time management; and some questions were not answered satisfactorily. The best performed questions were Questions 1 and 2. A few candidates failed to complete all parts of Question 4; which was also one of the poorest answered questions.

Common errors included poor display of logics in the workings to computations or lack of clear labeling of which part of the questions the answers were relating to, making it very difficult for the markers to follow. 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'.

Candidates are reminded that it is their responsibility, as well as in their interest, to ensure that their writing is clear and tidy, and each question as well as each part of the question answered should be clearly and properly numbered or indicated where appropriate.

Specific Comments

Question One

This 25-mark question examined salaries tax. Most candidates managed to score high marks for this question. Common mistakes included:

- applying time apportionment to Hong Kong sourced employment income;
- incorrect fundamental concept of source of office;
- instead of calculating the rental value, the rent refund was assessed in full as an allowance;
- not assessing the unutilised rent refund, which should also be included in the calculation of rental value;
- wrong calculation of the hotel journey benefit;
- assessing the self-education expenses reimbursed by the employer, which was thus wrongly included in the calculation of rental value;
- non-exclusion of the income subject to China tax;
- the order of statutory deductions, self-education expense, mandatory provident fund contributions, approved charitable donations and personal allowances were mixed up and confused; e.g. MPF contributions and donations are deducted after personal allowances;
- deducting donations against the net assessable income to be transferred to personal assessment;
- mortgage interest was mistakenly treated as home loan interest and deducted under salaries tax, subject to the ceiling of \$100,000;
- not restricting allowable mortgage interest under personal assessment to net assessable value;
- aggregating the couple's income under personal assessment, resulting in wrong treatment of donations and business loss; and failure to identify the couple's respective share of the tax payable under personal assessment;
- on Part (c), most candidates failed to give reasons to explain the tax treatment; some just repeated the tax treatment.

Question Two

This question was on profits tax and the majority of the marks were attributable to computations. Most candidates scored high marks for part (a), which required the preparation of a profits tax computation and a depreciation allowance schedule. Most candidates correctly added back the donation but some inadvertently deducted the donation at the end regardless of the fact that there was no assessable profit. The treatment of income and expenses related to the services rendered in China was not consistent, for example the income was excluded but the related expenses were not disallowed. Brought forward losses were offset against tax payable rather than assessable profits. On depreciation allowance, calculation for the asset acquired under hire purchase was poorest. The cost of the computer was added to the 30% pool rather than claimed as a prescribed fixed asset.; and the sales proceeds of the computer were deducted from the pool instead of added to the taxable profits. The work-in-progress was ignored; or a separate pool was kept for the work-in-progress, with no initial allowance being claimed.

Part (b) was unexpectedly poorly answered, and this is disappointing to the Examiners, since part (b) only addressed the general deduction rules for donations and interest payment.

Question Three

This question was on partnership and the commencement of a business; and the whole question required computations only. Partnerships have been frequently examined before and the examiners did expect a very good performance for this question. However, in part (a), quite a number of candidates had problems in identifying the basis period for profits tax computation and depreciation allowance purposes. And in part (b), many were not aware that depreciation allowance, unlike the deduction for prescribed fixed asset, should not be included in the computation of assessable profits for apportionment. In part (c), not all candidates could master the partnership allocation. For those who did not score good marks for this question, common errors included failure to split the assessable profits into different periods; wrong adjustment of rental and wages paid to partner's son in the partnership allocation; inability to do the allocation/reallocation of profit/loss among partners; did not understand the loss reliefs available to corporate partners; and failure to distinguish the tax rates for corporates and individuals.

Question Four

This question focused on tax administration in the context of filing of profits tax returns, assessment and payment of tax. Tax administration has been one of the topics frequently ignored by candidates, and this paper is no exception. As most candidates had not prepared well for this topic, they tended to give wrong or over-simplified answers. Performance was, in general, far from satisfactory.

Question Five

Question 5 was another poorly answered question; and the one not answered by those who did not attempt all questions either because of lack of time; or they were not familiar with the deemed trading receipts and statutorily deductible expenses. The examiners have the impression that candidates at the fundamental level tend to focus on computational questions only; and avoid studying theories, fundamental principles or concepts. Since all questions are compulsory, it is important that candidates study each and every topic of the syllabus; and this will help prepare them for advancing to the professional level.