

Examiner's report

F6 Taxation (CHN)

June 2014



General Comments

The examination consisted of five compulsory questions. Question 1 for 35 marks, questions 2 and 3 for 20 marks each, question 4 for 15 marks and question 5 for 10 marks.

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

As in previous sessions, question 1 and question 2 were mainly traditional computational questions on income taxes. Most candidates performed very well. Those who could not handle these two questions got very low marks in the whole paper.

Candidates performed particularly well on questions 1a, 2a, 3b and 4a. The questions candidates found most challenging were questions 1d, 2b, 4b, and question 5. This is mainly due to candidates not understanding core syllabus areas well enough; a lack of technical knowledge and also due to a failure to read question requirements carefully. Question 4a on VAT reform tested knowledge of the pilot VAT scheme. This was one of the new areas in the syllabus and one of the major changes of the tax system of China. However, a significant number of candidates appear not to have read the new syllabus and did not appear to be aware that there was a new tax rates table on the pilot VAT scheme and used 17% for calculation.

In general, candidates got high marks on computation question and got lower marks on conceptual issues.

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

- Poor technical knowledge in tax administrative matters which was covered in Question 5, Question 1d and 2b.
- Failing to read the question requirement carefully and therefore providing irrelevant answers which scored few if any marks, or not stating "no effect" which was asked in the question.
- Not learning lessons from earlier examiner's reports and making mistakes, such as stating an expense is "tax exempt", when only income can be exempt. An expense would be allowable on non-allowable.
- Providing more than the required number of points.
- Some candidates made careless mistakes in calculations, e.g. missing a "0" or copying numbers incorrectly.

Specific Comments

Question One

This 35-mark question was on enterprise income tax (EIT).

Part (a) for 25 marks required candidates to comment on tax treatments and calculate the EIT.

Most candidates performed well on this part of the question. This was a typical EIT question asking the candidates to explain the EIT treatment and then calculate the correct EIT from the accounting loss. In general, this part was answered very well. Problems encountered by some candidates included:

- not explaining the EIT treatment but stating "it was correct" but not understanding that they were not asked to comment on the correctness of the accounting statement;
- quoting the law without application (e.g. stating that labour union fee can be deducted up to 14% of wages without any reference to the question) and hence with no calculation or explanation



- not differentiating between the meaning of “deductible”, “taxable”, “exempt”, “allowed” (e.g. stating “an income is tax allowable”, “an expense is tax exempt” which scored no marks;
- not stating the items which did not need tax adjustments, as instructed in the requirement;
- not using the numbering system in the question and without any wordings to explain that item but simply putting numbers in the computation, making it impossible to identify items as the numbers of some items are the same.

A number of candidates did not know the tax treatment of acquired goodwill, depreciation and overseas tax credit.

Candidates mainly got either full marks in part (b) of 3 marks or no marks. For those who did not get this part correct, they appeared to lack knowledge on this area.

Part (d) was poorly answered and a lot of candidates stated the deemed sales under value-added tax, rather than enterprise income tax.

Question Two

This 20-mark question was about individual income tax (IIT). This was also a typical question in which candidates scored high marks.

Part (a) for 16 marks required candidates to calculate the IIT on different items. This part was very well-answered and a lot of candidates got high marks. Some common items which candidates got wrong were:

- authorship income in item (3) should be taxed as a single item;
- treating income from estate in item (7) as taxable
- being unable to differentiate IIT being withheld from IIT exemption under item (9)

Part (b) for 4 marks asked about the tax liability and filing of IIT. This part was poorly answered. Candidates could not state the penalty and mixed up with late payment surcharge (or sometimes termed as late payment interest). Some candidates quoted the tax filing date as 7 days after the month-end, which was under the old IIT law before September 2011.

Question Three

This 20-mark question covered VAT, including the pilot VAT scheme (or commonly referred to as “Business Tax to VAT”, i.e. B2V) and VAT on export.

Part (a) of 14 marks was on B2V.

Part (a)(i) for 5 marks required candidates to state with reasons those items which VAT will not be charged or which VAT credit will not be allowed. Some common items which candidates treated incorrectly were:

- did not know the meaning of “VAT will not be charged”
- simply stating the VAT treatments of every item in order to get some marks

Part (a)(ii) for 9 marks required candidates to calculate the VAT. Those candidates knowing the B2v could get high marks. But there were some candidates who did not read the new syllabus or did not read the new tax rate tables in the question paper with the VAT rates and used 17% to calculate. Some candidates incorrectly stated that the services were subject to Business Tax and some candidates were not aware of the changes of syllabus. Future candidates must read the syllabus and the question paper (including the tax rates tables).

Part (b) for 6 marks was on export VAT. A number of candidates were able to get full marks on this part. Some candidates calculated output VAT on exportation of goods while it should be zero-rated (i.e. no output VAT).



Question Four

This 15-mark question covered consumption tax, land appreciation tax and VAT and business tax.

Part (a) for 6 marks was on consumption tax. This part was well answered.

Part (b) for 5 marks was on land appreciation tax (LAT). This part was poorly answered. Some common items which candidates got incorrect were:

- could not differentiate between “appraised value” and “cost” for LAT calculation
- did not know that business tax could be calculated based on the “net” amount, i.e. selling price deducting the cost

Part (c) for 4 marks was fairly answered. Candidates could either get most of the marks or zero. A number of candidates did not know the concept of “mixed sales”.

Question Five

This 10-mark question was on tax evasion and tax appeal. Performance on this question was very disappointing and a number of candidates did not attempt the question.

Part (a) for 4 marks asked for the definition of tax evasion and the statute of limitation. Only some candidates could write the definition of tax evasion and most of the candidates did not know the meaning of “statute of limitation”.

Part (b) for 2 marks asked candidates to explain whether two acts were tax evasion. This part was answered better than part (a).

Part (c) for 4 marks was on tax appeal, and was very poorly answered.

This question showed that candidates’ knowledge was weak on tax administrative matters.

Future candidates should note that administrative issues are also important.