



Examiner's report

F6 Taxation (CHN)

June 2009

General Comments

The examination consisted of five compulsory questions. Most candidates attempted all five questions. The performance of candidates overall was not as good as expected.

Question One

This 35-mark question tested candidates' ability to cope with various concepts of the new Enterprise Income Tax under a manufacturing environment.

Common errors included:

Parts (a)(ii) Few candidates could correctly calculate the transportation cost without the value added tax (VAT) element. Students are reminded that transportation cost without VAT is a special case, i.e. transportation cost x (1-7%).

Also the EIT payment should be added back to arrive the accounting profits.

Part (a)(v) Some candidates misread the question and they answered the question by providing the different tax rates for different sources of income.

Part (c) Some candidates incorrectly suggested that the tax bureau can close down a business if the business does not have the tax registration. Actually the tax bureau may impose a fine only while the business operation consequence is that the business can not open a bank account.

Question Two

This 20-mark question, on the subject of IIT, was the best answered question on the paper. A common error in Part (a) was:

Disposal of the shares in listed company incorrectly treated as taxable item.

A common error in Part (b) was:

Very few candidates could point out that a chief representative is deemed to have a position in a permanent establishment of a foreign employer in China and so Mr. Roberson's 20 days salary is subject to IIT.

Question Three

This question was on the subject of turnover taxes.

Some candidates wasted time calculating the VAT payable for the month that was not required by the question. Students should look at the question carefully before attempting the question.

Very few candidates could give the correct formula to calculate the freight cost in item(2).

Question Four

This question focused on the subject of associated enterprises. Many candidates demonstrated a general lack of understanding of the principles involved in part (a), resulting in poor marks.

Part (a) (i) Very few candidates could correctly explain the term of 'arm's length principle.

Part (a) (iii) Very few candidates knew the question was testing the concept of thin capital.

Part (b) was generally well answered.



Question Five

This question focused on the subject of turnover taxes.

Part (a) Not many candidates could clearly explain the concept of mixed sales and the key determinant for whether a taxpayer is subject to VAT or BT depending on its principle activity.

Part (b) This part was poorly answered.