

# Examiner's report

## F6 Taxation (HKG)

December 2009



### General Comments

This paper had a standard coverage of topics which are commonly found in previous years' diets, except the industrial building allowance (IBA) under Q5. This may explain why Q5 was the poorest performed question. The best performed questions were Q1 and Q2, and Q3 (a) on which full marks were given in many cases. Questions 1 and 2 were very standard and computational, and had a combined total of 55 marks. The other three questions were for 20, 15 and 10 marks respectively. Candidates' performance for this diet was satisfactory. Many candidates managed to complete all the 5 questions although some questions were not answered satisfactorily.

Common errors included poor display of logics in the workings to computations or lack of clear labeling of the question numbers, causing difficulties for markers to follow. 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'. Unclear expression like 'included in salaries tax calculation' were also found. Candidates should learn the correct terminology to ensure that they gain the relevant marks.

### Specific Comments

#### Question One

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

- incorrect fundamental concept between source of employment and source of income, demonstrated by wrongly concluding income sourced outside HK and non-taxable for the reason that all Goepfert conditions were not in HK.
- some candidates failed to distinguish the source of director fee from source of employment income; while others concluded that director fee from HK company was taxable because the company was incorporated in HK
- Re reimbursement of petrol, instead of adding back 20% as taxable, some candidates incorrectly deducted 80%.
- only salaries income was subject to time apportionment, which was incorrect
- computer cost was wrongly deducted in full
- insurance premium was correctly answered as non-taxable, but incorrectly explained that it was not taxable because White was not serving the insurance company
- the 15 leave days were overlooked in the time apportionment formula
- in Part (c), most candidates failed to give tax reasons to explain the tax treatment. E.g. this item is taxable because it is a 'benefit'.

#### Question Two

This 30 mark question was on profits tax and the majority of the marks were attributable to the profits tax computation which was fairly performed. However, part (a) was unexpectedly weak, and this was disappointing to the Examiners, since part (a) only addressed general deduction rules for interest payment. Many candidates took an incorrect stand to compare interest expense with interest income, and any excess interest expense over income was then disallowed. In part (b) which was a profits tax computation, most candidates scored high marks. Most candidates correctly added back the donation but inadvertently deducted the donation at the end regardless of the fact there was no assessable

profits. The fee on copyright infringement was incorrectly treated as non-deductible by most candidates.

On depreciation allowance, treatment of hire purchase was the poorest. The disposal figure to be deducted from the 30% pool was wrongly taken as \$20,000 which was the net book value instead of sale proceeds. Part (c) was also not well performed. Some candidates gave answers on 'source' principles discussing whether the Singapore income should be taxable in HK or not. Some even discussed a double tax arrangement between HK and Singapore, which does not exist at all.

### **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. Although quite a few candidates managed to get full marks for part (a), not all candidates managed as well with part (b). For those who did not score high marks for part (a), errors commonly found included failure to split the assessable profits into different periods; and incorrect adjustment of rental in the partnership allocation. Some failed to distinguish the tax rates for a corporate and an individual. For part (b), net assessable value was included in full instead of 80%. The split of tax payable between the couple was not done by all candidates.

### **Question Four**

This question focused on tax administration in the context of lodging objections and penalties. Tax administration has been one of the topics frequently ignored by candidates, and this paper was no exception. It appeared that most candidates had not prepared well for this topic, and they tended to give wrong or over-simplified answers. Performance was, in general, far from satisfactory.

### **Question Five**

Question 5 had the poorest performance, especially the part on YA2009/10 and computation for Bee Ltd. It seemed clear that candidates had not familiarised themselves with the computation basis or principles associated with IBA especially for sale of used buildings. A lot of candidates claimed 4% IBA in 2007/08, some claimed IBA based on written down value; and some others forgot to restrict the sale proceeds to cost. In the case of Bee Ltd, most candidates failed to apply the specific formula to calculate the appropriate rate of annual allowance, but simply applied 20% IA and 4% AA. As all questions are compulsory in this paper, candidates are advised to complete and study all the topics in the syllabus in their preparation for the examination.