

Examiner's report

F6 (HKG)

Taxation (Hong Kong)

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General Comments

The examination consisted of five compulsory questions. Consistent with prior diets, the examination contained question 1 for 25 marks and question 2 for 30 marks, and a further three questions of 20, 15 and 10 marks respectively.

Most candidates attempted all five questions with no indication of time pressure, except that some parts of questions were left unanswered, which appeared to be due to lack of knowledge. The poorest performance was found in question 4 which concerned the determination of tax basis periods and related compliance obligations. These topics are fundamental, typical and straightforward; but yet, students were found unable to master them well.

Other questions in the paper covered common topics such as profits tax computation, salaries tax computation, partnership and personal assessment, and penalty actions. It is believed that an average student who made efforts in studying the syllabus well should be able to pass the paper. Candidates' performance in essay-type questions was generally found weaker than that in computational questions. Examiners would reiterate that both theories and computations are equally important even at this F6 level; and candidates are encouraged to master the tax concepts and principles well rather than simply focus on drilling the calculation steps. Overall, the whole paper was standard and straightforward. As such, the majority of those who were not successful in this paper would appear to have not prepared adequately for the examination, including some who did not demonstrate the most fundamental level of understanding in the topic.

Candidates achieved average to above-average performance in questions 1(a), 1(b), 2(a), 3(a) and 5(a). The questions candidates found most challenging were questions 2(b), 3(b), 4 and 5(b).

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

- Not reading the question requirement carefully and therefore providing irrelevant answers which scored few, if any, marks. This was particularly found in question 4(b)(i).
- 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 replicating their answers for the same question (or part), or even providing contradicting answers for the same question (or part). This is normally found when candidates were not certain about their answers.
- Presenting poor logics in workings to computations making it difficult for markers to trace the workings to award marks.
- Not providing clear labelling of which part of the questions the answers were relating to, including different parts of the questions not being answered in sequence or part of the question being answered before the next question with the other parts continued after the next question.
- Not able to write clearly, or handwriting being too poor and illegible for marker to read.

Specific Comments

Question One

This 25-mark question on salaries tax was one of the most popular topics examined, and the issues were standard and straightforward, except that the explanations required for the tax treatments on certain items were not satisfactorily done.

Part (a) for 5 marks required candidates to address the tax principles on source of employment and implications on employment income. Most candidates were able to apply Goepfert principles in ascertaining the source of

employment, and the relevant tax treatments accorded to Hong Kong sourced and non-Hong Kong sourced employment. However, some candidates demonstrated confused understanding of source rules, such as by concluding that Hong Kong employment was subject to time apportionment.

Part (b) for 16 marks required candidates to compute the salaries tax liabilities and explain the tax treatments accorded to five specified items. One commonly found deficiency was that concessionary deductions (such as charitable donation) and Part V allowances (such as personal allowance) were mingled together when presented in the computation. This is not correct. Although in normal circumstances the items being placed in the wrong order may not have any impact on the net chargeable income, the IRO requires that concessionary deductions be first deducted from the assessable income, and Part V allowances may not be eligible unless there is assessable income after concessionary deductions. Candidates are strongly advised to observe the correct presentation. Common mistakes found were:

- Meal and travelling were treated as assessable.
- Bonus of \$40,000 was not included.
- Bonus of \$70,000 was not treated as assessable as it was paid into the retirement fund.
- Charitable donation of \$10,000 made by the wife was not taken into account.
- Elderly residential care expenses and dependent parent allowance were both claimed.
- Child allowance was time-apportioned.
- The assessable property price differential of \$100,000 was not excluded from rental value calculation.
- Rental value was calculated based on full year.
- Medical expense reimbursement of \$28,000 was treated as non-taxable while compensation of \$80,000 was regarded as taxable.

Question Two

This 30-mark question covered the standard question on profits tax computation. In general, the performance was good except that the presentation of depreciation allowance schedule was not satisfactory.

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:

- Replacement of carpets and curtains was not deducted as soft furnishing replacements.
- Environmental protection machinery and installation were depreciated instead of deduction. Also, some candidates treated both subject to 20% deduction.
- Excessive MPF contribution (6%-5%) was added back.
- Loss from Hong Kong securities trading of \$100,000 was deducted from the profit from securities trading in China of \$400,000 before being excluded in the tax computation.
- All items relating to China, including rent and rates for China warehouse, were adjusted in tax computation.
- Wages to domestic helper of director were added back.
- Most candidates showed aggregated items in the tax computation, such as legal and professional fee of \$44,000, without breaking down into two items of \$40,000 tax fee and \$4,000 stamp duty. This makes it extremely difficult for markers to trace down the items especially when the figure is only partially correct. Being unable to trace down the correct items may result in no marks being awarded.
- No commercial building allowance was calculated for the storeroom.
- Club debenture written off was not taken into account.
- Interest on loan from parent was not adjusted.
- Loss from A\$ trading, and exchange loss from payment to parent were adjusted in the computation.

Part (b) for 5 marks required candidates to estimate the impact on the tax position assuming an offshore claim was made. Only a few candidates were able to adopt their answer under part (a) and make necessary adjustment to arrive at the estimated tax impact. Moreover, some other candidates were only able to adjust the sales made to China customers without making further adjustments on the related expenses.

Question Three

This 20-mark question was another one on commonly examined topics: property tax, partnership and personal assessment. However, the general performance of this question was not as encouraging as expected.

Part (a) for 16 marks required candidates to prepare the personal assessment computation for the couple. It was disappointing to see that some candidates gave two separate computations for the husband and wife respectively. Other common mistakes included the property tax amount being mistakenly treated as net assessable value, wrong calculation of approved charitable donation deduction claimed by the husband and transferred from the wife, failure to aggregate the couple's income before Part V allowance, and failure to allocate the tax payable between the couple. The loss from partnership brought forward from prior year was erroneously transferred to personal assessment.

Part (b) for 4 marks asked about the treatment of Mrs Li's share of loss brought forward from last year in the partnership. The majority of candidates were mistaken in thinking that the loss could be transferred to the couple's personal assessment for the current year to offset other income. This part was poorly answered.

Question Four

This 15-mark question was the least-attempted question although this question was also compulsory. The question asked about basis periods, which is another foundation level of knowledge but yet was very poorly answered. For part (a), very few candidates gave the right answer for the basis period for the year of commencement when the accounts were closed on 31 October 2012. For part (b)(i), the answer was so poor that some candidates only gave the calculation of the assessable profits for different years of assessments, instead of compliance obligations as required. For part (b)(ii), the employers' obligations were generally satisfactorily answered as this area has been commonly examined in previous diets.

Question Five

This last 10-mark question comprises two parts: part (a) on share option gain and part (b) on the interpretation of 'reasonable excuse' for the purposes of penalty actions. Part (a) was generally satisfactorily answered but part (b) was not. For those candidates who could give correct tax treatment of the share option gain, most of them were not able to address the issue on the meaning and interpretation of 'reasonable excuse'. Moreover, quite a number of candidates concluded that reliance on professional advice was reasonable excuse, and what went wrong in the case given was that the accountant had not yet completed the examination. This 'layman' type of answer indicated that candidates were not well-prepared.