

# Examiner's report

F6 Taxation (HKG)

December 2014

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## 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 6:4 split requirement for computations and essays.

The vast majority of candidates attempted all five questions, and there was little evidence of time pressure. Where questions were left unanswered by candidates (such as question 5), this appeared to be due to a lack of knowledge or poor exam technique, as opposed to time pressure.

Most of the topics covered by the questions in this paper were standard and common. Topics included profits tax computation, salaries tax computation, property tax computation, basis period and tax administration. It is believed that an average student who made efforts in studying the syllabus well should be able to pass the paper. Candidates tended to perform weaker in essay-type questions, especially those relating to the fundamental concepts and interacting effects of basic tax elements, e.g. deductibility of interest expense and taxability of interest income in question 2(b). This reflects that candidates are not able to thoroughly understand the fundamental concepts of tax rules and their interacting implications. Examiners would emphasise that concepts and principles are equally, if not more, important than calculations even at this F6 level; and candidates are strongly advised to master the concepts well rather than simply focus on drilling the calculation steps.

Candidates performed particularly well on questions 1, 2(a) and 3(a). The questions candidates found most challenging were questions 4(b) and 5. Question 4(b) on compliance obligations was not frequently examined; and candidates were not familiar with it. Question 5 was the worst-performed question. It asked about persons responsible on behalf of different categories of taxpayers. This question was quite straightforward, yet candidates had not prepared for it.

A number of common issues arose in candidate's answers:

- Failing to read the question requirement carefully and therefore providing irrelevant answers which scored very few, if any, marks.
- Poor time management between questions, some candidates wrote far too much for some questions and this put them under time pressure to finish the remaining questions.
- Repeating facts given in the question rather than analysing the facts or elaborating the tax rationale to support their answers, or even providing contradicting answers for the same question (or part).
- Grouping a few items together and presenting the total figure as one single adjustment item in the profits tax computation. For example, interest income from HK\$ deposit and loan to director were added up (instead of separately shown) and the total amount was shown as one adjustment item called 'interest income'. In marking the computation, it would be extremely difficult for the marker to 'identify' or even 'guess' which items had been included in the total figure. This could be even more complicated if some items were in fact wrong. Candidates are reminded to ensure that their scripts are clear enough for markers to follow. Candidates are also reminded 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 on salaries tax computation was one of the most popular topic examined, and the issues were standard and straightforward, except for the taxability of share award and interest subsidy. Overall performance was satisfactory. Common mistakes found in the computation were:

- Only taxing the balance of the home-leave travelling allowance which was not expended.
- Treating the reimbursement of medical expenses from the insurance company, which is not a reward for services rendered, as a taxable benefit.
- Treating the annual premium paid by the employer, which represents a discharge of the employer's liability, as a taxable benefit.
- Treating the provision of company car, which is not convertible into cash, as a taxable benefit.
- Reimbursement of petrol cost treated as assessable of 80% rather than 20%.
- Maid's wages, interest subsidy and refund of utilities bills, although taxable, should not be included in the calculation of rental value.
- Applying time apportionment to Hong Kong salaries tax paid by the employer.
- Not taxing the share award benefit on the wrong basis that the shares were granted in 2012/13.

### Question Two

This 30-mark question covered the standard question on profits tax computation and the tax treatment of interest income and expense. In general, performance was good except that more attention should be paid to the presentation of different plant and machinery pools under the depreciation allowance schedule.

Part (a) for 25 marks required candidates to prepare the profits tax computation including the depreciation allowance schedule. Most candidates were able to score high marks under this part, except for the following common mistakes:

- Not allowing the wages for a director's family helper.
- Adding back the whole or 20% of the special contribution to registered pension fund, instead of 80%.
- Allowing the cost of trade mark acquisition including the legal fee (100% or 20%) purchased from an associate.
- Adding back the provisional property tax paid which had not been charged against the profits or loss.
- Property tax set-off was not provided.
- Including the hire purchase asset in the 30% pool.
- Treating the cost of fixed assets disposed of as the disposal proceeds.
- Deducting disposal proceeds of plant and machinery after the calculation of annual allowance.
- Calculating commercial building allowance on reducing balance basis, instead of on cost.

Part (b) for 5 marks required candidates to explain the tax treatments accorded to interest income and expense. This part was not satisfactorily answered. Many candidates simply repeated the tax treatment accorded to the items without giving any explanations. Some candidates incorrectly treated the personal guarantee by directors as a loan from a related person, and disallowed the interest expense.

### Question Three

This 20-mark question was another one on a commonly examined topic: property tax. In general, performance was satisfactory.

Part (a) for 5 marks asked candidates to prepare the property tax computation. Many candidates incorrectly calculated the rental income; and some candidates deducted the rental deposit from the total rent. Some candidates were careless in calculating the rates to be deducted for the year of assessment 2013/14.

Part (b) for 3 marks required candidates to explain the treatment of irrecoverable rent and its recovery. This part was not answered satisfactorily. Many candidates deducted the irrecoverable rent in the wrong year of assessment.

Part (c) for 4 marks required candidates to explain the taxpayer's right in respect of the provisional tax due. Instead of advising the taxpayer's right to apply for holdover of the provisional tax, many candidates explained the taxpayer's right to lodge an objection.

Part (d) for 6 marks required candidates to prepare a revised property tax computation for the preceding year as a result of carrying back the excess irrecoverable rent. Only very few candidates were able to do it correctly.

Part (e) for 2 marks was on property tax planning. Performance was fair on this part.

#### **Question Four**

This 15-mark question covered basis period and tax administration.

Part (a) for 4 marks required candidates to determine the basis period for a newly commenced business. Quite a number of candidates did not know how to determine the basis period for the year of commencement.

Part (b) for 11 marks asked about the compliance obligations. Performance was satisfactory on this part.

#### **Question Five**

This last 10-mark question was the least-attempted question, although it is also a compulsory question. This is probably due to poor time management, and candidates' inadequate knowledge of the provisions on persons answerable on behalf of different categories of taxpayers. The question was poorly answered.