



Examiners' report

F6 Taxation (CHN)
December 2008

The examination consisted of five compulsory questions. Most candidates attempted all five questions. The performance of candidates overall was better than the previous sitting.

Question 1

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

Common errors were:

Parts (a) (i) the employment contract stated the company bears the IIT of the general manager. Most of the candidates disallowed such company expenses. However it is allowable as it is for the business operation purpose.

Part (a) (ii) it is advisable for all the candidates to state clearly the items with "no adjustment needed" in their answer to ensure they get the available marks.

Part (b) tested a very important basic concept of residency under the new Enterprise Income Tax and its effect of an enterprise being classified as resident (as opposed to non-resident) on the scope of its EIT assessment.

Many candidates incorrectly assumed that a company which has China-sourced income must have a PRC tax resident. A company is a PRC tax resident either because it is registered in China or its effective place of management is in China. Therefore a foreign company which has China-sourced income is not necessary a PRC tax resident.

Another area for common error is that the tax rate is not always 10% for the foreign company. As in (b) (ii) (2) the China-sourced income is effectively connected to its establishment in China, the tax rate is 25%, the same as any other company in China.

Question 2

This question was based on the subject of IIT. This was frequently the best answered question on the paper, especially Parts (a) and (b).

Common errors in Part (c) included:

- Relocation expenses only apply to the commencement and to the termination of the assignment
- Travelling cost between China and the expatriate's country of residence, **UP to twice per year only**.

Question 3

This question was on the subject of turnover taxes.

In answer to Part (a) some candidates wasted valuable time in calculating the VAT payable for the month which was not required by the question. Students should read and understand the question carefully before attempting to answer.

Most candidates did not perform well in part (b) in this section. Students should know how to deal with the Business Tax (BT) when the enterprise runs several business lines with different BT tax rate at the same time.

Part (c) tested candidates' knowledge of tax refund for exported goods under different scenarios of supply of raw materials. The result was generally poor and the examiner expects students to perform better in the future as the export industry is very important to China's economy.

Question 4

This question focused on the subject of tax evasion. Many candidates demonstrated a general lack of understanding of the principles involved, resulting in poor marks.

“Evasion of tax” refers to deliberately wrong doing of a taxpayer. Many students referred to the punishment under the tax rule. Some candidates wasted time to calculate the VAT payable for the year that was again not required by the question.

Question 5

This question focused on the subject of tax administration. Many students mixed up the difference between surcharge and fine. Students should study carefully what situations lead to these two different penalties.

Very few students performed well in (c) as many students gave an answer of the time limit rather than the limitation on the power of the tax authority.