

**Detailed competency map:**

**Knowledge requirements**

***(AAT examination)***

### **Fields of competency**

The items listed are shown with an indicator of the minimum acceptable level of competency, based on a three-point scale as follows:

1. Awareness

The candidate demonstrates familiarity with the concept in question; can define it in overview terms and can relate the importance or relevance of the concept to the activities of an accounting technician.

2. Knowledge

This builds upon awareness. The candidate is able to explain the concept; describe and discriminate between its component parts and describe their inter-relationships; recognize instances of the concept; and describe processes, theories and judgement issues; without necessarily being able to perform in those areas with professional skill.

3. Application

This builds upon knowledge. The candidate is able to execute or implement knowledge; apply the knowledge to real world problems in real world situations. In so doing, the candidate displays to a satisfactory degree of the level of competence reasonably to be expected of an accounting technician at career entrance level.

## Paper 5: Principles of taxation

**Aim:** This paper aims to develop and assess both the understanding of the fundamental principles of Hong Kong taxation and the application of those principles

### Content

| Unit of competency   | Activity required to demonstrate competence (Performance indicators)  | Level of competence required |
|--|---|------------------------------|
| Understanding of the operation of the Hong Kong taxation system and the chargeability to Hong Kong income tax  | <ul style="list-style-type: none"> <li>▪ Distinguish between different classifications of taxes</li> </ul>  | 1                            |
|  | <ul style="list-style-type: none"> <li>▪ Describe the characteristics of the Hong Kong taxation system</li> </ul>   | 1                            |
|  | <ul style="list-style-type: none"> <li>▪ Describe the sources of Hong Kong tax law and how the tax statutes are interpreted</li> </ul>  | 1                            |
|  | <ul style="list-style-type: none"> <li>▪ Describe the functions of different units of the Inland Revenue Department</li> </ul>  | 1                            |
|  | <ul style="list-style-type: none"> <li>▪ Describe the structure, powers and functions of the Board of Inland Revenue</li> </ul>   | 1                            |
|  | <ul style="list-style-type: none"> <li>▪ Describe the structure, powers and functions of the Board of Review</li> </ul>   | 1                            |
|  | <ul style="list-style-type: none"> <li>▪ Describe and distinguish the scope of charge of different sources of income tax:                             <ul style="list-style-type: none"> <li>○ property tax</li> <li>○ salaries tax</li> <li>○ profits tax</li> </ul> </li> </ul>               | 2                            |
| Understanding of the computation of property tax liabilities of owners of land/buildings situated in Hong Kong | <ul style="list-style-type: none"> <li>▪ Identify the persons and properties subject to property tax</li> </ul>   | 2                            |
|  | <ul style="list-style-type: none"> <li>▪ Compute the assessable value and net assessable value</li> </ul>   | 3                            |
|  | <ul style="list-style-type: none"> <li>▪ Compute the amount of property tax and provisional property tax</li> </ul>   | 3                            |
|  | <ul style="list-style-type: none"> <li>▪ Distinguish the circumstances where income from letting of property is subject to property tax or profits tax</li> </ul>   | 2                            |
|  | <ul style="list-style-type: none"> <li>▪ Explain the statutory requirements of retention of rent records</li> </ul>   | 2                            |
| Understanding of the computation of salaries tax liabilities of individuals                                    | <ul style="list-style-type: none"> <li>▪ Describe the factors to be considered in determining the locality of income of:                             <ul style="list-style-type: none"> <li>○ employment</li> <li>○ office</li> <li>○ pension</li> </ul> </li> </ul>                            | 2                            |
|  | <ul style="list-style-type: none"> <li>▪ Distinguish between employment and profession</li> </ul>   | 1                            |
|  | <ul style="list-style-type: none"> <li>▪ Explain the differences between the treatment of:                             <ul style="list-style-type: none"> <li>○ Hong Kong offices and non-Hong Kong offices</li> <li>○ Hong Kong employment and non-Hong Kong employment</li> </ul> </li> </ul> | 1                            |
|  | <ul style="list-style-type: none"> <li>▪ Identify the different types of income exempt from salaries tax</li> </ul>   | 1                            |

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|  | <ul style="list-style-type: none"> <li>▪ Identify the basis period</li> </ul>  | 1 |
|  | <ul style="list-style-type: none"> <li>▪ Explain the meaning of accrual of income and determine the date of accrual of different kinds of income</li> </ul>  | 2 |
|  | <ul style="list-style-type: none"> <li>▪ Describe different kinds of income to be included as income from employment or office</li> </ul>  | 2 |
|  | <ul style="list-style-type: none"> <li>▪ Describe and compute taxable benefits, including: <ul style="list-style-type: none"> <li>○ rent free or subsidized accommodation</li> <li>○ holiday journey</li> <li>○ share options</li> <li>○ education expenses of a child of an employee</li> <li>○ benefits-in-kind</li> </ul> </li> </ul>   | 3 |
|  | <ul style="list-style-type: none"> <li>▪ Compute assessable income, net assessable income and net chargeable income</li> </ul>   | 3 |
|  | <ul style="list-style-type: none"> <li>▪ Compute provisional salaries tax payable</li> </ul>   | 2 |
|  | <ul style="list-style-type: none"> <li>▪ Explain the procedures and treatment for relating back lump sum receipts</li> </ul>   | 2 |
|  | <ul style="list-style-type: none"> <li>▪ Explain the conditions for any expenditure to be deducted from the assessable income</li> </ul>   | 2 |
|  | <ul style="list-style-type: none"> <li>▪ Describe the conditions for the deduction of concessionary deductions</li> </ul>  | 2 |
|  | <ul style="list-style-type: none"> <li>▪ Explain the conditions for the deduction of personal allowances</li> </ul>  | 2 |
|  |  |   |
| Understanding of the computation of profits tax liabilities of businesses of an individual, partnership or corporation | <ul style="list-style-type: none"> <li>▪ Define the meanings of persons, trade and profession business</li> </ul>  | 1 |
|  | <ul style="list-style-type: none"> <li>▪ Describe the badges of trade</li> </ul>   | 2 |
|  | <ul style="list-style-type: none"> <li>▪ Define the meaning of profits arising in or derived from Hong Kong and identify the factors to be considered in determining the source of profit</li> </ul>   | 2 |
|  | <ul style="list-style-type: none"> <li>▪ Distinguish between capital and revenue receipts and capital and revenue expenditure</li> </ul>   | 2 |
|  | <ul style="list-style-type: none"> <li>▪ Explain different kinds of deemed trading receipts chargeable to profits tax</li> </ul>   | 2 |
|  | <ul style="list-style-type: none"> <li>▪ Identify different kinds of income to be excluded in calculating profits tax</li> </ul>   | 1 |
|  | <ul style="list-style-type: none"> <li>▪ Explain the conditions for the deduction of various types of expenses under profits tax in general</li> </ul>   | 2 |
|  | <ul style="list-style-type: none"> <li>▪ Identify the various types of non-deductible expenditure under profits tax</li> </ul>   | 1 |
|  | <ul style="list-style-type: none"> <li>▪ Identify different acceptable methods of the valuation of inventory</li> </ul>  | 1 |
|  | <ul style="list-style-type: none"> <li>▪ Explain the principal of <i>Sharkey v Wernher</i></li> </ul>  | 2 |
|  | <ul style="list-style-type: none"> <li>▪ Compute the amount of profits tax and provisional profits tax</li> </ul>  | 3 |
|  | <ul style="list-style-type: none"> <li>▪ Explain the conditions for the deduction of specific expenses under profits tax, including: <ul style="list-style-type: none"> <li>○ special contributions to recognized occupational retirement schemes</li> <li>○ expenditure on research and development</li> <li>○ expenditure on refurbishment of building</li> <li>○ expenditure on prescribed fixed assets</li> <li>○ technical education payment</li> <li>○ patent and know-how purchase costs</li> </ul> </li> </ul> | 2 |

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|   | <ul style="list-style-type: none"> <li>▪ Determine when income from business should be assessed</li> </ul>  | 1 |
|   | <ul style="list-style-type: none"> <li>▪ Determine the basis period for different circumstances</li> </ul>  | 2 |
|   | <ul style="list-style-type: none"> <li>▪ Explain the requirements and conditions for hold over of payment of provisional profits tax</li> </ul>   | 2 |
|   | <ul style="list-style-type: none"> <li>▪ Explain the treatment of losses for different kinds of businesses</li> </ul>   | 2 |
|   | <ul style="list-style-type: none"> <li>▪ Compute the profit/loss shared by each partner</li> </ul>  | 3 |
|   | <ul style="list-style-type: none"> <li>▪ Explain the person who is liable to pay the tax under partnership</li> </ul>   | 1 |
|   | <ul style="list-style-type: none"> <li>▪ Explain the treatment of share of profit/loss where there is a change in a partnership</li> </ul>  | 3 |
|   | <ul style="list-style-type: none"> <li>▪ Explain the treatment of losses of a partnership</li> </ul>  | 3 |
|   |   |   |
| Understanding of the computation of depreciation allowances                     | <ul style="list-style-type: none"> <li>▪ Explain the meaning of plant and machinery and identify items which are plant and machine</li> </ul>   | 1 |
|   | <ul style="list-style-type: none"> <li>▪ Compute depreciation allowances under the pooling system and non-pooling system</li> </ul>   | 3 |
|   | <ul style="list-style-type: none"> <li>▪ Explain the meaning of an industrial building and identify a building/structure which is treated as an industrial building</li> </ul>  | 2 |
|   | <ul style="list-style-type: none"> <li>▪ Compute the industrial building allowance</li> </ul>   | 3 |
|   | <ul style="list-style-type: none"> <li>▪ Explain the meaning of commercial building and identify a building/structure which is treated as a commercial building</li> </ul>  | 2 |
|   | <ul style="list-style-type: none"> <li>▪ Compute the commercial building allowance</li> </ul>   | 3 |
|   |   |   |
| Understanding of the computation of tax payable under personal assessment       | <ul style="list-style-type: none"> <li>▪ Explain the persons who are eligible to elect for personal assessment</li> </ul>   | 1 |
|   | <ul style="list-style-type: none"> <li>▪ Explain the requirements and conditions for electing personal assessment</li> </ul>  | 2 |
|   | <ul style="list-style-type: none"> <li>▪ Compute the tax payable under personal assessment in respect of: <ul style="list-style-type: none"> <li>○ an individual</li> <li>○ husband and wife</li> </ul> </li> </ul>   | 3 |
| Understanding of the administration of taxes under the Inland Revenue Ordinance | <ul style="list-style-type: none"> <li>▪ Explain the powers of the following officers of the Inland Revenue Department: <ul style="list-style-type: none"> <li>○ assessor</li> <li>○ inspector</li> <li>○ assistant commissioner</li> <li>○ commissioner</li> </ul> </li> </ul> | 1 |
|   | <ul style="list-style-type: none"> <li>▪ Explain the obligations of a taxpayer and an employer</li> </ul>   | 1 |
|   | <ul style="list-style-type: none"> <li>▪ Explain the requirements and procedures for lodging a valid objection by a taxpayer</li> </ul>   | 3 |
|   | <ul style="list-style-type: none"> <li>▪ Explain the procedures at the Inland Revenue Department upon receipt of a valid objection</li> </ul>   | 2 |
|   | <ul style="list-style-type: none"> <li>▪ Explain the requirements of a valid appeal against the Commissioner of Inland Revenue's determination to the Board of Review</li> </ul>  | 3 |
|   | <ul style="list-style-type: none"> <li>▪ Explain how the Board of Review hears and disposes of an appeal</li> </ul>   | 1 |

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|  | <ul style="list-style-type: none"> <li>▪ Explain the procedures required to lodge an appeal to the: <ul style="list-style-type: none"> <li>○ Court of First Instance</li> <li>○ Court of Appeal</li> <li>○ Court of Final Appeal</li> </ul> </li> </ul> | 1 |
|  | <ul style="list-style-type: none"> <li>▪ Explain the right of a taxpayer to make an error or omission claim</li> </ul>  | 3 |
|  | <ul style="list-style-type: none"> <li>▪ Explain the powers of the Inland Revenue Department in respect of the demand of payment of tax under objection or appeal</li> </ul>  | 2 |
|  | <ul style="list-style-type: none"> <li>▪ Explain the powers of the Inland Revenue Department in the recovery of tax</li> </ul>  | 2 |
|  | <ul style="list-style-type: none"> <li>▪ Explain the procedures for claiming repayment of tax</li> </ul>  | 1 |
|  | <ul style="list-style-type: none"> <li>▪ Explain the penalties to be imposed by the Inland Revenue Department in respect of an offence committed by the taxpayer</li> </ul>   | 2 |
|  | <ul style="list-style-type: none"> <li>▪ Explain the procedures for raising an assessment to additional tax under section 82A</li> </ul>  | 2 |
|  | <ul style="list-style-type: none"> <li>▪ Explain the requirements of a valid appeal against the assessment to additional tax under section 82A</li> </ul>   | 2 |