



Examiner's report

F6 Taxation (HKG)

June 2011

General Comments

This paper had a standard coverage of topics. Questions 1 and 2 were for a total of 55 marks and three further questions were for 20, 15 and 10 marks respectively; with an approximate 50:50 split requirement for computation and essay.

Most candidates attempted all five questions, although there was some evidence of poor time management. Other than those questions that required essay-type answers, computational questions on partnership (Q2) and personal assessment (Q3) were also poorly performed. The topics covered by all the questions in this paper were standard and straightforward but unfortunately, it was observed that most candidates were not well prepared for the examination.

The overall performance on this diet was disappointing. Examiners found that most candidates demonstrated a weak understanding of the fundamental concepts of taxation. Common errors found in this diet included doing personal assessment computations separately for husband and wife, lump sum payment related back over 4 years, confused computation for the partnership, poor understanding of both general and specific deduction rules, and incorrect understanding of the profits tax implications for non-residents.

Other common errors found were poor display of logics in the workings to computations and the use of confusing terminologies; e.g. 'non-taxable income' was wrongly termed 'deductible income' and 'non-deductible expense' was wrongly termed 'taxable expense'. There was also a lack of clear labeling of which part of the questions the answers were relating to; different parts of the questions were not answered in sequence and part of a question was answered before the next question and the other part after the next question; making it very difficult to follow.

Candidates are reminded again that it is in their interests 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:

- For Q1(a), rental value was calculated for the housing benefit instead of taxing the housing allowance; or only the portion of unutilised housing allowance was treated as taxable;
 - Retirement fund payment was treated as taxable;
 - Balancing charge for projector sold was incorrectly calculated or workings were not shown;
 - Instead of calculating the balancing charge for the projector sold, annual depreciation allowance was claimed as a deduction and sale proceeds was added back as taxable income;
 - Married personal allowance was claimed by Roger;
 - Child allowance was claimed for both children;
 - Standard rate was applied to net chargeable income;
- For Q1(b), only items (2), (8), (10) and (11) were answered, with items (3) to (7) being missed out;
 - For item (2), only explained why no China tax was payable;
 - Medical fee reimbursed was treated as taxable;
 - Payment of overtime was not treated as payment on the last day of employment; or related back over 4 years instead of 3 years

Question Two

This question combined profits tax with partnership, and required written explanations of general and specific tax deduction rules on designated items. It was very surprising to note that the partnership computations were poorly done albeit its repetition in almost every diet. Performance on the written explanations was also not satisfactory. Common errors included:

- Split of partnership assessable profits was incorrect;
- Transfer of partnership profits to personal assessment based on half-year allocation instead of annual;
- The general deduction principle of 'in the production of assessable profits' was incorrectly described as 'relating to trade' or 'benefiting the business';
- Did not demonstrate the understanding of the deduction principles governing the scientific research expense and technical education;
- Mistaken 'technical education' as 'self-education';
- Mistreated the profits tax computation of ToyStory as partnership computation;
- Omitted initial allowance in depreciation allowance schedule;
- Incorrectly applied s16(2) principles to interest income;
- Exchange loss treated as revenue nature;
- Compensation payments to director and leaving staff were all treated as deductible due to services provided to company.

Question Three

This question was on personal assessment which is a commonly examined topic, but yet performance was poor in this diet. Part (a) examined the eligibility conditions for personal assessment. Most candidates were not able to state all the necessary conditions. Some other candidates mistakenly answered the advantages of electing personal assessment. As for Part (b), it was extremely disappointing to find that a lot of candidates did separate personal assessment computations for husband and wife. This is fundamentally wrong. Repair cost for the property was claimed as deduction. Partnership loss was deducted before calculating the ACD 35% ceiling. At the end of the computation, only a few candidates had correctly split the total tax liabilities into the husband and wife portions.

Question Four

Question 4 was on tax administration covering general compliance obligations, estimated assessment and provisional salaries tax. Performance on parts (a) and (b) was not satisfactory. Candidates wrongly answered with the rules governing source of employment income including Goepfert principles under part (a). For part (b), most candidates could only give one condition for raising estimated assessment ie no return was filed. For part (c), some candidates mistook it as objections and all types of holdover applications were answered. In a few cases, it was found that layman languages such as 'write to IRD to explain the situation or complain' were given to denote the intention of 'lodging objection or applying for holdover'.

Question Five

This question was fairly answered, except that some candidates mistook the scenario as applicable for s15(1)(a) and (b) on royalty withholding tax. However, most candidates were able to score marks by stating the general rules on business being carried on in HK and source principles.