



Examiners' report

F6 Taxation (HKG) December 2008

All five questions in this exam paper were compulsory. Questions 1 and 2 were for a total of 55 marks and three further questions were for 20, 15 and 10 marks respectively.

Question 4 was very well answered, which is encouraging as this question focused on tax administration in the context of employer's tax reporting obligation. Tax administration has been ignored by candidates in the past. However, Question 3 was on partnership profits allocation was the least answered. This was very disappointed given the fact that questions on partnership were almost examined in every diet, and the facts and requirements in this diet were not in essence different from the past. Candidates should attempt to practise on past papers more. As compared with the past few diets, the overall performance for this diet was slightly less satisfactory than the previous session.

Common errors include workings for computations being difficult to follow at times due to poor presentation and lack of clear labeling of which part of questions the candidates' 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. Using confusing terminologies are still common in this paper, e.g. 'non-taxable income' was wrongly termed as 'deductible income' and 'non-deductible expense' was wrongly termed as 'taxable expense'.

Specific Comments

Question 1

This 25-mark question examined individual's salaries tax. Many candidates scored high marks for this question. Common errors were:

- Rental value formula did not include deductions of car expenses and depreciation
- Rental value was calculated on 10/12 wrongly as it runs from when made available
- 25% of car running expenses were treated as taxable, instead of 75% treated as deductible
- Only \$15,000 or only basic dependant parent allowance was granted
- Most candidates duplicated the 2007/08 computation, by doing the salaries tax computation first and then the personal assessment
- Some candidates deducted MPF and donations against the salary income before the net was transferred to personal assessment
- The order of statutory deductions, charitable donations, MPF, personal allowances etc are all mixed and confused, e.g. MPF was deducted after personal allowance
- Mortgage loan repayment was deducted instead of interest
- Mortgage loan interest was mistakenly treated as home loan interest and applied the ceiling
- Time apportionment was applied to 2007/08 between HK and overseas
- \$40,000 instead of \$50,000 child allowance was claimed
- property tax – 4 quarters of rates claimed
- rental value subject to time apportionment for 2007/08
- balancing charge was claimed in full instead of 75%
- hotel accommodation was claimed as non-taxable because the hotel was outside HK

Question 2

This question was on the subject of profits tax and the majority of the marks are attributable to profits tax computation. Part (a) required the depreciation allowance calculation, this was performed poorly. It was disappointing to find that even the cost figures under each pool were wrong. Other common errors were:

- tax depreciation allowance schedule was not by pools, but wrongly by category of fixed assets

- disposal of \$35,000 was claimed under 20% pool
- work-in-progress was strangely and oddly treated in the depreciation allowance schedule
- No initial allowance was claimed on work-in-progress but annual allowance was claimed
- \$45,000 work-in-progress was added to the 30% pool
- presentation of basis period for tax computation was wrong, e.g. 'basis period 31.12.2007', 'for basis period ended 31.12.2007', '1.1.2006 – 1.1.2007', 'basic year ended 31.12.2007'
- loss on disposal of \$7,000 was added back
- travelling costs to China of \$200,000 were ignored by most candidates
- commission was treated as non-deductible because the service was not in HK or because the transaction is between related parties – wrong by concept
- loss from trading in securities was non-deductible because it is not the principal business – wrong by concept

Question 3

This question was on the subject of partnership; and the whole question required partnership profits allocations and computations. This topic has been frequently examined before and performance was still very disappointing. Common errors included:

- profits were split into periods before tax computation
- sale proceeds were not deducted from pool or annual allowance instead of balancing allowance was claimed
- wrong splitting or very confused splitting of adjusted profits between 2006/07 and 2007/08
- MPF and rent to Charm Ltd were wrongly added back
- no splitting of partnership allocation was done for 2006/07, or poor splitting

Question 4

This question was on tax administration in the context of employer's tax reporting obligations in respect of employees' income. Performance was very satisfactory. Common errors included: one month was used for both parts (b) and (c); and over-simplified answer for part (e) by stating 'no need to report because employment ceased', which did not justify 4 marks.

Question 5

This question was on loan interest deductibility which is another hot topic found in the examination. Performance was average. Common errors included: interest was said to be deductible if the bank is taxed, or non-deductible if the bank is overseas and hence not taxable in HK; or deductible because the associated company is taxable in HK.