

**Table A: Personal allowances and deductions**

Year of assessment	2018/19	2019/20
<b>Personal allowances</b>	HK\$	HK\$
Basic	132,000	132,000
Married person's	264,000	264,000
Single parent	132,000	132,000
Child		
1 <sup>st</sup> to 9 <sup>th</sup> child (each)	120,000	120,000
Additional allowance in the year of birth (each)	120,000	120,000
Dependent parent/ grandparent (aged 60 or above or is eligible to claim an allowance under the Government's Disability Allowance Scheme)		
Basic	50,000	50,000
Additional (for dependant residing with taxpayer continuously throughout the whole year)	50,000	50,000
Dependent parent/ grandparent (aged 55 – 59)		
Basic	25,000	25,000
Additional (for dependant residing with taxpayer continuously throughout the whole year)	25,000	25,000
Dependent brother/ sister	37,500	37,500
Personal disability	75,000	75,000
Disabled dependant	75,000	75,000
<b>Deductions/ Concessionary deductions</b>	HK\$	HK\$
Self-education expenses	100,000	100,000
Home loan interest	100,000	100,000
Elderly residential care expenses	100,000	100,000
Contributions to recognised retirement schemes	18,000	18,000
Qualifying premiums paid under Voluntary Health Insurance Scheme Policy	-	8,000
Qualifying annuity premiums & tax deductible MPF voluntary contributions ("TVC")	-	60,000
Approved charitable donations	35%	35%
<b>Depreciation allowances (For all years of assessment in this paper)</b>		
Plant and machinery: Initial allowance ("I.A.")		60%
Annual allowance ("A.A.")		Given in question
Industrial building: I.A.		20%
A.A.		4%
Commercial building: A.A.		4%

**Table B: Tax rates**

Year of assessment	2018/19*	2019/20*
<b>Tax rates</b>	<b>%</b>	<b>%</b>
<b>Standard</b>	15.0	15.0
<b>Progressive</b>		
HK\$1 – HK\$50,000	2.0	2.0
HK\$50,001 – HK\$100,000	6.0	6.0
HK\$100,001 – HK\$150,000	10.0	10.0
HK\$150,001 – HK\$200,000	14.0	14.0
Above HK\$200,000	17.0	17.0
<b>Corporation profits tax</b>	16.5	16.5
<b>Two-tiered profits tax rates</b>		
First HK\$2 million assessable profits		
Unincorporated businesses	7.5	7.5
Corporations	8.25	8.25
Over HK\$2 million assessable profits		
Unincorporated businesses	15.0	15.0
Corporations	16.5	16.5

\*100% of the final tax payable under profits tax, salaries tax, and tax under personal assessment would be waived, subject to a ceiling of HK\$20,000 per case.

**Table C: Stamp duty rates**

<b>Conveyance and Agreement for sale</b>		
<b>Ad Valorem Duty</b>		
(marginal reliefs ignored)	<b>Scale 1</b>	<b>Scale 2</b>
Not exceeding HK\$2,000,000	1.5%	HK\$100
HK\$2,000,001 to HK\$3,000,000	3%	1.5%
HK\$3,000,001 to HK\$4,000,000	4.5%	2.25%
HK\$4,000,001 to HK\$6,000,000	6%	3%
HK\$6,000,001 to HK\$20,000,000	7.5%	3.75%
Exceeding HK\$20,000,000	8.5%	4.25%
From 5 November 2016		
For residential property	15% (unless specifically exempted or provided otherwise)	
<b>Special Stamp Duty</b>		
Holding period		
Not exceeding 6 months		20%
More than 6 months but 12 months or less		15%
More than 12 months but 36 months or less		10%
<b>Buyer's Stamp Duty</b>		15%
<b>Lease</b>		
Rent only:		
Not exceeding 1 year		0.25%
Not exceeding 3 years		0.5%
Exceeding 3 years		1%
Premium and rent:		
Premium part		4.25%
Rent part	same as rent only lease	
<b>Hong Kong Stock Transfer</b>		
Contract notes		0.2%
Instrument of transfer		HK\$5

**Table D: Abbreviation**

DIPN	Departmental Interpretation and Practice Notes
IRD	Inland Revenue Department
IRO	Inland Revenue Ordinance

## **SECTION B – WRITTEN QUESTIONS** (Total: 80 marks)

Answer **ALL** questions in this section. Marks are indicated at the end of each question. Together they are worth 80% of the total marks for this examination. **For computational questions, show all your workings.**

### **Question 1** (26 marks – approximately 48 minutes)

Autumn Limited ("the Company") is incorporated and carrying on import and export business in Hong Kong. All its profits are sourced in Hong Kong. Mr and Mrs Fong are the directors of the Company. The Company does not have any connected entities in Hong Kong. It prepares its accounts to 31 March annually. The following is the Company's income statement for the year ended 31 March 2020:

	HK\$	HK\$
Gross profit		7,320,000
Interest income <sup>(Note 1)</sup>		14,000
Rental income <sup>(Note 2)</sup>		360,000
Profit on sale of a residential flat <sup>(Note 3)</sup>		<u>3,000,000</u>
		10,694,000
Less: Auditor's fees	40,000	
Salaries and allowances <sup>(Note 4)</sup>	4,760,000	
Rent and rates <sup>(Note 5)</sup>	275,000	
Annual contributions to MPF scheme <sup>(Note 6)</sup>	372,000	
Selling and distribution expenses <sup>(Note 7)</sup>	628,000	
Bad debts <sup>(Note 8)</sup>	190,000	
Interest expenses <sup>(Note 9)</sup>	175,000	
Profits tax paid	30,000	
Legal fee <sup>(Note 10)</sup>	50,000	
Repairs <sup>(Note 11)</sup>	330,000	
Donations <sup>(Note 12)</sup>	400,000	
Depreciation charged	320,000	
Sundry expenses (all allowable)	<u>280,000</u>	<u>(7,850,000)</u>
Net profit		<u><u>2,844,000</u></u>

Notes:

- |  | HK\$                 |
|--|----------------------|
| (1) Interest received from German customers on overdue account   | 10,000               |
| Interest on a loan to a supplier in Hong Kong  | 3,000                |
| Interest on Tax Reserve Certificate  | <u>1,000</u>         |
|  | <u><u>14,000</u></u> |
| (2) The Company owns a factory in Tai Po and it was let to a manufacturer for its manufacturing business. The Company purchased the factory in October 2013 and it was agreed that the qualifying expenditure for industrial building allowance in respect of the factory is HK\$4,000,000 with residual value of HK\$2,240,000 brought forward from the year of assessment 2018/19. |                      |

- (3) The Company purchased a residential flat in April 2008 and it was agreed with the Inland Revenue Department that the residential flat was for capital investment.

	HK\$
(4) Mr Fong	960,000
Mrs Fong	300,000
Compensation to a retired employee for not competing with the Company's business for two years	500,000
Other employees	<u>3,000,000</u>
	<u>4,760,000</u>
(5) Rent for office	240,000
Rates for office	20,000
Rates for the factory in Tai Po	<u>15,000</u>
	<u>275,000</u>

The office is owned by Mr Fong. The market rent of the office for the year of assessment 2019/20 was HK\$30,000 per month and Mr Fong had reported the rental income of HK\$240,000 in his tax return.

	HK\$
(6) Mr Fong (20% of remuneration)	192,000
Mrs Fong (10% of remuneration)	30,000
Other employees (5% of remuneration)	<u>150,000</u>
	<u>372,000</u>
(7) Repairs and licence fees for motor vehicles	170,000
Fines for illegal parking	8,000
Second-hand motor vehicle	80,000
Car parking fees	120,000
Gasoline	<u>250,000</u>
	<u>628,000</u>
(8) Trade debts written off	140,000
Loan to an ex-employee written off	<u>50,000</u>
	<u>190,000</u>
(9) Interest on the bank loan from a bank in Hong Kong for purchasing the factory. The loan was secured by the factory.	120,000
Interest on the director's loan for purchasing the factory	30,000
Interest on bank overdraft facilities granted by a bank in Hong Kong for the Company's daily operation. No security was provided.	<u>25,000</u>
	<u>175,000</u>
(10) Legal fee for recovery of trade debts	10,000
Legal fee for selling the residential flat mentioned in Note (3)	<u>40,000</u>
	50,000

	HK\$
(11) Repairs of office premises	30,000
Renovation expenditure of office premises	300,000
	<hr style="border-top: 1px solid black;"/> 330,000

(12) Cash donations to approved charitable organisations.

Other information:

(13) The assessor agreed that the Company was entitled to total depreciation allowances for plant and machinery of HK\$374,000 for the year of assessment 2019/20.

**Required:**

- (a) Calculate the amount of industrial building allowance available to Autumn Limited for the year of assessment 2019/20. (2 marks)
- (b) Calculate Autumn Limited's profits tax liability for the year of assessment 2019/20. Ignore provisional profits tax. (18 marks)
- (c) Analyse the tax treatment in respect of the following items:
- (i) Loan to an ex-employee written off (Note 8); and (3 marks)
- (ii) Interest on the director's loan (Note 9). (3 marks)

**Question 2 (18 marks – approximately 32 minutes)**

Donald is a resident of Country X and working with Silver Inc ("Silver") for many years. Silver is incorporated and carrying on business in Country X. Starting from 1 April 2019, Donald was seconded to work as general manager of Gold Limited ("Gold") in Hong Kong. Gold is a wholly owned subsidiary of Silver. It is accepted that Donald's employment with Silver is located outside Hong Kong while his employment with Gold is a separate employment located in Hong Kong. There is no tax treaty signed between Hong Kong and Country X. You have been supplied with the following information regarding the year ended 31 March 2020:

(1) Salaries: HK\$1,240,000.

(2) Commission: HK\$900,000.

(3) Accommodation:

During 1 April 2019 to 31 May 2019, Gold provided accommodation of a two-room hotel suite to Donald. The monthly rent of HK\$45,000 was paid by Gold. Starting from 1 June 2019, Donald was living in a residential flat rented by Gold. Gold paid a monthly rent of HK\$40,000 to the landlord. During the year ended 31 March 2020, Gold deducted HK\$4,000 per month from Donald's salaries to serve as rent for the accommodation.

(4) Provision of motor car:

Gold provided a motor car for Donald's use. The car was owned by Gold with a purchase cost of HK\$300,000 and second-hand value of HK\$100,000 as at 31 March 2020. Donald used the car for both business and personal purposes at a ratio of 70:30. During the year, Donald paid a total petrol cost of HK\$48,000, which was fully reimbursed by Gold.

(5) Share option:

On 1 October 2018 while Donald was under employment with Silver, he was granted an unconditional option to purchase 200,000 shares of Silver at HK\$3 each within two years. Donald paid HK\$10,000 for the option on 1 October 2018 and exercised the option on 15 November 2019. Donald provided services in Hong Kong for 120 days during the year of assessment 2018/19. The market value per share was as follows:

1 October 2018	HK\$5.00
15 November 2019	HK\$6.70
31 March 2020	HK\$5.70

Donald received dividends of HK\$30,000 in respect of the shares on 30 March 2020.

(6) Holiday passage allowance:

Gold purchased a travel package of HK\$77,000 for Donald and his wife's holiday in England in August 2019. The package included air ticket cost of HK\$7,000 each and hotel accommodation and transportation of HK\$63,000 for the couple. Donald personally spent HK\$15,000 during the trip.

- (7) It is agreed with the assessor that Donald is entitled to deduction of outgoings and expenses under s.12(1) of the IRO based on 10% of commission.

Other information:

- (8) Donald paid the following expenses:

(i)	Contributions to registered retirement fund	HK\$18,000
(ii)	Self-education expenses	HK\$80,000

- (9) Donald's wife is a housewife. They have a son aged 12 who is studying in Hong Kong.

**Required:**

- (a) Calculate Donald's share option gain chargeable to salaries tax for the year of assessment 2019/20. (4 marks)

- (b) Calculate Donald's salaries tax payable for the year of assessment 2019/20. Ignore provisional salaries tax and tax reduction. (11 marks)

- (c) Analyse the salaries tax treatment in respect of the provision of the motor car as mentioned in Note (4). (3 marks)

**Question 3** (9 marks – approximately 16 minutes)

On 15 March 2021, Joe received a notice of additional salaries tax assessment for the year of assessment 2014/15 to assess his income from another employment which he had omitted to declare in his tax return. On 20 April 2021, he discovered that he had omitted to claim approved charitable donations of HK\$10,000 in his 2014/15 tax return.

Assume today is 1 May 2021 and Joe approaches you for advice. He wonders whether the IRD has the power to raise assessment on his omitted income and whether he could claim the deduction of donations now.

**Required:**

- (a) Explain to Joe the time limit for an assessor to raise an assessment or an additional assessment as provided under s.60 of the IRO. Analyse whether the 2014/15 additional salaries tax assessment issued to Joe is valid or not. (3 marks)

- (b) Analyse, with reference to the relevant provisions of the IRO, whether Joe can claim deduction of approved charitable donations of HK\$10,000, and if so, the deadline for lodging the claim. (6 marks)



**Question 4 (9 marks – approximately 16 minutes)**

Sam and Nancy are husband and wife, and they are ordinary residents of Hong Kong. They are living together and own another two properties under their names respectively. You have been supplied with the following information regarding the year ended 31 March 2020:

	Sam HK\$	Nancy HK\$
Income		
(1) Rental income from a solely owned property in Hong Kong	240,000	300,000
(2) Hong Kong employment income	900,000	–
(3) Assessable profit from sole-proprietorship business in Hong Kong	420,000	–
(4) Share of loss from a partnership business in Hong Kong	(200,000)	–
Expenditure		
(5) Mortgage loan interest for solely owned property above	(110,000)	(20,000)
(6) Rates of letting the property above	(9,000)	–
(7) Mandatory contributions to MPF scheme	(18,000)	–
(8) Approved charitable donations*	(300,000)	(10,000)

\*Sam has claimed and been allowed the approved charitable donations of HK\$100,000 in his sole-proprietorship business under profits tax. The balance is claimed under salaries tax.

Other information:

- (9) Nancy is a housewife. Other than the rental income from her solely owned property, she has no other income chargeable to Hong Kong tax during the year of assessment 2019/20.
- (10) Only Sam elected for personal assessment for the year of assessment 2019/20.
- (11) Sam and Nancy do not have any other dependant.

**Required:**

(a) Calculate the amount of tax payable in Hong Kong by Nancy for the year of assessment 2019/20, and specify the nature of tax to be demanded from her. Ignore any provisional tax.

**(3 marks)**

(b) Calculate Sam's net chargeable income under personal assessment for the year of assessment 2019/20.

**(6 marks)**

**Question 5 (9 marks – approximately 16 minutes)**

Top Limited ("the Company") is incorporated and carrying on a manufacturing business of metal products in Hong Kong. It prepares its accounts to 31 March each year. You have been supplied with the following information regarding the Company's movement of assets for the year ended 31 March 2020:

- (1) The tax written down values of plant and machinery brought forward from the year of assessment 2018/19 are as follows:

20% pool:	HK\$3,240
30% pool:	HK\$10,230
Motor vehicle X under hire purchase:	HK\$12,200

The last instalment for motor vehicle X was fully paid in October 2018.

- (2) The Company purchased and sold the following assets:

Purchased:

Furniture and fixture (A.A.:20%)	HK\$180,000
Motor vehicle Y (A.A.:30%)	HK\$280,000
Machine E (A.A.:30%)	HK\$150,000
Environment-friendly vehicle (A.A.:30%)	HK\$300,000

Disposal:

Furniture and fixture (A.A.:20%) for HK\$80,000 (original cost: HK\$200,000)
Machine A (A.A.:30%) for HK\$50,000 (original cost: HK\$200,000)

- (3) On 1 November 2019, the Company purchased Machine F (A.A.:30%) under the following hire purchase terms:

Cash price	HK\$240,000
Downpayment	(HK\$40,000)
Balance	<u>HK\$200,000</u>

Balance payable by 20 monthly instalments of HK\$11,000 each, starting from 1 December 2019.

All the machines are used specifically and directly for its manufacturing process. The cost of Machine A had fully been allowed in the year of purchase.

**Required:**

**Based on the above information, calculate the total amount of deductions in respect of the above assets (including the hire purchase interests) available to Top Limited for the year of assessment 2019/20.**

**(9 marks)**

**Question 6 (9 marks – approximately 16 minutes)**

On 15 October 2020, Tom executed an agreement for sale and purchase to purchase a residential property ("the Property") in Hong Kong for HK\$10,000,000 from George. George purchased the Property in September 2018.

On 1 December 2020, May, Tom's wife, was included in the conveyance on sale as the joint owner. On the date of assignment, the value of the Property was HK\$11,000,000.

Tom is a Hong Kong permanent resident and May is not a Hong Kong permanent resident. Tom and May did not own any residential property in Hong Kong and they acted on their own behalf in the purchase of the Property. Tom and George are not relatives.

**Required:**

**Analyse, with reference to the relevant provisions under the Stamp Duty Ordinance, whether ad valorem duty, special stamp duty, and buyer's stamp duty are payable on the agreement for sale and purchase and conveyance on sale respectively. If so, calculate the respective amounts payable.**

**(9 marks)**

\* \* \* END OF EXAMINATION PAPER \* \* \*

## **SECTION B – WRITTEN QUESTIONS** (Total: 80 marks)

### **Answer 1(a)**

Autumn Limited	
Industrial building allowance	
Year of assessment: 2019/20	
	HK\$
Residue of expenditure b/f	2,240,000
Less: A.A. – HK\$4,000,000 x 4%	<u>(160,000)</u>
Residue of expenditure c/f	<u>2,080,000</u>

### **Answer 1(b)**

Autumn Limited	
Profits tax computation	
Year of assessment: 2019/20	
Basis period: year ended 31 March 2020	
	HK\$
Net profit per income statement	2,844,000
Add: Compensation to a retired employee	500,000
Contributions to MPF schemes (HK\$192,000 – HK\$960,000 x 15%)	48,000
Fines	8,000
Second-hand motor vehicle	80,000
Loan to an ex-employee written off	50,000
Interest on the director's loan	30,000
Profits tax paid	30,000
Legal fee for selling the residential flat	40,000
Renovation expenditure of office premises (HK\$300,000 x 4/5)	240,000
Donations	400,000
Depreciation charged	<u>320,000</u>
	4,590,000
Less: Interest on TRC	1,000
Profit on sale of a residential flat	3,000,000
Industrial building allowance	160,000
Depreciation allowances	<u>374,000</u> (3,535,000)
	1,055,000
Less: Approved charitable donations (35%)	<u>(369,250)</u>
Assessable profit	<u>685,750</u>
Profits tax payable at two-tier profits tax rate @8.25%	56,574
Less: Tax reduction	<u>(20,000)</u>
Profits tax payable	<u>36,574</u>

### **Answer 1(c)(i)**

#### *Loan to an ex-employee written off*

To qualify for the deduction of bad debt, it must be proven to the satisfaction of the assessor that the debt is irrecoverable and the loan was previously included as trading receipt unless the person is carrying on a money lending business (s.16(1)(d)). As the loan to an ex-employee does not satisfy the above conditions, the amount written off is not deductible.

### **Answer 1(c)(ii)**

#### *Interest on the director's loan for purchasing the factory*

As the loan was used to purchase the factory for the purpose of producing chargeable profits, s.16(1)(a) is satisfied. However, the interest income received by the director is not chargeable to any tax in Hong Kong, so s.16(2)(c) is not satisfied. As the other conditions under s.16(2) are also not satisfied, the interest is not deductible.

### **Answer 2(a)**

	HK\$	HK\$
Donald Share option gain Year of assessment: 2019/20		
Market value at the time of exercise (200,000 x HK\$6.70)		1,340,000
Less: Cost of option	10,000	
Cost of shares (200,000 x HK\$3)	600,000	(610,000)
		<u>730,000</u>
Chargeable share option gain: HK\$730,000 x 120 / 365		<u>240,000</u>

## Answer 2(b)

Donald  
Salaries tax computation  
Year of assessment: 2019/20  
Basis period: year ended 31 March 2020

	HK\$	HK\$
Salaries		1,240,000
Commission		900,000
Petrol cost reimbursed (HK\$48,000 x 30%)		14,400
Holiday passage		77,000
		<u>2,231,400</u>
Rental value		
HK\$[2,231,400 – 900,000 x 10%] x 2 / 12 x 8%	28,552	
HK\$[2,231,400 – 900,000 x 10%] x 10 / 12 x 10%	178,450	
	<u>207,002</u>	
Less: Rent suffered (HK\$4,000 x 12)	(48,000)	159,002
		<u>2,390,402</u>
Share option gain		240,000
Total assessable income		<u>2,630,402</u>
Less: Outgoings and expenses (HK\$900,000 x 10%)	90,000	
Self-education expenses	80,000	(170,000)
		<u>2,460,402</u>
Less: Contributions to MPF scheme		(18,000)
		<u>2,442,402</u>
Less: Married person's allowance	264,000	
Child allowance	120,000	(384,000)
Net chargeable income		<u>2,058,402</u>
Tax at progressive rate: HK\$(2,058,402 – 200,000) x 17% + HK\$16,000		<u>331,928</u>
Tax at standard rate: HK\$2,442,402 x 15%		<u>366,360</u>
Salaries tax before tax reduction		<u>331,928</u>

## Answer 2(c)

### *Provision of motor car*

Gold provided the motor car for Donald's use, which is a benefit from the employment, however, the use of the car cannot be convertible into cash, hence the benefit is not taxable. The reimbursement of the petrol cost related to business use is not taxable as the expenditure is Gold's expenses. However, the reimbursement of the petrol cost relating to the personal use of Donald is a money's worth, which is chargeable to salaries tax.

### **Answer 3(a)**

Under s.60 of the Inland Revenue Ordinance ("IRO"), where it appears to an assessor that in any year of assessment:

- (1) no assessment has been raised on any person chargeable to tax; or
- (2) the person has been under-assessed,

The assessor may raise an assessment or an additional assessment within six years after the end of the year of assessment concerned according to his own judgement (s.60(1)). In the case of fraud or wilful evasion, the time limit is extended to ten years after the end of the year of assessment concerned (s.60(1) proviso (b)).

As the 2014/15 additional salaries tax assessment was issued to Joe within six years after the end of the year of assessment 2014/15, the additional assessment is properly issued and valid.

### **Answer 3(b)**

After an assessment has become final and conclusive in terms of s.70 of the IRO, the assessment can be reopened under s.70A of the IRO if it can be shown that the assessment is excessive by reason of:

- (1) any error or omission in any return or statement submitted in respect thereof; or
- (2) any arithmetical error or omission in the calculation of the amount of the assessable income or profits or amount of tax charged.

A person can make an application to the assessor asking him to correct such an assessment within six years after the end of the year of assessment concerned or within six months after the date of issue of that notice of assessment, whichever is the later.

Joe may apply for correction of omission of his claim for deduction of approved charitable donations under s.70A of the IRO. The deadline is the later of six years after 31 March 2015, i.e. 31 March 2021 or six months after the date of issue of the assessment, which is 15 September 2021. Therefore, Joe has to lodge his application on or before 15 September 2021.

**Answer 4(a)**

Nancy  
Property tax computation  
Year of assessment: 2019/20

	HK\$
Assessable value	300,000
Less: 20% statutory deductions	<u>(60,000)</u>
Net assessable value	<u>240,000</u>
Property tax @15%	<u><u>36,000</u></u>

**Answer 4(b)**

Sam  
Personal assessment  
Year of assessment: 2019/20

	HK\$	HK\$
Net assessable value HK\$(240,000 – 9,000) x 80%		184,800
Net assessable income		900,000
Net assessable profit		<u>420,000</u>
		1,504,800
Less: Mortgage loan interest		<u>(110,000)</u>
		1,394,800
Less: Approved charitable donations		
HK\$(300,000 + 10,000 – 100,000)	(210,000)	
Mandatory loan contributions to MPF scheme	<u>(18,000)</u>	<u>(228,000)</u>
		1,166,800
Less: Business loss		<u>(200,000)</u>
		966,800
Less: Married person's allowance		<u>(264,000)</u>
Net chargeable income		<u><u>702,800</u></u>



## Answer 5

Top Limited  
Depreciation allowance  
Year of assessment: 2019/20

	20% pool	30% pool	Machine X – 30%	Allowance
	HK\$	HK\$	HK\$	HK\$
WDV b/f	3,240	10,230	12,200	
Additions	<u>180,000</u>	<u>280,000</u>		
	183,240	290,230		
Less: I.A. – 60%	<u>(108,000)</u>	<u>(168,000)</u>		276,000
		122,230		
T/T pool		<u>12,200</u>	<u>(12,200)</u>	
	75,240	134,430	<u>0</u>	
Less: Disposal proceeds	<u>(80,000)</u>			
Balancing charge	<u>(4,760)</u>			(4,760)
Less: A.A.		<u>(40,329)</u>		40,329
WDV c/f		<u>94,101</u>		
			Machine F – 30%	
Cash price			240,000	
Less: I.A. HK\$(40,000 + 200,000 x 4/20) x 60%			<u>(48,000)</u>	48,000
			192,000	
Less: A.A.			<u>(57,600)</u>	57,600
WDV c/f			<u>134,400</u>	
Machine E – Prescribed fixed asset				150,000
Environment-friendly vehicle				300,000
Disposal proceeds of Machine A				(50,000)
Hire purchase interest HK\$(11,000 x 4 – 200,000 x 4/20)				<u>4,000</u>
				<u>821,169</u>

## **Answer 6**

The agreement for sale and purchase ("ASP")

Ad valorem duty ("AVD")

The ASP executed on 15 October 2020 is chargeable with AVD at the scale 2 rates because the purchaser, Tom, is a Hong Kong permanent resident, he did not own any residential property in Hong Kong at the time of purchase, and he purchased the property on his own behalf. The amount of AVD is as follows:

$$\text{AVD} = \text{HK\$}10,000,000 \times 3.75\% = \text{HK\$}375,000$$

Special stamp duty ("SSD")

As the vendor, George, purchased the residential property after 27 October 2012 and he owned the property for over 12 months but less than 36 months, the ASP is liable to SSD. The amount of SSD is as follows:

$$\text{SSD} = \text{HK\$}10,000,000 \times 10\% = \text{HK\$}1,000,000$$

Buyer's stamp duty ("BSD")

The ASP is not chargeable with BSD as the purchaser, Tom, is a Hong Kong permanent resident.

The conveyance on sale ("COS")

The nominee May is the wife of the purchaser, Tom, and thus she is considered a close relative of Tom. Also, May did not own any residential property in Hong Kong at the time of executing the COS and they acted on their own behalf in the purchase of the property. Tom and May are treated as the same person. The COS is in conformity with the ASP and the COS is charged with a fixed duty of HK\$100.

SSD and BSD

Since the COS is in conformity with the ASP, no SSD or BSD is required.

\* \* \* END OF EXAMINATION PAPER \* \* \*



## **Qualification Programme Examination Panelist's Report**

### **Module 9 – Principles of Taxation (December 2021 Session)**

*(The main purpose of the following report is to summarise candidates' common weaknesses and make recommendations to help future candidates improve their performance in the examination.)*

#### **(I) Section A – Multiple Choice Questions**

##### **General Comments**

This section consisted of 10 multiple choice questions. Candidates were required to answer all questions. The contents of the questions related broadly to the following topics:

- (a) Tax administration;
- (b) Property tax;
- (c) Salaries tax;
- (d) Profits tax; and
- (e) Stamp duty.

The questions covered non-computational questions and computational questions. Candidates' overall performance in this section was average.

##### **Specific Comments**

The wide range of topics in the syllabus may be a source of difficulty for candidates. Candidates were especially weak in the following areas:

- (a) Profits tax – prescribed fixed assets;
- (b) Profits tax – taxation on non-resident; and
- (c) Stamp duty – lease.

Candidates were advised that multiple choice questions could cover every part of the syllabus. They should have had adequate coverage and knowledge of all topics in the syllabus when they prepared for the examination.

#### **(II) Section B – Written Questions**

##### **General Comments**

The questions in this section tested the candidates on their conceptual understanding and their ability to apply their knowledge to specific situations that are commonly tackled by tax professionals in their work. Overall performance in this section was less than satisfactory. Many candidates demonstrated a basic understanding of computing tax



liability under different types of tax. However, they were reluctant to answer essay-type questions. They could not present their answers properly as required in the questions. Candidates should improve their analytical and writing skills. Candidates should be made aware that their poor performance on this part of the assessment would greatly affect their overall performance.

### **Specific Comments**

#### **Question 1(a) – 2 Marks**

This question required candidates to compute the amount of industrial building allowance.

Performance was satisfactory. Most candidates could use the qualifying expenditure to compute the annual allowance. However, some candidates wrongly used the residual value.

#### **Question 1(b) – 18 Marks**

This question required candidates to compute the profits tax liability of a corporation.

Candidates performed well in this question. They generally showed a basic knowledge of profits tax computation. Yet, candidates should note that:

- (a) Rent for the office was deductible despite the fact that it was owned by the director;
- (b) Interest on the director's loan was not deductible;
- (c) Profit on sale of a residential flat was not taxable as it was capital gain; and
- (d) the amount of approved charitable donations allowed should be capped at 35% on profits after depreciation allowances.

#### **Question 1(c)(i) – 3 Marks**

This question required candidates to analyse the tax treatment of a loan to an ex-employee written off.

Performance was poor. Candidates failed to identify the conditions for the deduction of bad debts as provided under the Inland Revenue Ordinance.

#### **Question 1(c)(ii) – 3 Marks**

This question required candidates to analyse the tax treatment of interest on the director's loan.

Performance was poor. Candidates failed to analyse the deductibility of interest paid had to fulfil any condition under section 16(2) of the Inland Revenue Ordinance despite the fact that it was used for the purpose of producing chargeable profits.



Question 2(a) – 4 Marks

This question required candidates to compute the share option gain chargeable to salaries tax.

Performance was good. Most candidates could compute the amount of share option gain. However, some candidates did not apportion the gain attributable to Hong Kong services.

Question 2(b) – 11 Marks

This question required candidates to compute the salaries tax liability of an employee under Hong Kong employment.

Candidates performed well in this question. Candidates generally demonstrated basic knowledge of salaries tax computation. However, candidates should strengthen their knowledge on the computation of rental value in case where different types of accommodation were provided in a year of assessment. Candidates should also note that:

- (a) The whole amount of commission was chargeable to tax and allowed 10% of it under outgoing and expense;
- (b) Benefit on the motor car was not taxable; and
- (c) Standard rate should be on the assessable income before personal allowances instead of on the net chargeable income.

Question 2(c) – 3 Marks

This question required candidates to analyse the tax treatment of the provision of the motor car.

Candidates did not perform well. They failed to explain the reasons why the provision of the motor car was not a taxable benefit.

Question 3(a) – 3 Marks

This question required candidates to explain the time limit for an assessor to raise an assessment or additional assessment.

Performance was poor. Most candidates failed to mention the time limit as specified under section 60 of the Inland Revenue Ordinance.

Question 3(b) – 6 Marks

This question required candidates to analyse the circumstances under which an assessment can be reopened after an assessment had become final and conclusive.



Performance was disappointing. Many candidates wrongly applied the objection procedures. They had no idea that a taxpayer could lodge a section 70A claim for correction of omission of his/her claim for deduction of approved charitable donations.

Question 4(a) – 3 Marks

This question required candidates to compute the property tax liability.

Performance was good. They were familiar with the presentation of the property tax computation. However, some candidates wrongly deducted the mortgage loan interest in the computation.

Question 4(b) – 6 Marks

This question required candidates to compute the net chargeable income under personal assessment.

Candidates performed fairly in this question. The candidates did not present the personal assessment computation format properly. The candidates also failed to include the net assessable value correctly. Candidates should note that:

- (a) The total approved charitable donations should include the spouse's donations;
- (b) The business loss should be deducted after the deduction of concessionary deductions; and
- (c) Married person's allowance instead of the basic allowance should be granted.

Question 5(a) – 9 Marks

This question required candidates to compute the amount of depreciation allowances for plant & machinery and the hire purchase interest.

Performance was average. Candidates possessed the concept of pooling system for plant & machinery. Yet, they should note that:

- (a) The prescribed fixed assets (including its disposal proceeds) should not be included in the pool;
- (b) The residual value of the fully paid hire purchase motor vehicle should be transferred to the pool;
- (c) They were not familiar with the calculation of depreciation allowances of machine under hire purchase; and
- (d) They did not compute the amount of hire purchase interest correctly.

Question 6 – 9 Marks

This question required candidates to analyse and compute the amount of stamp duty payable on the agreement for sale and purchase and conveyance on sale of a residential property.



Candidates performed well in the part of the agreement for sale and purchase but poor in the part of the conveyance on sale. Candidates did not realise that Tom and May were treated as the same person, the conveyance on sale was considered in conformity with the agreement for sale and purchase, no ad valorem duty, special stamp duty or buyer's stamp duty was payable.

**(III) Conclusion and Recommendation**

Overall, the performance of the candidates was less than satisfactory. The syllabus of this paper covered Inland Revenue Ordinance and Stamp Duty Ordinance, for which candidates should have been thoroughly prepared. The questions consisted of computational questions and essay-type questions. The essay-type questions which required analysis or explanation were answered poorly. Candidates were reluctant to answer them or unable to present the answers properly. Many candidates seemed to have no idea on those topics. If they wish to attain better results, candidates are advised not just to focus their studies on the computational parts of the syllabus.