

# Examiner's report

F6 Taxation (CHN)

December 2012



The examination consisted of five compulsory questions which all must be attempted. The performance was fairly consistent with the prior diets. Where questions were left unanswered by candidates, this appeared to be due to a lack of knowledge, particularly question 5. A number of common issues arose in candidate's answers:

- Failing to read the question requirement clearly e.g. Question 2 (b).
- Not learning lessons from earlier examiner's reports and past examination paper and answers and hence making the same mistakes.
- Providing more than the required number of points and hence wasting time.
- Illegible handwriting and poor layout of answers.

A reminder is given to candidates that part of this paper is set in the framework of the tax issues that an enterprise in China may face when investing overseas. Given that the enterprises in China are growing bigger and bigger, many of them may consider investing in foreign countries. Therefore students are expected to learn the basic tax knowledge regarding investing overseas. Question 5 was set with this intention.

## Specific Comments

### Question One

In part (a), one common error was that the candidates mixed up the tax treatment of assets under operating lease and financial lease. Candidates should remember that the ownership of the assets under operating lease is not transferred to the lessee and therefore the lessors can claim the depreciation allowance of the assets.

In part (b), some candidates used vague terms. A standard term should be used: Income is taxable/non-taxable while expense is allowable/non-allowable. It is very difficult for a marker to understand the meaning when faced with the term: Expense is taxable/ non-taxable while income is allowable/non-allowable.

In part (c) (iii), some candidates simply answered the interest is non-allowable/ allowable but without giving the conditions.

Part (d) was not as well answered as expected.

### Question Two

Part (a) was fairly answered.

In part (b), most candidates carelessly used the wrong tax table for employment income instead of an entrepreneur from a private enterprise.

### **Question Three**

In part (a) (i), most candidates distinguished correctly between sales discount and cash discount. In part (a) (iii), many candidates did not state the reason of their correct treatment. This may indicate that they guessed the correct answer without understanding the reason. Parts (b) and (c) were fairly answered.

### **Question Four**

In part (a), most candidates answered well, except a few candidates used the wrong VAT tax rate for tobacco purchased from a general VAT payer versus a small local farmer. Part (b) tested the candidates' knowledge of consumption tax and the result was disappointing. In part (c), most candidates correctly pointed out that there was no consumption tax liability for Company N.

### **Question Five**

Part (a) tested the definition of 'controlled foreign subsidiary' and its tax treatment. Most candidates defined control to be holding more than 50% of the equity of subsidiary. The actual definition is directly owning 10% individually and jointly 50%. In part (b) (i), only a few candidates correctly pointed out the 10 year period that the tax authority can make the special tax adjustment.