



Hong Kong Institute of
Certified Public Accountants
香港會計師公會



Qualification Programme

Module 9 Principles of Taxation

Pilot Examination Paper

Time Allowed	3 hours
Examination Assessment Allocation	
Section A – Multiple Choice Questions	20 Marks All TEN questions are compulsory
Section B – Written Questions	80 Marks All SIX questions are compulsory

Do not open this question paper until instructed by the supervisor.

You should answer Section A – Multiple Choice Questions on the first page of the Script Booklet and answer Section B – Written Questions on the rest of the pages.

This question paper must not be removed from the examination centre.

Copyright © 2019 Hong Kong Institute of Certified Public Accountants

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted, in any form or by any means, electronic, mechanical, photocopying, recording and/or otherwise, without the prior written permission of the copyright owner.

Published in October 2019

Module 9 – Principles of Taxation

This examination is divided into TWO sections.

- Section A (20%). This consists of TEN compulsory multiple choice questions. You should allocate approximately 36 minutes in total for Section A.
- Section B (80%). This consists of SIX compulsory written questions. You should allocate approximately 2 hours and 24 minutes in total for Section B.

Suggested time allocation (by marks):

Marks	Approximate time in minutes
1	2
2	3
3	5
4	7
5	9
6	11
7	12
8	14
9	16
10	18
11	20
12	21
13	23
14	25
15	27
16	29
17	30
18	32
19	34
20	36

Table A: Personal allowances and deductions

Year of assessment	2018/19
Personal allowances	HK\$
Basic	132,000
Married person's	264,000
Single parent	132,000
Child	
1 st to 9 th child (each)	120,000
Additional allowance in the year of birth (each)	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
Additional (for dependant residing with taxpayer continuously throughout the whole year)	50,000
Dependent parent / grandparent (aged 55-59)	
Basic	25,000
Additional (for dependant residing with taxpayer continuously throughout the whole year)	25,000
Dependent brother / sister	37,500
Personal disability	75,000
Disabled dependant	75,000
Deductions / Concessionary deductions	HK\$
Self-education expenses	100,000
Home loan interest	100,000
Elderly residential care expenses	100,000
Contributions to recognised retirement schemes	18,000
Approved charitable donations	35%
Depreciation allowances	
Plant and machinery: Initial allowance ("IA")	60%
Annual allowance ("AA")	Given in question
Industrial building: IA	20%
AA	4%
Commercial building: AA	4%

Table B: Tax rates

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

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

Table C: Stamp duty rates

Conveyance and Agreement for sale		
Ad Valorem Stamp Duty (marginal reliefs ignored)		
	Scale 1	Scale 2
Not exceeding HK\$2,000,000	1.5%	HK\$100
Not exceeding HK\$3,000,000	3%	1.5%
Not exceeding HK\$4,000,000	4.5%	2.25%
Not exceeding HK\$6,000,000	6%	3%
Not exceeding HK\$20,000,000	7.5%	3.75%
Exceeding HK\$20,000,000	8.5%	4.25%
	From	
	5/11/2016	
For residential property	15%	(unless specifically exempted or provided otherwise)
Special Stamp Duty		
Holding period		
Not exceeding 6 months		20%
Between 6 months and 12 months		15%
Between 12 months and 36 months		10%
Buyer's Stamp Duty		15%
Lease		
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
Hong Kong Stock Transfer		
Contract notes		0.2%
Instrument of transfer		HK\$5

SECTION A – MULTIPLE CHOICE QUESTIONS (Total: 20 marks)

Answer **ALL** questions in this section. Choose the best answer for each question. Together they are worth 20% of the total marks for this examination.

Questions 1 to 10 carry 2 marks each. (20 marks – approximately 36 minutes)

1. Identify which of the following persons can apply for exemption from property tax.
 - A A sole proprietor carrying on a business in Hong Kong with the rental income chargeable to profits tax.
 - B An individual who is a permanent resident of Hong Kong aged over 60 and without any source of income chargeable to tax in Hong Kong.
 - C A corporation carrying on a trade, profession or business in Hong Kong with the rental income included as part of its profits chargeable to profits tax.
 - D A corporation carrying on a trade, profession or business in Hong Kong with an annual turnover (including the rental income) of less than HK\$500,000.

2. Identify which of the following is not a power provided under the Inland Revenue Ordinance ("IRO") to recover tax in default.
 - A To take civil action in the District Court against the tax defaulter.
 - B To give a notice to the employer of a taxpayer to pay the amount of outstanding tax from the taxpayer's salary.
 - C The Commissioner of Inland Revenue ("CIR") can issue a departure prevention direction to prevent the tax defaulter from leaving Hong Kong.
 - D Impounding ships or aircraft in case of a default by an owner or charterer of ships or aircraft.

3. Peter purchased a residential flat ("the property") as his residence in February 2018 when the property was under construction. The occupation permit of the property was issued on 1 June 2018. The property was pledged to obtain mortgage loan from a local bank to finance the purchase. Peter moved into the property as his residence starting from 1 July 2018. During the period from 1 April 2018 to 30 June 2018, he was living in a rented accommodation. During the year ended 31 March 2019, he paid total mortgage loan interest of HK\$108,000.

Calculate the amount of home loan interest to be allowed to Peter for the year of assessment 2018/19.

- A HK\$50,000.
B HK\$81,000.
C HK\$90,000.
D HK\$100,000.
4. A Limited, a company incorporated and carrying on business in Hong Kong, commenced to employ Miss Fong to work in Hong Kong starting from 1 October 2018 at a monthly salary of HK\$10,000. Miss Fong is married and she was not working before the employment with A Limited. Identify which of the following statements is correct regarding the notification by A Limited to the CIR concerning the commencement of employment of Miss Fong.
- A A Limited is not required to notify the CIR about the commencement of employment with Miss Fong as her income is less than the personal allowance for the year of assessment 2018/19.
B A Limited is obliged to notify the CIR in writing not later than one month after the date of commencement of employment with Miss Fong.
C A Limited is obliged to notify the CIR in writing not later than two months after the date of commencement of employment with Miss Fong.
D A Limited is obliged to notify the CIR in writing not later than three months after the date of commencement of employment with Miss Fong.

5. G Limited is a manufacturer of metal products in Hong Kong. On 1 May 2018, it purchased manufacturing machinery for use in its manufacturing process under hire purchase terms as follows:

	HK\$
Cash price	400,000
Downpayment	(100,000)
	<u>300,000</u>

The balance was paid by 24 monthly instalments at HK\$14,000 each starting from 1 June 2018.

The machinery qualified for an annual allowance rate of 30%. G Limited prepares its accounts to 31 December each year.

Calculate the total deduction (including the hire purchase interest) available to G Limited under profits tax in respect of the above machinery for the year of assessment 2018/19.

- A HK\$198,000.
B HK\$198,750.
C HK\$209,250.
D HK\$400,000.
6. Identify which of the following are included in the definition of "business" under s.2(1) of the IRO.
- (1) Agricultural undertaking
(2) Pig rearing
(3) Letting or subletting by a corporation
- A (1) and (2) only.
B (1) and (3) only.
C (2) and (3) only.
D All of the above.

7. Stephen is employed by B Limited in Country B and it is accepted that his employment is located outside Hong Kong. During the year ended 31 March 2019, he visited Hong Kong for 140 days during which he rendered services for 120 days. His employer provided him with a hotel suite with one bedroom when he stayed in Hong Kong. During the year ended 31 March 2019, Stephen received total salaries of HK\$730,000 from his employer.

Calculate Stephen's assessable income for the year of assessment 2018/19.

- A HK\$249,600.
 B HK\$291,200.
 C HK\$302,400.
 D HK\$308,000.
8. H Limited and B Limited are associated corporations incorporated in Hong Kong and Country B respectively. For the purpose of its intra-group financing business, H Limited borrowed money and paid interest during the year ended 31 March 2019 as follows:

Lender	Interest paid by H Limited	Particulars
Bank K in Hong Kong	HK\$250,000	The loan is secured by immovable property of H Limited's director in Hong Kong.
B Limited	HK\$300,000	The interest received by B Limited is not subject to Hong Kong profits tax but it is taxed at 17% in Country B.

Calculate the amount of interest expense which is deductible under H Limited's profits tax for the year of assessment 2018/19.

- A HK\$550,000.
 B HK\$300,000.
 C HK\$250,000.
 D HK\$0.

9. T Limited commenced business on 1 July 2017 and prepared its first accounts to 31 December 2018 with an adjusted profit of HK\$360,000. Calculate T Limited's adjusted profit for the year of assessment 2017/18.

- A HK\$120,000.
- B HK\$180,000.
- C HK\$240,000.
- D HK\$360,000.

10. Vincent leased his residential property to Charles at a monthly rent of HK\$20,000 starting from 1 January 2018. Rates of HK\$2,400 per quarter were payable by Vincent. Due to the rates concession, Vincent only paid HK\$1,400 per quarter to the HKSAR Government for the year ended 31 March 2019.

Calculate the net assessable value of Vincent's property for the year of assessment 2018/19.

- A HK\$184,320.
- B HK\$187,520.
- C HK\$192,000.
- D HK\$196,480.

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.

Question 1 (26 marks – approximately 48 minutes)

AG Limited ("the Company") is incorporated and carries on a trading business in Hong Kong. Mr Chen is the director of the Company. The Company does not carry on any other business in Hong Kong and it prepares its accounts to 31 March each year. Its statement of profit or loss and other comprehensive income for the year ended 31 March 2019 shows the following particulars:

	Notes	HK\$	HK\$
Gross profits	1		11,256,000
Interest received	2		170,000
Dividends from wholly owned subsidiary in mainland China	3		<u>66,500</u>
			11,492,500
Less: Auditor's fee		60,000	
Director's remuneration	4	1,560,000	
Salaries and allowances		5,370,000	
Rent and rates for office premises	5	640,000	
Contributions to mandatory provident fund ("MPF") scheme	6	990,000	
Loss on sale of fixed asset	7	10,000	
Commission	8	550,000	
Interest paid	9	250,000	
Water and electricity		80,000	
Motor vehicle expenses	10	275,000	
Bad debts	11	227,000	
Donations	12	400,000	
Depreciation		312,000	
General expenses (all allowable)		<u>370,000</u>	<u>(11,094,000)</u>
Net profit			<u><u>398,500</u></u>

Notes:

(1) All gross profits are sourced in Hong Kong.

(2) Interest from Hong Kong dollar fixed deposit placed with a local bank (see also Note 9 below)	HK\$
Interest from customers on overdue accounts	140,000
	<u>30,000</u>
	<u><u>170,000</u></u>

(3) Gross dividend	HK\$
Less: Withholding tax @ 5%	70,000
	<u>(3,500)</u>
	<u><u>66,500</u></u>

	HK\$
(4) Director's fee to Mr Chen	1,200,000
Rent and rates paid to landlord for director's accommodation rented by the Company directly	<u>360,000</u>
	<u>1,560,000</u>

	HK\$
(5) Rent of office premises paid to landlord*	600,000
Rates of office premises	<u>40,000</u>
	<u>640,000</u>

* The office premises are wholly owned by KG Limited, the Company's wholly owned subsidiary in Hong Kong.

	HK\$
(6) Special payment to the scheme	500,000
Annual contribution to the scheme in respect of:	
Mr Chen (20%)	240,000
Other employees (5% of remuneration)	<u>250,000</u>
	<u>990,000</u>

	HK\$	HK\$
(7) Sales proceeds of computers		20,000
Costs of computers	80,000	
Less: Accumulated depreciation	<u>(50,000)</u>	<u>(30,000)</u>
		<u>(10,000)</u>

The computers were purchased in 2012 and the costs were deducted under prescribed fixed assets in the year of assessment 2012/13.

	HK\$
(8) Salesmen's commission	320,000
Commission to undisclosed recipients	<u>230,000</u>
	<u>550,000</u>

	HK\$
(9) Interest on loan from Mr Chen	50,000
Interest on loan from a local bank. The loan was secured by the Company's fixed deposit as mentioned in Note 2 above.	<u>200,000</u>
	<u>250,000</u>

Mr Chen has not carried on any business in Hong Kong.

	HK\$
(10) Fine	14,000
Petrol	170,000
Car-parking charges	72,000
Repairs	<u>19,000</u>
	<u>275,000</u>

	HK\$
(11) Trade debt written off	127,000
Loan to a customer written off	<u>100,000</u>
	<u>227,000</u>

(12) These were cash donations paid to approved charitable organisations in Hong Kong.

Other information:

(13) The tax written down value of plant and machinery under the 30% pool brought forward from the year of assessment 2017/18 is HK\$76,000. During the year, the Company purchased the following assets:

Motor vehicles: HK\$800,000
Computers: HK\$120,000

Other than the disposal mentioned in Note 7, the Company also sold a motor vehicle for HK\$30,000 (at book value) and the cost of the motor vehicle was HK\$600,000.

(14) The Company had incurred decoration expenses of HK\$275,000 when the Company moved into the office premises (Note 5) in the year of assessment 2010/11.

Required:

(a) **Compute AG Limited's profits tax liability for the year of assessment 2018/19. Ignore provisional profits tax.** (21 marks)

(b) **Analyse the tax treatment in respect of the following items:**

(i) **Interest of HK\$30,000 received from customers on overdue accounts (Note 2); and** (2 marks)

(ii) **Loan to a customer of HK\$100,000 written off (Note 11).** (3 marks)

Question 2 (10 marks – approximately 18 minutes)

CD Limited is incorporated in Hong Kong. Its principal business is organising music concerts in Hong Kong. CD Limited is going to organise a music concert in Hong Kong in January 2018 with the performance of an American singer and some local singers. CD Limited will pay HK\$1,500,000 and HK\$600,000 to the American singer and the local singers respectively.

Required:

- (a) Describe the withholding obligation in relation to the payment to the entertainers as provided under the IRO.

(3 marks)

- (b) Analyse, with reference to the relevant provisions in the IRO, whether the withholding of tax is required in each of the above payments made by CD Limited.

If so, compute the amount of assessable profit and the amount of tax to be withheld. Ignore any tax reduction.

(7 marks)

Question 3 (8 marks – approximately 14 minutes)

On 15 June 2018, Kevin executed an agreement for sale to purchase a residential property ("the property") in Mid-levels from Martin for HK\$12,000,000. Martin purchased the property on 1 September 2017 from the developer for HK\$8,000,000.

Kevin did not own any residential property in Hong Kong at the time of purchasing the property from Martin. He acts on his own behalf in the purchase of the property. Kevin is a Hong Kong permanent resident. Kevin and Martin 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 entered into by Kevin.

If so, compute the respective amounts payable.

(8 marks)

Question 4 (18 marks – approximately 32 minutes)

Mr Zhang is employed by AF Limited. AF Limited is a company incorporated and carrying on business in Hong Kong. Under the terms of employment, Mr Zhang is required to perform duties in Hong Kong and Country A. No comprehensive double taxation arrangement has been made between Hong Kong and Country A. You have been supplied with the following information regarding Mr Zhang for the year of assessment 2018/19:

- (1) During the year ended 31 March 2019, Mr Zhang performed his duties in Country A for 120 days. According to the law in Country A, he is not required to pay any tax in respect of his income attributable to his services performed therein.
- (2) Salaries: HK\$1,200,000
- (3) Bonus: HK\$200,000
- (4) Lump sum cash allowance for stays in Country A: HK\$50,000
- (5) Mr Zhang leased a flat in Hong Kong at a monthly rent of HK\$38,000 as his residence. AF Limited refunded a monthly rent of HK\$35,000 to him and credited it to his monthly salary directly.
- (6) On 1 May 2018, AF Limited unconditionally granted an option to Mr Zhang for the right to purchase 80,000 shares in AF Limited at HK\$2 each within two years. Mr Zhang paid HK\$15,000 for the option. On 1 July 2018, Mr Zhang exercised the option. He sold all the shares on 31 March 2019. The market prices per share were as follows:

1 May 2018	HK\$4.50
1 July 2018	HK\$4.00
31 March 2019	HK\$5.50
- (7) AF Limited paid HK\$60,000 to a travel agency to arrange a trip to Germany for Mr and Mrs Zhang during his vacation in August 2018. Mr Zhang spent a further HK\$20,000 during the trip.
- (8) Mr Zhang contributed HK\$36,000 to an MPF scheme.
- (9) Mr Zhang paid residential care expenses of HK\$92,000 in respect of his father who is aged 70. The residential care home is situated in Hong Kong.
- (10) Mr Zhang is married and his wife is a housewife. They have a son aged 13 who is studying in Hong Kong.

Required:

- (a) In determining the locality of employment under salaries tax, list the factors which will be taken into account by the Inland Revenue Department ("IRD") as specified in the Departmental Interpretation and Practice Notes No. 10. (3 marks)
- (b) Compute Mr Zhang's share option gain chargeable to salaries tax for the year of assessment 2018/19. (3 marks)
- (c) Compute Mr Zhang's salaries tax liability for the year of assessment 2018/19. Ignore provisional salaries tax. (12 marks)

Question 5 (9 marks – approximately 16 minutes)

TT Limited is incorporated in Country A. It established a liaison office in Hong Kong for the purpose of introducing Hong Kong customers to the main office and following up the sale orders. Recently, it received an estimated profits tax assessment for the year of assessment 2018/19 issued by the IRD on 4 December 2019 due to its failure to file a tax return.

Assume today is 2 January 2020, the director of TT Limited approaches you for advice.

Required:

- (a) Describe the circumstances under which a person is chargeable to profits tax as provided under s.14 of the IRO. (3 marks)
- (b) Describe the requirements of a valid objection against an assessment as specified under the IRO. (6 marks)

Question 6 (9 marks – approximately 16 minutes)

Paul and Mary are husband and wife. They are permanent residents of Hong Kong. You have been supplied with the following information for the year of assessment 2018/19:

- (1) Paul has the following income:
- (i) Rental income of HK\$180,000 from his solely-owned property ("Property A") in Hong Kong. The tenant was responsible for the payment of rates of HK\$1,800 per quarter.
 - (ii) Hong Kong employment income: HK\$100,000
 - (iii) Assessable profit from his sole-proprietorship business in Hong Kong: HK\$480,000
 - (iv) Dividend from a private company in Hong Kong: HK\$150,000
- (2) Mary has the following income or loss:
- (i) Hong Kong employment income: HK\$400,000
 - (ii) Agreed share of loss from her partnership business in Hong Kong: (HK\$500,000)
- (3) Paul and Mary paid the following expenses:

	Paul HK\$	Mary HK\$
(i) Contributions to MPF schemes*	18,000	18,000
(ii) Mortgage loan interest for Property A	160,000	-
(iii) Home loan interest#	60,000	60,000
(iv) Cash paid to Mary's father aged 58	24,000	-
(v) Cash donations to approved charitable organisations	-	150,000

*Paul's contribution is allowed under profits tax for his sole-proprietorship business.

#Paul and Mary jointly own their home.

- (4) Paul and Mary are living with Mary's father. They have no other dependant. Paul and Mary jointly elect for personal assessment for the year of assessment 2018/19.

Required:

Compute the reduced total income under personal assessment in respect of Paul and Mary for the year of assessment 2018/19.

(9 marks)

* * * END OF EXAMINATION PAPER * * *

Module 9

Principles of Taxation

Answers

The suggested answers are longer than what candidates are expected to give in the examination. The purpose of the suggested answers is meant to help candidates in their revision and learning. The suggested answers may not contain all the correct points and candidates should note that credit will be awarded for valid answers which may not fully covered in the suggested answers.

SECTION A – MULTIPLE CHOICE QUESTIONS (Total: 20 marks)

Questions	Answers	Marks allocation
1.	C	2
2.	C	2
3.	B	2
4.	D	2
5.	C	2
6.	D	2
7.	B	2
8.	A	2
9.	A	2
10.	B	2

* * * END OF SECTION A * * *

SECTION B – WRITTEN QUESTIONS (Total: 80 marks)

Answer 1(a)

AG Limited			
Profits tax computation			
Year of assessment 2018/19			
Basis period: year ended 31 March 2019			
		HK\$	HK\$
Net profit			398,500
Add: Special payment to mandatory provident fund ("MPF") scheme (HK\$500,000 x 4/5)			400,000
Annual contribution in respect of Mr Chen (HK\$240,000 - HK\$1,200,000 x 15%)			60,000
Loss on sale of fixed asset			10,000
Sale proceeds of computers			20,000
Commission to undisclosed recipients			230,000
Interest on loan from Mr Chen			50,000
Fine			14,000
Loan to a customer written off			100,000
Donations			400,000
Depreciation			<u>312,000</u>
			1,994,500
Less: Dividends		66,500	
Depreciation allowance for plant and machinery		589,800	
Commercial building allowance (HK\$275,000 x 4%)		11,000	
Prescribed fixed assets - computers		<u>120,000</u>	<u>(787,300)</u>
			1,207,200
Less: Approved charitable donations (35% limit)			<u>(400,000)</u>
Assessable profit			<u>807,200</u>
Profits tax @ 8.25%			66,594
Less: Tax reduction			<u>(20,000)</u>
Profits tax payable			<u>46,594</u>
	Depreciation allowance		
		30% pool	Allowance
T.W.D.V. b/fwd		76,000	
Additions		<u>800,000</u>	
		876,000	
Less: I.A. @ 60% on additions		<u>(480,000)</u>	480,000
		396,000	
Less: Sale proceeds		<u>(30,000)</u>	
		366,000	
Less: A.A.		<u>(109,800)</u>	109,800
T.W.D.V. c/fwd		<u>256,200</u>	<u>589,800</u>
Presentation and other correct items which are not required adjustments			

Answer 1(b)(i)

Interest of HK\$30,000 received from customers on overdue accounts

The interest received from customers on overdue accounts is part of the trading receipt which is chargeable to profits tax. It is revenue in nature and therefore is taxable. This is not the interest referred to s.15(1)(f) of the Inland Revenue Ordinance ("IRO") and the provision of credit test is not applicable.

Answer 1(b)(ii)

Loan to a customer of HK\$100,000 written off

As the loan to a customer was not included previously as a trading receipt and AG Limited is not carrying on a money-lending business, the amount written off cannot be deducted from the assessable profit even though it is proved to the satisfaction of the assessor that the debt is irrecoverable (s.16(1)(d) of the IRO).

Answer 2(a)

S.20B(3) of the IRO requires a resident person to withhold a sufficient amount to meet the tax due when the person pays or credits a non-resident sums which are derived from the performance in Hong Kong by a non-resident entertainer in connection with a commercial occasion or event.

Answer 2(b)

No withholding tax is required for the payment made to local singers under the IRO.

CD Limited is required to withhold tax when it makes payment to the American singer in relation to his/her performance in Hong Kong. CD Limited will be chargeable to tax on behalf of the American singer. The Inland Revenue Department ("IRD") will accept that one-third of the sum concerned will be allowed as deductions and two-thirds of the amount will be treated as assessable profits (Departmental Interpretation and Practice Notes ("DIPN") No. 17). The amount of assessable profits and the tax to be withheld are as follows:

Assessable profits: $\text{HK\$}1,500,000 \times \frac{2}{3} = \text{HK\$}1,000,000$

Amount to be withheld: $\text{HK\$}1,000,000 \times 15\% = \text{HK\$}150,000$

Answer 3

Ad valorem duty ("AVD")

The agreement for sale executed on 15 June 2018 is chargeable with AVD at the scale 2 rates as the purchaser, Kevin, 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:

$\text{AVD} = \text{HK\$}12,000,000 \times 3.75\% = \text{HK\$}450,000$

Special stamp duty ("SSD")

As Martin purchased the subject residential property after 27 October 2012 and owned the property for more than 6 months but less than 12 months, Martin is liable to SSD as follows:

$$\text{SSD} = \text{HK\$}12,000,000 \times 15\% = \text{HK\$}1,800,000$$

Buyer's stamp duty ("BSD")

BSD is payable if a residential property is purchased by any person on or after 27 October 2012, except a Hong Kong permanent resident. Since Kevin is a Hong Kong permanent resident, no BSD is payable.

Answer 4(a)

In determining the locality of employment, the IRD will take into account all of the relevant facts, with particular emphasis on (DIPN No. 10):

- (1) where the contract of employment was negotiated and entered into, and is enforceable, whether in Hong Kong or outside Hong Kong;
- (2) where the employer is resident, whether in Hong Kong or outside Hong Kong; and
- (3) Where the employee's remuneration is paid to him, whether in Hong Kong or outside Hong Kong.

Answer 4(b)

Mr Zhang		
Share option gain		
Year of assessment 2018/19		
Basis period: year ended 31 March 2019		
	HK\$	HK\$
Market value at the time of exercise (80,000 x HK\$4)		320,000
Less: Cost of option	15,000	
Cost of shares (80,000 x HK\$2)	<u>160,000</u>	<u>(175,000)</u>
		<u>145,000</u>

Answer 4(c)

Mr Zhang		
Salaries tax computation		
Year of assessment 2018/19		
Basis period: year ended 31 March 2019		
	HK\$	HK\$
Salaries		1,200,000
Bonus		200,000
Country A lump sum cash allowance		50,000
Holiday journey benefit		<u>60,000</u>
		1,510,000

Rental value (10%)	151,000	
Less: Rent suffered [HK\$(38,000 – 35,000) x 12]	<u>(36,000)</u>	<u>115,000</u>
		1,625,000
Share option gain		<u>145,000</u>
		1,770,000
Less: Elderly residential care expenses	92,000	
MPF contributions	<u>18,000</u>	<u>(110,000)</u>
		1,660,000
Less: Married person's allowance	264,000	
Child allowance	<u>120,000</u>	<u>(384,000)</u>
Net chargeable income		<u>1,276,000</u>
Tax at progressive rates: [HK\$(1,276,000-200,000) x 17% + HK\$16,000]		<u>198,920</u>
Tax at standard rate: (HK\$1,660,000 x 15%)		<u>249,000</u>
Salaries tax		198,920
Less: Tax reduction		<u>(20,000)</u>
Salaries tax payable		<u>178,920</u>

Answer 5(a)

Subject to the provisions of the IRO, the conditions as specified under s.14 of the IRO that a person is chargeable to profits tax are:

- (1) The person must carry on a trade, profession or business in Hong Kong.
- (2) The profits to be charged must be from such trade, profession or business carried on by the person in Hong Kong.
- (3) The profits must be profits arising in or derived from Hong Kong.

Answer 5(b)

Under s.64 of the IRO, the requirements of a valid objection are:

- (1) The notice of objection must be in writing.
- (2) The notice of objection must be received by the Commissioner of Inland Revenue ("CIR") within one month after the date of issue of the relevant notice of assessment.
- (3) The notice of objection must state precisely the grounds of objection.
- (4) In the case the assessment objected to is raised in the absence of a return under s.59(3) of the IRO (as the case of TT Limited), a properly completed return must be submitted with the notice of objection or within such further period as the CIR may allow.

However, if the person is prevented from giving the notice of objection within the one-month period due to:

- (1) absence from Hong Kong;
- (2) sickness; or
- (3) other reasonable cause,

the CIR may extend the one-month limit for lodging the objection as may be reasonable in the circumstances.

Since the one-month period for lodging a valid objection will be lapsed on 5 January 2020, TT Limited should file a notice of objection with a completed return to the CIR on or before 4 January 2020.

Answer 6

Paul and Mary
Personal assessment
Year of assessment 2018/19
Basis period: year ended 31 March 2019

	Paul HK\$	Mary HK\$	Total HK\$
Net assessable value (HK\$180,000 x 80%)	144,000	-	
Net assessable income	100,000	400,000	
Net assessable profit	<u>480,000</u>	<u>-</u>	
	724,000	400,000	
Less: Mortgage loan interest, restricted	<u>(144,000)</u>		
	580,000		
Less: Concessionary deductions			
Approved charitable donations (Note)	(10,000)	(140,000)	
Home loan interest	(50,000)	(50,000)	
MPF contributions	<u>-</u>	<u>(18,000)</u>	
	520,000	192,000	
Business loss	<u>-</u>	<u>(500,000)</u>	
	520,000	(308,000)	
Inter-spouse loss set-off	<u>(308,000)</u>	<u>308,000</u>	
Reduced total income	<u>212,000</u>	<u>-</u>	<u>212,000</u>

Note:

Mary: HK\$400,000 x 35% = HK\$140,000

Amount of donation transferred to Paul: HK\$150,000 - HK\$140,000 = HK\$10,000

Paul: Lower of HK\$203,000 (HK\$580,000 x 35%) and HK\$10,000

* * * END OF EXAMINATION PAPER * * *