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Examination Techniques Seminar on QP Module Examinations

Module D
(June 2016 Session)





Agenda

- 1 • Introduction
- 2 • Common Weaknesses
- 3 • Sharing with Markers
- 4 • Preparation for Examinations
- 5 • Q & A Session



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Part 1: Introduction





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Today's objective:
***Finding ways to pass the
Module Examination!***



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HKICPA QP Module Examinations

Examination Format:

- Section A – Case Questions (50%)
- Section B – Essay / Short Questions (50%)
- 3 hours duration for each Paper
- All compulsory questions



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Part 2: Common Weaknesses





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Major causes to examination failure



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Aspect 1: Questions

- Difficulty in identifying the specific question requirements
- Misinterpretation of the question requirements



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Aspect 2: **Answers**

- Approach or structure of answers are disorganized
- Answers are either too long or too short
- Answers are wrong, irrelevant, or lack of practical consideration
- Answers are not linked to the case facts
- Answers are straight copy from LP or reference materials
- Did not attempt all questions



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Aspect 3:

Candidates

- Inadequate or ineffective preparation
- Other commitments affecting examination preparation
- Not in a good form to perform on examination day
- Felt panicking or got nervous in the examination centre
- Poor time management

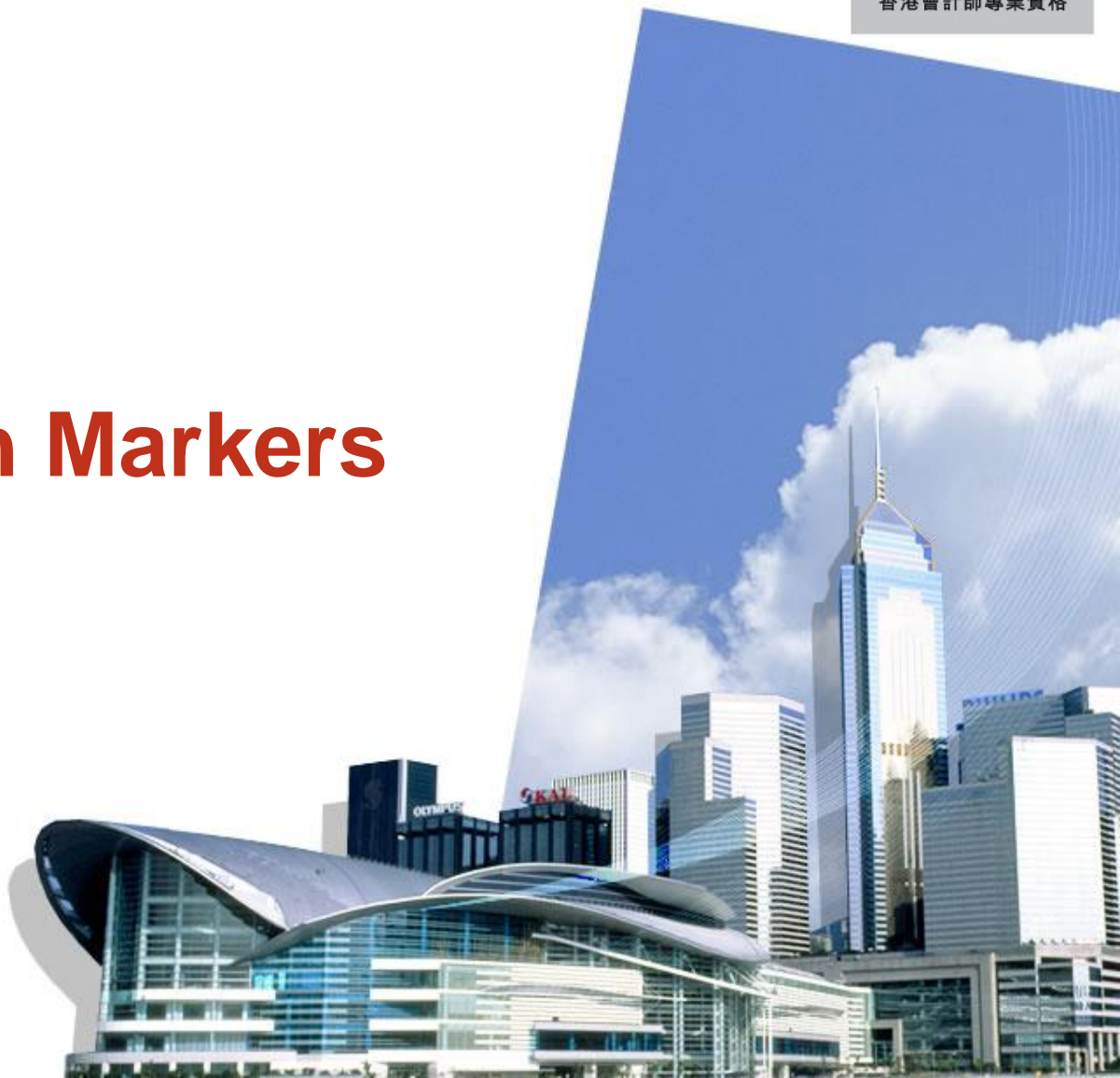


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Part 3: Sharing with Markers





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Key points recapped

- Interpretation of the requirements
- Understanding and application of knowledge
- Structure of the answer
- Time management



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Section A – Case Questions



Case background

1. ABC Toys Limited (“the Company”) was founded in Hong Kong by its directors, Mr Au, Mr But and Mr Chan, in the 1970s. The Company was involved in trading toys and listed shares. It also holds a commercial property in Hong Kong (“the Property”) as its business premises.
2. Mr Au and Mr But migrated to Country X and Country Y respectively in early April 2013. Mr Au has not been involved in the daily management of the Company since then. As for Mr But, he remains actively involved in managing the business of the Company. He stays in Hong Kong for about 50 days a year. During his days in Hong Kong, he has meetings with Mr Chan and their employees. When Mr But returns to Country Y, he discusses with Mr Chan through emails and teleconferences on major issues, for instance, the Company’s strategy and pricing policy. As Mr Chan is very experienced in the business, he also makes decisions on his own on the daily management of the Company. Mr Chan and the senior management were stationed in Hong Kong throughout the relevant time. The statutory registers as well as the accounting records of the Company are kept at the Property.

➤ Q4



Case background

3. The Company set up two wholly-owned subsidiaries, ABC (Investments) Limited and ABC (Financing) Limited, in August 2013. Since then, the Company has been solely involved in trading toys.
4. The shares in Saffron Limited (“Saffron”) are listed on the Hong Kong Stock Exchange. In October 2012, the Company acquired as its trading stock 500,000 shares (“the Shares”) in Saffron at a consideration of HK\$5 million. The Shares were the only shares held by the Company in Saffron. It had never traded any shares in Saffron prior to that acquisition. To streamline its business, the Company sold the Shares to ABC (Investments) Limited on 16 August 2013 at cost. The transaction price on the Hong Kong Stock Exchange on that date in respect of 500,000 shares in Saffron was HK\$7 million.

➤ Q1



Case background

5. ABC (Financing) Limited was set up solely for the purposes of issuing alternative bonds to raise funds for the Company. On 1 October 2013, ABC (Financing) Limited issued at par 4-year term alternative bonds (“the Bonds”) for the total amount of HK\$400 million to third party investors (“the Investors”). Also, on 1 October 2013, ABC (Financing) Limited used the bond proceeds to purchase the Property from the Company at a consideration of HK\$400 million. ABC (Financing) Limited executed a declaration of trust declaring that it held the Property in trust for the Investors.

➤ Q2

➤ Q3

The trust certificates issued by ABC (Financing) Limited to the Investors on the issuing of the Bonds provide that the Investors have the right to receive distributions from ABC (Financing) Limited every 12 months of all the income it earns from the Property. The distributions, however, are subject to a cap of 0.9% p.a. The trust certificates will be redeemed at par on 30 September 2017.



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Case background

6. Upon the acquisition of the Property, ABC (Financing) Limited leased the Property back to the Company at a monthly rent of HK\$300,000 for a term of 4 years (“the Lease”). The Company intends to occupy the Property throughout as its business premises. The rental income received by ABC (Financing) Limited is to be used in the distributions made to the Investors. Apart from the Lease, the Company also entered into a purchase undertaking whereby the Company undertook to purchase the Property back from ABC (Financing) Limited at a consideration of HK\$400 million on 30 September 2017. ABC (Financing) Limited will use the sales proceeds to redeem the trust certificates.

➤ Q2

➤ Q3



Case background

7. Mr Au received a director's fee of HK\$250,000 from the Company for the year of assessment 2013/14. He paid tax equivalent to HK\$5,000 in Country X in respect of his director's fee. Country X has not entered into a comprehensive double tax agreement with Hong Kong.

Apart from being a director of the Company, Mr Au is also the sole proprietor of a retail business in Hong Kong. For the year of assessment 2013/14, he derived assessable profits of HK\$30,000 from his sole proprietorship business.

➤ Q4

For the year of assessment 2013/14, Mr Au would like to have his income assessed under personal assessment as he did in the past. Mrs Au has been a housewife throughout and has no income. Mr Au and his wife were in Hong Kong for 220 days, 50 days and 20 days for the years of assessment 2012/13, 2013/14 and 2014/15 respectively.

When Mr Au packed his belongings in April 2013, it came to his notice that he wrongly reported the bonus of HK\$150,000 which he received in April 2007 as income in his Individual Tax Return for the year of assessment 2006/07. The relevant salaries tax assessment was issued on 1 June 2012. He now requests a revision of that assessment.

➤ Q5



December 2015 Session – Sect A – Q1

- a) Evaluate and suggest, with reference to the transfer pricing methods recognised in the OECD Transfer Pricing Guidelines as discussed in Departmental Interpretation and Practice Notes No. 46 (“DIPN No. 46”), the most appropriate method in establishing an arm's length price in respect of the selling of the Shares by the Company to ABC (Investments) Limited.

Elaborate the reasons for your choice.

(7 marks)



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Case background - Extract

4. The shares in Saffron Limited (“Saffron”) are listed on the Hong Kong Stock Exchange. In October 2012, the Company acquired as its trading stock 500,000 shares (“the Shares”) in Saffron at a consideration of HK\$5 million. The Shares were the only shares held by the Company in Saffron. It had never traded any shares in Saffron prior to that acquisition. To streamline its business, the Company sold the Shares to ABC (Investments) Limited on 16 August 2013 at cost. The transaction price on the Hong Kong Stock Exchange on that date in respect of 500,000 shares in Saffron was HK\$7 million



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Question 1a



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Irrelevant answers

- S.16 (1)
- S.17 (1)(b)
- S.61 or S.61A



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Question 1a



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Problem

- Copied materials from DIPN 46
- No elaboration on why comparable uncontrolled price ("cup") method is the most appropriate method.



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Answer 1a

- The five transfer pricing methods are discussed in detail in the OECD Transfer Pricing Guidelines and Departmental Interpretation and Practice Notes No. 46 viz. comparable uncontrolled price (“the CUP”) method, cost plus method, resale price method, transactional net margin method (“TNMM”) and profit split method.



Answer 1a (cont'd)

- In the present case, the CUP method is the most appropriate method. The CUP method is essentially a comparison of price. It compares the price of a controlled transaction to the price of a comparable uncontrolled transaction. In applying the CUP method, there are two possible types of comparable price – internal comparable uncontrolled price and external comparable uncontrolled price. The former refers to the comparison between the price of the controlled transaction and the price charged in a comparable transaction between one of the enterprises to the transaction and an independent party. The latter refers to the comparison between the price of the controlled transaction and the price of a comparable transaction between independent parties.



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Answer 1a (cont'd)

- The Shares at issue are identical to the shares in Saffron being traded on the Hong Kong Stock Exchange both in terms of the product and the market. Although internal comparable uncontrolled price is not available in the present case as the Company had not traded any shares in Saffron apart from the Shares, transaction prices are, however, readily available on the Hong Kong Stock Exchange. They provide the external comparable uncontrolled prices to establish the arm's length price of the Shares. Hence, there is little, or no, difficulty in finding an external comparable uncontrolled price for the Shares when applying the CUP method.



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December 2015 Session – Sect A – Q1

- b) Elaborate the reasons why the other transfer pricing methods as discussed in DIPN No. 46 are not the most appropriate method in the present case.

(10 marks)



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Question 1b



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Problem

- Just name the cost plus method, resale price method, transactional net margin method and profit split method.
- Unable to distinguish these methods.
- Did not elaborate the reasons why other transfer pricing methods were not appropriate.



Answer 1b

- With regard to the cost plus method, which compares the different mark up on the costs commanded by different suppliers, and the resale price method, which compares the gross margin commanded by different resellers or distributors, the former is mostly used in the case of manufacturers while the latter is used for distributors. Although it is not incorrect to say that a share dealer may have a target mark up or gross margin, to a certain extent, that mark up or gross margin is determined, among others, by the investment strategy and the financial position of that share dealer. Such being the case, the mark up or gross margin commanded by other share dealers is not a good comparable in establishing the arm's length price of the Shares as there may be differences in the position of the Company and that of the other share dealers. Reasonably accurate adjustments have to be made to eliminate the effects of those differences. The cost plus method and the resale price method are therefore less appropriate, or probably not preferred, in the present case.



Answer 1b (cont'd)

- As to TNMM, it is a comparison of the net profit margin, which may be operating net profit as a percentage of sales, cost or assets. This method is not appropriate in the present case which is an issue concerning the selling of the Shares, not net profit margin.
- Turning to the profit split method. This method is concerned with the splitting of the aggregate profits between the associated enterprises based on an economically valid basis. This method is applicable in cases where the functions of the group are intertwined and it is necessary to examine the whole process to ascertain the real economic contribution of each group member. In the present case, the Shares were initially acquired by the Company for trading purposes. ABC (Investments) Limited played no role on the acquisition. Indeed, ABC (Investments) Limited had not been incorporated when the Company acquired the Shares. The function of ABC (Investments) Limited is only to streamline the business of the Company, which is why the Shares were transferred. The present case is not a case where the functions of the group are intertwined. Hence, the profit split method is not appropriate.



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December 2015 Session – Sect A – Q2

The Commissioner of Inland Revenue accepts that the arrangement entered into between the Investors and ABC(Financing) Limited (“Arrangement A”) and the arrangement entered into between ABC (Financing) Limited and the Company (“Arrangement B”) (Arrangement A and Arrangement B are hereinafter collectively referred to as “the Arrangements”) are an alternative bond scheme.

Required:

Elaborate as to the expenses that are allowable for deduction to the Company in Arrangement B under the provisions of the Inland Revenue Ordinance (“the IRO”).

Note: Computation is not required.

(4 marks)



Case background - Extract

5. ABC (Financing) Limited was set up solely for the purposes of issuing alternative bonds to raise funds for the Company. On 1 October 2013, ABC (Financing) Limited issued at par 4-year term alternative bonds (“the Bonds”) for the total amount of HK\$400 million to third party investors (“the Investors”). Also, on 1 October 2013, ABC (Financing) Limited used the bond proceeds to purchase the Property from the Company at a consideration of HK\$400 million. ABC (Financing) Limited executed a declaration of trust declaring that it held the Property in trust for the Investors.

The trust certificates issued by ABC (Financing) Limited to the Investors on the issuing of the Bonds provide that the Investors have the right to receive distributions from ABC (Financing) Limited every 12 months of all the income it earns from the Property. The distributions, however, are subject to a cap of 0.9% p.a. The trust certificates will be redeemed at par on 30 September 2017.



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Case background - Extract

6. Upon the acquisition of the Property, ABC (Financing) Limited leased the Property back to the Company at a monthly rent of HK\$300,000 for a term of 4 years (“the Lease”). The Company intends to occupy the Property throughout as its business premises. The rental income received by ABC (Financing) Limited is to be used in the distributions made to the Investors. Apart from the Lease, the Company also entered into a purchase undertaking whereby the Company undertook to purchase the Property back from ABC (Financing) Limited at a consideration of HK\$400 million on 30 September 2017. ABC (Financing) Limited will use the sales proceeds to redeem the trust certificates.



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Question 2



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Wrong answers

- S.16 (1) or S.16 (1)(b)



Answer 2

- As Arrangement B is a qualified investment arrangement, it is to be regarded as a debt arrangement between the Company as borrower and ABC (Financing) Limited as lender. The investment return payable (i.e., the rental expense incurred by the Company in respect of the Property) is to be regarded as interest payable on the money borrowed by the Company from ABC (Financing) Limited under s.22(2)(b) of Schedule 17A (“the Schedule”) of the Inland Revenue Ordinance (“the IRO”). Also, by virtue of s.22(7) of the Schedule, the relevant interest expense is deductible under s.16(2)(f)(iii) of the IRO.
- Further, as ABC (Financing) Limited is to be regarded as not having any legal or beneficial interest in the Property over the term of the qualified investment arrangement by virtue of s.22(2)(c) of the Schedule and that the selling of the Property by the Company to ABC (Financing) Limited is to be disregarded under s.22(3)(a) of the Schedule, it follows that the Company remains the owner of the Property. Coupled with the fact that the Company occupies the Property throughout, the Company is entitled to the deduction of the commercial building allowance in respect of the Property.



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December 2015 Session – Sect A – Q3

The Collector of Stamp Revenue (“the Collector”) also accepts that the Arrangements are an alternative bond scheme under the Stamp Duty Ordinance (“the SDO”).

Required:

On the facts now available and on the assumption that security has been given to the satisfaction of the Collector in respect of Arrangement B, elaborate as to the stamp duty liability of the Company and ABC (Financing) Limited in the Arrangements.

Note: Computation is not required.

(5 marks)



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Question 3



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Wrong answers

- S. 45 relief



Answer 3

- As the Collector of Stamp Revenue accepts that the Arrangements are an alternative bond scheme, the relevant parties are entitled to stamp duty relief by virtue of s.47E and s.47F(1) of the Stamp Duty Ordinance (“the SDO”). Accordingly, the sale and purchase agreements / assignments on the transfer of the Property from the Company to ABC (Financing) Limited and vice versa, the lease agreement entered into between ABC (Financing) Limited and the Company on the leasing of the Property at a monthly rent of HK\$300,000 for a term of 4 years, the purchase undertaking entered into by the Company and the declaration of trust executed by ABC (Financing) Limited in favour of the Investors are not chargeable to stamp duty.



December 2015 Session – Sect A – Q4

- a) Analyse with reference to the relevant legal principles, whether, and if so, how the income derived by Mr Au from the Company is chargeable to salaries tax in Hong Kong. Among others, consider the relevance of s.8(1A)(b) and s.8(1A)(c) of the IRO in the present case.
- (15 marks)
- b) Analyse Mr Au's eligibility in having his income to be assessed under personal assessment for the year of assessment 2013/14 and calculate, to his best advantage, his Hong Kong tax liability for that year of assessment.
- Note: Ignore provisional tax and tax reduction for the year, if any.
- (6 marks)



Case background - Extract

2. Mr Au and Mr But migrated to Country X and Country Y respectively in early April 2013. Mr Au has not been involved in the daily management of the Company since then. As for Mr But, he remains actively involved in managing the business of the Company. He stays in Hong Kong for about 50 days a year. During his days in Hong Kong, he has meetings with Mr Chan and their employees. When Mr But returns to Country Y, he discusses with Mr Chan through emails and teleconferences on major issues, for instance, the Company's strategy and pricing policy. As Mr Chan is very experienced in the business, he also makes decisions on his own on the daily management of the Company. Mr Chan and the senior management were stationed in Hong Kong throughout the relevant time. The statutory registers as well as the accounting records of the Company are kept at the Property.



Case background - Extract

7. Mr Au received a director's fee of HK\$250,000 from the Company for the year of assessment 2013/14. He paid tax equivalent to HK\$5,000 in Country X in respect of his director's fee. Country X has not entered into a comprehensive double tax agreement with Hong Kong.

Apart from being a director of the Company, Mr Au is also the sole proprietor of a retail business in Hong Kong. For the year of assessment 2013/14, he derived assessable profits of HK\$30,000 from his sole proprietorship business.

For the year of assessment 2013/14, Mr Au would like to have his income assessed under personal assessment as he did in the past. Mrs Au has been a housewife throughout and has no income. Mr Au and his wife were in Hong Kong for 220 days, 50 days and 20 days for the years of assessment 2012/13, 2013/14 and 2014/15 respectively.



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Question 4a



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Wrong answers

- Income from an employment
- Wrongly applied S.8(1A)(b) and S.8(1A)(c)
- Wrongly discussed S.8(1B) (60 days rule)



Answer 4a

- S.8(1)(a) of the IRO provides that salaries tax shall be charged for each year of assessment on every person in respect of his income arising in or derived from Hong Kong from any office or employment of profit. S.8(1A)(a) of the IRO extends the basic charge on salaries tax in respect of income arising in or derived from Hong Kong from any employment while s.8(1A)(b) and (c) exclude certain income derived from Hong Kong from any employment. As the extension of the basic salaries tax charge under s.8(1A) and the exclusion under s.8(1A)(b) or (c) only cover income from employment, neither the extension charge nor the exclusion provisions has any application to income derived from an office. S.9 of the IRO provides that income from any office or employment includes fees.



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Answer 4a (cont'd)

- Turning to the relevant case law, a guiding principle has been laid down by the High Court in CIR v Goepfert (1987) 2 HKTC 210 in which Macdougall J ruled that the totality of facts have to be considered in determining the source of an employment. Though Geopfert was a case dealing with the source of employment, in the Board of Review Decision No. D123/02 18 IRBRD 150, the Board held that the totality of facts test is equally applicable to determine the source of income from an office. As to the issue on the locality of an office, on the authority of McMillan v Guest 24 TC 190, the office of a director of a corporation is where the central management and control of the corporation is exercised. And, following the decision in Swedish Central Railway Company Ltd v Thompson (1925) 9 TC 342, a company may have more than one residence for the purposes of establishing liability to income tax.



Answer 4a (cont'd)

- In the present case, the director's fee received by Mr Au for the year of assessment 2013/14 is chargeable to tax under s.8(1)(a) of the IRO as it was an income derived by Mr Au from an office located in Hong Kong. First, the central management and control of the Company was in Hong Kong. The Company conducted substantial business operations in Hong Kong. Mr Chan made decisions on his own in Hong Kong on the running of the Company. Also, he had meetings with Mr But and their employees in Hong Kong. Although Mr Chan and Mr But did discuss the business of the Company through emails and teleconferences, it does not necessarily follow that the place of central management and control is not in Hong Kong as, after all, Mr Chan and the senior management were stationed in Hong Kong. Second, the Company kept house in Hong Kong. Its statutory registers as well as its accounting records were kept in Hong Kong. Hence, the Company was resident in Hong Kong. It therefore follows that Mr Au's office was located in Hong Kong.
- Although Mr Au stayed in Hong Kong for less than 60 days in the year of assessment 2013/14 and that he paid tax of the same nature in Country X, that director's fee, however, is not to be excluded under s.8(1A)(b)(ii) nor s.8(1A)(c) of the IRO as those exclusions are restricted to the income derived by the taxpayer in connection with his employment. The director's fee received by Mr Au is therefore fully chargeable to salaries tax in Hong Kong.



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Question 4b



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Problems

- Wrong conclusion that the tax payer was eligible to elect personal assessment
- correct conclusion but still computed the tax liability under personal assessment
- Did not know the requirements in S.41 of IRO (eligible for PA)
- Joint Assessment computation



Answer 4b

- Mr and Mrs Au (“the Couple”) migrated to Country X in early April 2013. They have not ordinarily resided in Hong Kong since then. It follows that both of them were not permanent residents of Hong Kong for the year of assessment 2013/14.
- The Couple were not temporary residents for that year of assessment either. They stayed in Hong Kong for 50 days only, which is less than 180 days, for the year of assessment 2013/14. Also, in the relevant two consecutive years of assessment (a) 2012/13 and 2013/14; (b) 2013/14 and 2014/15, they stayed in Hong Kong for (a) 270 days and (b) 70 days, both of which were less than 300 days. Hence, Mr Au was not eligible to have his income assessed under personal assessment for the year of assessment 2013/14 as both he and his wife did not satisfy the conditions set out in s.41(1) of the IRO. Such being the case, Mr Au’s total tax liability will be computed on a schedular basis as follows:



Answer 4b (cont'd)

Year of assessment 2013/14

Salaries tax liability

	HK\$
Assessable income	250,000
Less: Married person's allowance	<u>(240,000)</u>
Net chargeable income	<u>10,000</u>

Salaries tax payable at progressive rate first HK\$40,000 @2%	<u>200</u>
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Salaries tax payable at standard rate HK\$250,000 @15%	<u>37,500</u>
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Salaries tax payable at lower of the above	<u>200</u>
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Profits tax liability

	HK\$
Assessable Profits	<u>30,000</u>
Tax @15%	<u>4,500</u>



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December 2015 Session – Sect A – Q5 (3 marks – approximately 5 minutes)

Analyse whether Mr Au will be successful in his application for revising the salaries tax assessment for the year of assessment 2006/07.

(3 marks)



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Case background - Extract

7. When Mr Au packed his belongings in April 2013, it came to his notice that he wrongly reported the bonus of HK\$150,000 which he received in April 2007 as income in his Individual Tax Return for the year of assessment 2006/07. The relevant salaries tax assessment was issued on 1 June 2012. He now requests a revision of that assessment.



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Question 5



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Problems

- Just copied the requirements of S.64(1), S.70A
- No application to the case



Answer 5

- The relevant salaries tax assessment was issued on 1 June 2012. Unless there is evidence which proves to the satisfaction of the Commissioner that Mr Au was prevented from lodging a notice of objection within one month of the issue of the assessment, it is unlikely that his late objection will be accepted by the Commissioner by virtue of the proviso to s.64(1) of the IRO.



Answer 5 (cont'd)

- Unfortunately, Mr Au cannot rely on s.70A of the IRO to request the revision of the relevant salaries tax assessment either. S.70A(1) provides, inter alia, that, if upon application made within 6 years after the end of the year of assessment or within 6 months after the date on which the relevant notice of assessment was served, whichever is the later, it is established to the satisfaction of an Assessor that the tax charged for that year of assessment is excessive by reason of an error or omission in the return, the Assessor shall correct such assessment. In the present case, the year of assessment in dispute is 2006/07. The relevant assessment was issued on 1 June 2012. The later of 6 years after the end of the year of assessment 2006/07 or within 6 months after the issue of that assessment was 31 March 2013. Mr Au came to notice the over-reporting of the bonus in April 2013. It was beyond the six years' time limit by the time Mr Au was aware of the error. Not to mention that it was also six months after the issue of the relevant salaries tax assessment.



Answer 5 (cont'd)

- To conclude, the relevant salaries tax assessment has become final and conclusive in terms of s.70 of the IRO. Also, s.79 of the IRO provides that if it is proved to the satisfaction of the Commissioner within six years of the end of a year of assessment or within six months after the date on which the relevant notice of assessment was served, whichever is the later, any person who has paid tax in excess of the proper amount shall be entitled to be refunded the amount paid in excess. Proviso to s.79 provides that nothing in that section shall operate to extend the time limit for objection or repayment specified in other sections of the IRO. As such, Mr Au cannot resort to s.79 to request for a refund of the excess amount of the tax which he paid.



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Section B – Essay/Short Questions



December 2015 Session – Sect B – Q6

Suckling Pig Limited (“Suckling”) is a company established in Hong Kong engaging in a restaurant business under the trade name Suckling Pig Restaurant. During its financial year ended 31 March 2015, Suckling incurred the following capital expenditure:-

- i) Renovation works were conducted during the year on the company’s existing restaurants, office premises and directors’ quarters, and were for the following amounts:

	HK\$
- Replacement of old carpet in the existing restaurants	500,000
- Renovation work in the existing restaurants	4,000,000
- Renovation work in the existing office premises	850,000
- Renovation work in the existing directors’ quarters	380,000



December 2015 Session – Sect B – Q6 (cont'd)

- ii) Suckling replaced its computer hardware and software system to achieve better cash and inventory control. The price of the system was HK\$130,000. Suckling finally paid HK\$100,000 to the vendor after deducting the HK\$30,000 trade-in value of the old computer system sold to the same vendor.
- iii) Suckling acquired wastewater treatment machinery and an environmental protection solar water heating installation in one of its restaurants for the amounts of HK\$760,000 and HK\$600,000 respectively. It has been confirmed that the machinery and installation are in compliance with the relevant regulations stipulated by the Environmental Protection Department and Electrical and Mechanical Services Department.
- iv) Suckling acquired various items of office furniture for the total amounts of HK\$253,000 and a motor vehicle for business purposes for the amount of HK\$500,000. The motor vehicle was specifically acquired under a hire purchase scheme with a bank with an initial payment of HK\$100,000 made upfront on 10 July 2014, followed by 40 monthly installment of HK\$11,000 each commencing on 1 August 2014. The hire purchase interest was evenly spread across each installment.



December 2015 Session – Sect B – Q6 (cont'd)

All of the above said assets have been put into use during the year.

It is also noted that the tax written down values of fixed assets ranked into 20% and 30% pools claiming depreciation allowances brought forward from the prior year are HK\$1,276,000 and HK\$96,000 respectively.

In the context of the commercial building allowance, the total ranking costs brought forward and the respective tax written down value are HK\$6,354,000 and HK\$4,652,400 respectively. The ranking cost of the building structure demolished during the year and the respective residue of expenditure are HK\$500,000 and HK\$300,000 respectively.

Required:

Calculate the allowable deductions under Part 4 of the IRO and the capital allowances under Part 6 of the IRO attributable to Suckling for the year of assessment 2014/15 based on the above information.

(15 marks)



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Question 6



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Problems

- \$500,000 → deductible
- \$970,000 → deductible
- Prescribed fixed assets → deductible
- Environment protection facilities → deductible



Answer 6

- Deductible expenditure on replacement of implement, utensil or article under s.16(1)(f) of the IRO: HK\$500,000 (carpet replacement)
- Deduction of capital expenditure on renovation of building or structure (other than domestic buildings) under s.16F of the IRO:
 $(\text{HK}\$4,000,000 + \text{HK}\$850,000) \div 5 = \text{HK}\$970,000$



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Answer 6 (cont'd)

- Deduction of capital expenditure for Prescribed Fixed Assets under s.16G(1) of the IRO: HK\$130,000 for the computer system (HK\$30,000 trade-in value should be deemed as taxable trading receipt under s.16G(3) of the IRO.)
- Deduction of capital expenditure for environmental protection facilities under s.16I(2)&(3) of the IRO: HK\$760,000 + (HK\$600,000 ÷ 5) = HK\$880,000



Answer 6 (cont'd)

Depreciation allowance attributable to Suckling for the year:-

	20% pool HK\$	30% pool HK\$	Total allowances HK\$
T.W.D.V. b/fwd	1,276,000	96,000	
Addition (furniture)	253,000	-	
Less: I.A. @ 60% on addition	<u>(151,800)</u>	<u>-</u>	151,800
	1,377,200	96,000	
Less: A.A.	<u>(275,440)</u>	<u>(28,800)</u>	<u>304,240</u>
T.W.D.V. c/fwd	<u>1,101,760</u>	<u>67,200</u>	<u>456,040</u>



Answer 6 (cont'd)

Depreciation allowance for hire purchase asset (motor vehicle):

	HK\$	Total allowances HK\$
Addition	500,000	
Less: I.A. [HK\$100,000 + $\frac{\text{HK\$ (500,000 - 100,000)} \times 8}{40}$] x 60%	<u>(108,000)</u>	108,000
	392,000	
Less: A.A.@ 30%	<u>(117,600)</u>	<u>117,600</u>
	<u>274,400</u>	<u>225,600</u>

Interest expense deduction for monthly installments on motor vehicle under s.16(1)(a) & 16(2)(d) of the IRO: $(\text{HK\$}11,000 - \text{HK\$}10,000) \times 8 = \text{HK\$}8,000$



Answer 6 (cont'd)

Commercial building allowance attributable to Suckling for the year:

	HK\$	
Ranking cost b/fwd	6,354,000	
Less: Disposal during the year	(500,000)	
Add: Addition during year (renovation of directors' quarters)	<u>380,000</u>	
Ranking cost c/fwd	★ <u>6,234,000</u>	
	HK\$	Total allowances HK\$
T.W.D.V. b/fwd	4,652,400	
Les: <u>Balancing allowance (Residue of expenditure)</u>	(300,000)	<u>300,000</u>
Add: Addition during the year as per above	<u>380,000</u>	
	4,732,400	
Less: A.A.@ 4% of ranking cost c/fwd	★ <u>(249,360)</u>	<u>249,360</u>
	<u>4,483,040</u>	<u>549,360</u>



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December 2015 Session – Sect B – Q7

- Mr Tam is a resident of Taiwan habitually living and staying there. Recently he has been recruited by a Taiwan local limited company as the regional controller monitoring the company's sales business in the Greater China region. According to the terms of employment, Mr Tam will be based and remunerated in Taiwan, but incidentally he is required to travel to the mainland China to discharge his duties.



December 2015 Session – Sect B – Q7 (cont'd)

- Mr Tam has a particular concern on his possible exposure to China Individual Income Tax (“IIT”) with respect to his new employment. In this regard, he has engaged Kwan & Co., a tax consultancy firm established in Hong Kong to provide consultancy services for evaluating his China IIT exposure.
- It is further noted that Taiwan has not entered into any tax treaty with the mainland China at the present time.

Required:

(a) Discuss the possible China IIT implications for Mr Tam with respect to his new employment.

(5 marks)

(b) Discuss the ethical considerations Kwan & Co. should be aware of in the course of providing the tax consultancy services to Mr Tam.

(5 marks)



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Question 7a



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Problems

- Wrongly discussed PRC Business Tax and Corporate Income Tax



Answer 7a

- As Mr Tam is a non-PRC tax resident with employment income from a non-Chinese enterprise, he would be subject to the China Individual Income Tax (“IIT”) on his employment income sourced from the PRC pursuant to Article 1 of Individual Income Tax Law (Revised 2011).
- As Taiwan and the PRC have not entered into any tax treaty arrangement, Mr Tam would be subject to IIT if he resides in the PRC for more than 90 days during a calendar year. To count the number of days for the abovesaid purpose, the day of entry into the PRC and the day of departure from the PRC are each counted as a one-day presence in the PRC pursuant to Guoshuifa (2004)97, Article 1. Specifically Mr Tam would be subject to IIT on his employment income derived during his “actual working days” in the PRC pursuant to Guoshuifa (2004)97, Articles 2 & 3.



Answer 7b

- In the course of providing the tax consultancy services, Kwan & Co. should ensure that they have competent professional knowledge for their tax practice. In addition, Kwan & Co. should put forward the best position in favor of their clients, provided that it does not in any way impair the standard of integrity and objectivity under Section 430 “Ethics in Tax Practice” in the Code of Ethics for Professional Accountants (Revised Jan 2015) issued by the Hong Kong Institute of Certified Public Accountants.
- Kwan & Co. should not hold out to Mr Tam the assurance that their tax advice is beyond challenge. In addition, tax advice given to Mr Tam should be recorded either in the form of a letter or memorandum for record purposes.



December 2015 Session – Sect B – Q8

- Mr Koo has been employed by Ocean View Limited (“Ocean View”) for 30 years and he is currently in the position of general manager responsible for the overall control and management of the company’s business activities. Ocean View has a sole director namely Mr Cheung and he is also the sole shareholder of the company since its incorporation 30 years ago. Mr Koo and Mr Cheung have maintained a very good and close relationship both in business and personally.
- It has also been noted that on the recent Chinese New Year’s eve, Mr Koo received a sum of money directly from Mr Cheung which was approximately five times his current basic annual salary. Mr Cheung emphasised to Mr Koo that it was a gift to him for Chinese New Year in pursuance of their decades of friendship, and that the money was exclusively and directly given by Mr Cheung instead of cash from Ocean View.



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December 2015 Session – Sect B – Q8 (cont'd)

- Mr Koo only maintained one employment contract with Ocean View, and did not enter into any other written or verbal employment contract with Mr Cheung or any other parties. Specifically, Mr Koo stated that the money received by him was beyond his expectations.



December 2015 Session – Sect B – Q8 (cont'd)

Required:

(a) If you were the Assessor of the Inland Revenue Department (“IRD”), how would you argue that the money received by Mr Koo should be subject to salaries tax?

(4 marks)

(b) If you were Mr Koo, how would you argue that the above money should not be subject to salaries tax?

(4 marks)

(c) What additional information should be obtained to further evaluate the taxability of the money received by Mr Koo?

(3 marks)



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Question 8a



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Problems

- Arguments not comprehensive.
- Wrongly discussed service companies and anti-avoidance provisions.



Answer 8(a)

Possible arguments for subject to salaries tax

- Under s.9(1)(a) of the IRO, income from employment includes wages, salary, etc, derived from the employer or others. In this regard, the income of Mr Koo derived from the employment with Ocean View Limited can be paid by others, especially from Mr Cheung as he is the sole director and shareholder of the company. The payment is possibly part and parcel of the remuneration of Mr Koo attributable to his employment with Ocean View



Answer 8(a) (cont'd)

Possible arguments for subject to salaries tax

- There is no concrete evidence substantiating the argument that the money was a gift given because of personal friendship. The assertion of Mr Cheung is self-serving and has no objective justification.
- The amount received by Mr Koo is substantially in proportion to his annual salary and the date of receipt is also the eve of Chinese New Year. This pattern is in line with the payment of a performance-based bonus typically found in generic employment arrangements.



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Question 8b



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Problems

- Discussion and analysis were not comprehensive
- Only provide general answers



Answer 8(b)

Possible arguments for not subject to salaries tax

- There was no implicit or explicit agreement entered into by Mr Koo with Ocean View nor Mr Cheung for any new employment contract or extension of existing employment covering the payment of the subject amount to Mr Koo. Substantially the amount is a spontaneous payment and has no connection to the present or any other employment of Mr Koo.



Answer 8(b) (cont'd)

Possible arguments for not subject to salaries tax

- The amount was substantially higher than Mr Koo's existing annual salary. The quantum was unlikely to be in line with any performance-based bonus paid principally and directly by the employer or others, and therefore should not be regarded as part of his employment income.
- The payment to Mr Koo was unexpected and was solely on a discretionary basis made by Mr Cheung personally. This is not likely to be a pattern generically found in any contractual arrangement for employment of income.



Answer 8(c)

Relevant additional information for further evaluation could be obtained from the following perspectives:

- Details of similar payments, if any, paid to Mr Koo by Mr Cheung in prior years.
- Details of similar payments, if any, paid by Mr Cheung to other employees of Ocean View and / or other close contacts of Mr Cheung.
- Evidence justifying the long-term friendship between Mr Koo and Mr Cheung.



Answer 8(c) (cont'd)

Relevant additional information for further evaluation could be obtained from the following perspectives:

- Financial information and business performance of Ocean View for examination if there is any co-relation between the payment and the profitability of Ocean View during the relevant financial period.
- Detailed comparison of the remuneration package of Mr Koo in current and prior years in order to evaluate if the prevailing package had been revised in line with the incorporation of the subject payment.
- Examine whether Mr Koo has reached the retirement age and if the amount received by him is substantially a retirement gratuity paid by Mr Cheung.



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December 2015 Session – Sect B – Q9

- Mr Lee is a finance manager of a local trading company and lives together with his mother, Ms Wong, in Hong Kong. His income has been subject to salaries tax and he has also claimed both Dependent Parent and Additional Dependent Parent Allowances in filing his annual Individual Tax Returns towards maintaining and living with his mother in prior years. Ms Wong has retired and has not derived any income for years.



December 2015 Session – Sect B – Q9 (cont'd)

Recently Mr Lee planned to personally acquire a residential flat in Hong Kong to capture possible long term appreciation of such capital asset. He envisaged that he has busy working and living schedules and may not have the spare time to arrange routine leasing matters for the acquired property in the leasing market. In this regard, Mr Lee would use a nominal value of say HK\$100 to lease out the property to his mother. Ms Wong would then lease out the flat in the property market as the sub-tenant to generate rental income.

(a) With respect to the above said proposed arrangement, discuss the taxability of the rental income attributable to Mr Lee and Ms Wong, and identify, if any, the possible options available to them in the contexts of the IRO for reducing the tax liabilities derived thereon.

(6 marks)

(b) Discuss the possible IRD's challenge to the above said arrangement from an anti-avoidance perspective in the context of the IRO.

(8 marks)



Answer 9(a)

- Under s.5(1) of the IRO, rental income derived by Mr Lee from his owned property situated in Hong Kong is subject to property tax. By way of election of personal assessment under Part 7 of the IRO, the interest expenses on money borrowed for producing the rental income can only be deducted to the extent of the nominal rental income received from Ms Wong under s.42(1) of the IRO. Excessive interest expenses, if any, incurred by Mr Lee cannot be allowed for deduction against his other taxable income under s.42(1) of the IRO.
- Under s.30(1) of the IRO and on the basis that Mr Lee continues to maintain and resides with his mother, Ms Wong, he can be entitled to claim Dependent Parent and Additional Dependent Parent Allowances continuously notwithstanding that Ms Wong has derived rental income subject to tax.



Answer 9(a) (cont'd)

- In the context of Ms Wong, the rental income derived by her under the arrangement would be subject to profits tax under s.14(1) of the IRO instead of property tax on the basis that she carries on a property sub-letting business in Hong Kong.
- In order to minimise the respective tax liabilities, Ms Wong may consider applying for personal assessment and claim the Personal Allowance to deduct against the property rental income. However, Ms Wong cannot deduct the interest expenses, if any, incurred on the loan borrowed for the acquisition of the respective property under s.42(1) of the IRO as the loan, if any, is borrowed by her son Mr Lee as the owner of the property instead of by herself.



Answer 9(b)

- In view of the possible overall tax benefit derived by Ms Wong from the arrangement proposed by Mr Lee, the IRD may challenge the plan and seek to apply respective anti-avoidance provisions in the IRO to counteract the tax benefit derived thereon. Specifically, the IRD may apply s.61 and / or s.61A of the IRO in the circumstances.
- Under s.61 of the IRO, the IRD may disregard any transaction or disposition, and the person concerned shall be assessed accordingly where an assessor of the IRD is of the opinion that:
 - (a) any transaction which reduces or would reduce the amount of tax payable by any person is artificial and fictitious, or that
 - (b) any disposition is not in fact given effect.



Answer 9(b) (cont'd)

- Alternatively under s.61A(2) of the IRO, the assistant commissioner may raise an assessment on the relevant person (i) as if the transaction or any part thereof had not been entered into or carried out, or (ii) in such manner as he considers appropriate to counteract the tax benefit which would otherwise be obtained, in the circumstances that:
 - (a) there must be a transaction as defined;
 - (b) the transaction has or would have had the effect of conferring a tax benefit on a person; and
 - (c) having regard to the seven specific matters under s.61A(1)(a) to (g) of the IRO, it would be concluded that the sole or dominant purpose of entering into that transaction was to enable the relevant person, either alone or in conjunction with other persons, to obtain a tax benefit.



Answer 9(b) (cont'd)

- As Mr Lee intended to use a nominal value instead of the market price for leasing the property to his mother for further leasing out to generate rental income, and in which the tax liabilities of Ms Wong could be reduced by the election of personal assessment, the IRD may use the abovesaid general anti-avoidance provisions to assess the respective tax liabilities of Mr Lee and Ms Wong on the basis that the transaction (i.e. the use of nominal value in leasing the property to Ms Wong for further leasing out in the property market) is artificial and fictitious, and / or the sole or dominant purpose of entering into that transaction was to obtain tax benefit.
- In this regard, Mr Lee should review the proposed transaction and explore the genuine and commercial justification of the arrangement in order to defend their tax positions and the possible challenge from the IRD.



June 2015 Session – Sect B – Q9 (22 marks – approximately 39 minutes)

Mrs Chan has been a housewife since getting married to Mr Chan. As she had no property, Mr Chan specifically set out in his will that a residential property was to be passed to her after his death. Mrs Chan inherited that property upon the passing away of Mr Chan in September 2012. She subdivided that residential property into three cubicle rooms. Through the introduction of the neighbours, Mrs Chan knew Adrian, Benjamin and Clive and licensed the cubicle rooms to them on the following terms:



June 2015 Session – Sect B – Q9 (cont'd)

	Adrian ("Licence A")	Benjamin ("Licence B")	Clive ("Licence C")
Dates of the written licence	1/12/2012	1/4/2013	The terms of the licence were verbally agreed on 1/4/2013
Terms of the licence	Two years from 1/12/2012 to 30/11/2014	Six months from 1/4/2013 to 30/9/2013	Six months from 1/4/2013 to 30/9/2013
Monthly licence fees	HK\$5,000	HK\$4,000	HK\$3,000
Rates, Government rent and management fees	To be paid by Mrs Chan		
Deposit	Equivalent to one month's licence fee to be paid by Adrian, Benjamin and Clive on the commencement of their respective licences. The deposits were to be held by Mrs Chan over the tenure of the licences. The licensees agreed that the deposits would be forfeited to set off their outstanding licence fees and the cost of repair if there was damage to the cubicle rooms.		
Usage	To be possessed exclusively by the respective licensees. As it is a residential property, the cubicle rooms can only be used for residential purposes.		
Provision of furniture by Mrs Chan	Nil		



June 2015 Session – Sect B – Q9 (cont'd)

- On its expiry, Licence B was renewed for a further two months to 30 November 2013 (“Licence B1”) at the same monthly licence fee. No written licence was entered into in respect of Licence B1. Benjamin did not pay the licence fee for the month of November 2013. He asked Mrs Chan to use the deposit to offset the licence fee of that month.
- Clive did not pay his licence fee from June 2013 onwards. He moved out of the property on 30 November 2013. The Assessor of the IRD accepts that Mrs Chan is unable to recover the licence fees from July 2013 and after.
- Mrs Chan handled the subdividing and the licensing matters on her own as the issues were simple and straightforward. She appointed a decoration company and incurred renovation costs of HK\$10,000 in the year of assessment 2012/13 in subdividing the property into three cubicle rooms and reconstructing the sewerage system. That aside, she paid the following expenses in the year of assessment 2013/14 in licensing the cubicle rooms:

Rates	HK\$3,500 (after rates concession)
Government rent	HK\$7,000
Management fees	HK\$12,000



June 2015 Session – Sect B – Q9 (cont'd)

- a) Determine, with **explanations** in support, the **type of tax** which Mrs Chan was chargeable to and **compute** her **tax liability** for the year of assessment 2013/14 with respect to the licence fees income. Mrs Chan does not elect to have her income assessed under Personal Assessment (ignore provisional tax and tax reduction for the year, if any). (6 marks)
- b) Discuss whether, and if so, how, the **tax liability** of Mrs Chan will be **different** if she was a **head tenant of the property**. In this regard, she entered into a head lease with the landlord and then entered into the licences with Adrian, Benjamin and Clive on the same terms and paid the same expenses as set out above. She also incurred the rental expense on the head lease. Note: **No** tax computation is required. (8 marks)



June 2015 Session – Sect B – Q9 (cont'd)

- c) Discuss whether, and if so, **how, each** of Licence A, Licence B, Licence B1 and Licence C **was chargeable to stamp duty.**
(4 marks)
- d) Elaborate the **consequences of not stamping** an instrument, including and not limited to a lease, that is chargeable to stamp duty. (4 marks)



Question 9a



Wrong answers

- Computed 6 months for licence C. (two months from Oct to Nov should also be included)
- Wrong treatment of the deposit (set off the outstanding licence fees)
- Only explanation, no computation
- Compute the property tax liability of each cubicle separately



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Answer 9(a)

Mrs Chan was the **owner** of the property as defined in **s.2** of the IRO. The licence fees were the consideration for the use of the property. Unless there was substantial evidence that Mrs Chan carried on a letting business, Mrs Chan should be **chargeable to property tax.**

Her property tax liability in respect of the licence fees income is computed as follows:



Answer 9(a)

Year of assessment 2013/14

	HK\$
Licence fee income from	
Adrian (HK\$5,000 x 12 months)	60,000
Benjamin (HK\$4,000 x 8 months)	32,000
Clive (HK\$3,000 x 8 months)	<u>24,000</u>
	116,000
<u>Less:</u>	
Irrecoverable rent (HK\$3,000 x 5 months)	<u>15,000</u>
Assessable value	101,000
<u>Less:</u>	
Rates	<u>3,500</u>
	97,500
20% statutory deduction	<u>19,500</u>
Net assessable value	<u>78,000</u>
Tax at	15%
Property tax payable	<u>HK\$11,700</u>



Question 9b



Wrong answers

- Answers too short, only point out that taxpayer as a properties owner was chargeable to property tax
- As a head tenant, was chargeable to profits tax
- Did not discuss the tax treatment of every expenses mentioned in the question



Answer 9(b)

- Although Mrs Chan entered into “licences” with Adrian, Benjamin and Clive, Mrs Chan was in effect letting or sub-letting, as the case may be, the three cubicle rooms to them. In the event that Mrs Chan was a **head tenant**, she was chargeable to **profits tax under s.14** of the IRO as the definition of “business” in s.2 of the IRO includes the sub-letting by any other person of any premises or portion of any premises under a lease or tenancy other than from the Government.
- As to the expenses, if Mrs Chan was the **owner** of the property, she would be allowed a deduction of **irrecoverable rent** (s.7C of the IRO), **rates** (s.5(1A)(b)(i) of the IRO) and **20%** statutory allowance (s.5(1A)(b)(ii) of the IRO). In the event that Mrs Chan was the **head tenant**, apart from **irrecoverable rent** (s.16(1)(d) of the IRO) and **rates** (s.16(1) of the IRO), she would also be allowed deductions of the **rental expense** incurred on the head lease, **Government rent, management fee** (s.16(1) of the IRO) as well as **commercial building allowance** (s.33A of the IRO) on the renovation costs which she incurred. Nevertheless, **no 20% statutory deduction** would be allowed to Mrs Chan as that in the case of an owner.



Answer 9(c)

- Stamp duty is a tax on an instrument. It is not a tax on a transaction. As long as the instruments are chargeable to stamp duty under the Stamp Duty Ordinance (“the SDO”), stamp duty has to be levied irrespective of the label given to them. With regard to a lease, if it provides the tenant an exclusive right of possession of the property, it is chargeable to stamp duty under the SDO even if it is labeled as a licence.
- In the present case, no matter whether Mrs Chan is the owner or the head tenant, Licence A and Licence B are chargeable instruments under Head 1(2) specified in the First Schedule of the SDO. The stamp duty to be levied on Licence A is 0.5% on the average yearly rent whereas that of Licence B is 0.25% of the total rent payable over the term of the lease.
- As to Licence B1 and Licence C, they are not chargeable to stamp duty under the SDO as no written instrument was entered into.



Answer 9(d)

The consequences of not stamping an instrument that is chargeable to stamp duty are as follows:

- (a) S.15(1) of the SDO provides that, with limited exceptions, no unstamped instrument can be accepted as evidence in any proceedings other than in criminal proceedings or in civil proceedings instituted by the Collector of Stamp to recover stamp duty and / or penalty.
- (b) S.15(2) of the SDO provides that all public officers and bodies corporate cannot act upon, file or register any instrument unless it is duly stamped. It follows that, for example, the Land Registrar cannot register an unstamped assignment on the sale and purchase of an immovable property, the Lands Tribunal cannot handle a case on the irrecoverable rent arising from an unstamped tenancy agreement, the share registrar of a Hong Kong company cannot register the change in shareholders upon the presentation of an unstamped contract note.
- (c) S.19(3) of the SDO provides that no broker or agent can legally claim any charge for brokerage or commission for the sale or purchase of Hong Kong stock if he fails to comply with s.19 of the same ordinance, which includes causing the contract notes to be stamped (S.19(1)(b) of the SDO).
- (d) S.21 of the SDO provides that an unregistered shareholder is not entitled to any dividend or interest in respect of the relevant shares.



June 2015 Session – Sect B – Q11 (6 marks – approximately 11 minutes)

Mr Bill is an expatriate. He objected to the salaries tax assessment for the year of assessment 2013/14 raised on him. The assessment is due for payment early next week. To date, he has not received a reply from the IRD on whether, and if so, how his salaries tax will be held over. Mr Bill is wondering whether he should pay the salaries tax by the due date.

Required:

Elaborate the provisions in the Inland Revenue Ordinance that are relevant to Mr Bill on the payment and the recovery of tax.

(6 marks)



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Question 11



Wrong answers

- Discuss the holding over of tax in dispute (conditional and unconditional hold over)



Answer 11

- S.71(2) of the IRO provides that tax shall be paid notwithstanding any objection or appeal, unless the Commissioner of Inland Revenue (“the CIR”) orders that payment of tax be held over pending the result of the objection or appeal.
- In the event of default of tax, s.71(5) provides that the CIR may order a sum not exceeding 5% of the amount in default to be added onto the tax and recover therewith. S.71(5A) further provides that on the expiry of six months of the date deemed to be in default, the CIR may order a sum not exceeding 10% of the total unpaid amount (i.e., tax in default together with the amount imposed under s.71(5)) be added onto the total unpaid amount and recovered therewith.



Answer 11

- As to the recovery of tax, the CIR may recover the tax in default and the surcharge as a civil debt through the District Court pursuant to s.75 of the IRO. S.76 of the IRO further provides that the CIR may give notice in writing to third parties (including those who owe money or are about to pay money to the taxpayer) requesting them to pay such money to the collector for the purposes of settling the tax and the surcharge in default. In addition, the CIR can also turn to s.77 of the IRO to secure the payment of the tax in default by issuing a departure prevention direction.
- If Mr Bill does not pay the tax in dispute before the payment due date, the outstanding tax will be in default. A surcharge of 5% or 10%, as the case may be, may be imposed on the total amount in default. Recovery action on the tax in default will also be taken against Mr Bill under ss.75, 76 and 77 of the IRO.



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Thank you



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Part 4: Preparation for the Examinations





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- 1. Prepare your examination**
- 2. Prepare yourself for examination**



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1. Prepare your examination Before examination

DO

- Commit to your **Study Plan**
- Cover beyond LP
- Form **Study Group** with fellow students
- Prepare **Critical File**
- Practise past papers
- Visit QP Learning Centre
 - Past papers and Examiners' reports;
 - Special topics and/or Important notice; and
 - Examination preparation seminar archives



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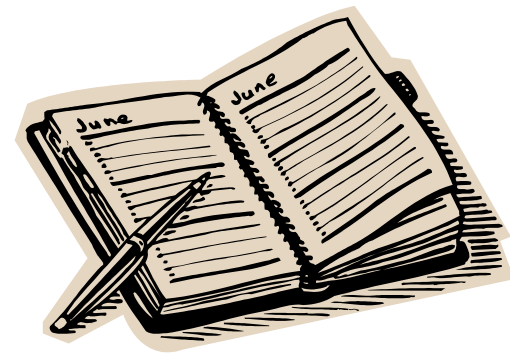


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Commit to your Study Plan

Advantages:

- Schedule ahead
- Build long term memories → maximize efficiency
- Avoid last minute work and minimize impact of unpredicted events...





Prepare Critical File

How to prepare:

- Use different colour post-it for different standards / topics
- Organise materials by different standards / topics
- Understand theories behind each standards / topics
- Get familiar with this file

Advantages:

- Colour coding for standards / topics allows easy identification (same file used in examination – time saving!)
- Build up long term memories
- Avoid indexing without understanding





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During examination

DO

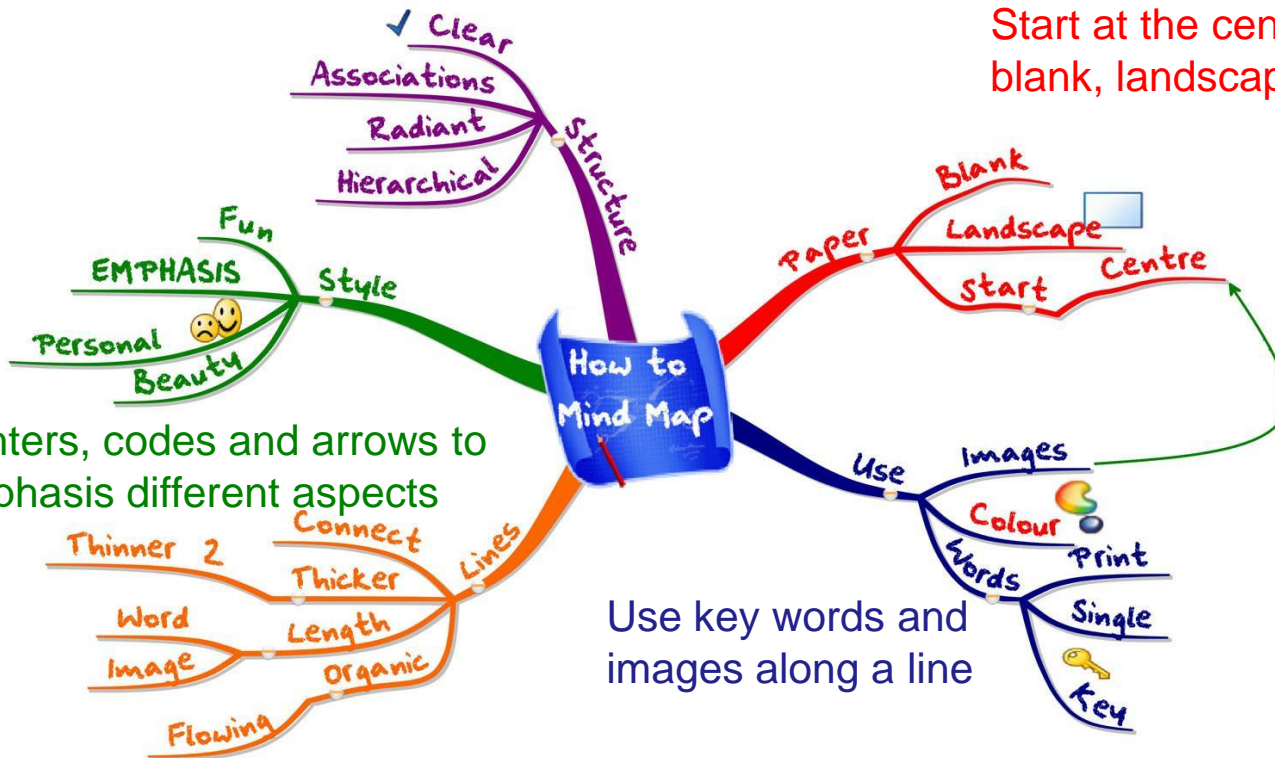
- Identify question requirements
- Highlight key words (e.g. Calculate / Advise / Propose etc...)
- **Mind-map** or sketch the question requirements
- Outline answers or approach
- Pay attention to specific format requirement (e.g. Write a memorandum)
 - Start with an introduction and end with a conclusion
➔ Get easy marks!

Mind Map

Radiate the ideas out from the central theme and main branches

Start at the centre of a blank, landscape paper

Use highlighters, codes and arrows to link and emphasize different aspects



Use key words and images along a line

Make the lines associate as clear as possible



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During examination

DO

- Apply technical knowledge
- Do an easy question first to gain confidence
- Leave time at the end to check for careless mistakes
- **Write legibly**

DON'T

- Don't make up any information that is not provided by the question
- Don't write more than required as indicated by marks allocation
- Don't struggle, move to another question

(Question No. 2.)

- a) Even ABC is a ~~an~~ costing method suitable for ~~the~~ requirement to apportion the cost.
However, it cannot reflect all the cost and consideration that related to the new customer policy.
- b) ABC is a complicated ~~and~~ system, it might inability to ~~access~~ non-controllable cost to the relevant duties.
New policy for the firm can help it to be focus on provide better service to customer and focus on high revenue's customer.
(To start with the new customer policy, we should use more than one analyse or costing method to make decision.)
However, the firm may loss the low cost but high contribution's customer and loss the customer's ~~costs~~ confidence once the customer cannot meet the target.
- c) KWL can get profit under new policy (set up a "re-use system" once the customer can). The company also can set up "quality system" ~~if the customer can~~ if the customer can meet the quality control which under new policy that can be ~~re-use~~ re-use again.



Examples of handwriting

Example 1:

adverse opinion

Example 2:

substantive matters ??

Example 3:

seriously misleading ????



2. Prepare yourself for examination

- Study HARD before examination
- Arrive early (examination centre opens for entry 45 minutes before start)
- Be aware of the **examination regulations** printed on the Examination Attendance Docket (“EAD”)
 - The EAD will be posted to students 2 weeks before the examination

Failure to follow any of the examination regulations may result in marks penalty or even disqualification from the entire examination!



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- **There is no shortcut to any examinations including QP!**
- **This is your examination and not others' examination**
- **The only way to pass is to prepare properly for it!**



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Part 5: Q&A Session

