



香 港 專 業 會 計 員 協 會

THE HONG KONG ASSOCIATION OF ACCOUNTING TECHNICIANS

(Incorporated with Limited Liability)

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Accounting Technician Examinations

Pilot Examination Paper

Level II

Paper 5

Hong Kong Taxation

Questions

Suggested Answers

and

Marking Scheme

The Suggested Answers given in this Booklet are purposely made to give more details for educational purpose.

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Accounting Technician Examinations

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Paper 5

Hong Kong Taxation

Time allowed – 3 hours

Section A – 17 Multiple Choice Questions (compulsory)

Section B – 1 Question (compulsory)

Section C – 5 Questions (attempt any 3)

**DO NOT OPEN THIS PAPER UNTIL
INSTRUCTED TO DO SO BY THE SUPERVISOR**

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TAX RATES AND ALLOWANCES

	1997/98	1998/99 to 2000/01
Standard Rate	15%	15%
Corporation profits tax rate	16.5%	16%

Progressive Rates

	1997/98	1998/99 to 2000/01
Upon the first \$10,000	2%	2%
next \$10,000	2%	2%
\$10,000	2%	2%
\$ 5,000	8%	2%
\$ 5,000	8%	7%
\$10,000	8%	7%
\$10,000	8%	7%
\$10,000	14%	7%
\$10,000	14%	12%
\$10,000	14%	12%
\$10,000	20%	12%
\$ 5,000	20%	12%
\$ 5,000	20%	17%
Remainder	20%	17%

Personal Allowances

	1997/98	1998/99 to 2000/01
	\$	\$
Basic (including additional allowance)	100,000	108,000
Married person's (including additional allowance)	200,000	216,000
Child - 1st	27,000	30,000
2nd	27,000	30,000
3rd to 9th (each)	14,000	15,000
Dependent parent/ grandparent (each) – Basic	27,000	30,000
Additional	8,000	30,000
Single parent	75,000	108,000
Disabled dependant	25,000	60,000
Dependent brother /sister	27,000	30,000
Deduction for self-education expenses (maximum)	20,000	30,000
Home loan interest (maximum)	---	100,000
Elderly residential care expenses (maximum)	---	60,000

Depreciation Allowances

Plant and Machinery

Initial Allowance : 60%

Annual Allowances are given in the questions, if applicable.

Industrial Building

Initial Allowance : 20%

Annual Allowance : 4%

Rebuilding Allowance : 2% (1990/91 to 1997/98)

4% (1998/99 to 2000/01)

SECTION A (MULTIPLE CHOICE QUESTIONS) (20 marks)

Answer **ALL** questions in this section. Choose the best answer for each question.
Marks will not be deducted for incorrect answers.

(Questions 1 to 11 each carry 1 mark, total 11 marks)

1. Which of the following is not a statute administered by the Inland Revenue Department?
 - A Betting Duty Ordinance.
 - B Hotel Accommodation Ordinance.
 - C Rating Ordinance.
 - D Estate Duty Ordinance.

2. Notwithstanding the secrecy provisions of the Inland Revenue Ordinance, the Commissioner of Inland Revenue may communicate any information obtained in the course of his duties to the following persons, EXCEPT the
 - A Commissioner of Police.
 - B Commissioner of Rating and Valuation.
 - C Collector of Stamp Duty.
 - D Commissioner of Estate Duty.

3. Which of the following notices does the recipient have the right to lodge an objection against?
 - A Notice of computation of loss.
 - B Notice of payment of provisional tax.
 - C Notice of revised assessment after agreement reached.
 - D Notice of salaries tax assessment.

4. Mr Chan has an outstanding tax bill of \$18,000. The Commissioner of Inland Revenue may institute proceedings for recovery of tax against Mr Chan in the following court:
 - A the small claims tribunal.
 - B the Magistrate Court.
 - C the District Court.
 - D the Court of First Instance.

5. Which of the following paid by the tenant to the landlord is not to be included as consideration for property tax?
 - A Rent.
 - B Premium.
 - C Property tax.
 - D Refundable deposit.

6. Which of the following factor(s) is/are to be considered in determining the locality of employment?
- (1) the place where the contract of employment is negotiated, is entered into and is enforceable;
 - (2) the place of the employer's residence;
 - (3) the place where the remuneration is paid to the employee.
- A (1) only
B (2) only
C (1) and (2) only
D All of the above factors
7. Mr Smith is an employee of a multi-national company and his income will not be chargeable to Hong Kong salaries tax. Which of the following must be correct?
- A His employment is located outside Hong Kong.
B His employer is not resident in Hong Kong.
C He renders all his services outside Hong Kong.
D His remuneration is paid outside Hong Kong.
8. The contribution provision of the Mandatory Provident Fund scheme came into operation on
- A 1 December 2000.
B 15 December 2000.
C 20 December 2000.
D 31 December 2000.
9. Mr Chu resigned from Burns Ltd on 29 February 2000 after working there for eight years. On 1 May 2000, he received a bonus of \$18,000 in respect of Burns Ltd's financial result for the year ended 30 November 1999. The date of accrual of the bonus to Mr Chu was
- A 30 November 1999.
B 29 February 2000.
C 31 March 2000.
D 1 May 2000.
10. In relation to the CIR v Emerson Radio Corporation's case, which of the following is correct regarding the royalty received by the taxpayer concerned?
- A Royalties for goods manufactured outside Hong Kong and sold in the US should be taxable.
B Royalties for goods manufactured in Hong Kong and sold in the US should be taxable.
C All the above are correct.
D All the above are incorrect.

11. For sale or purchase commission, the source of the income is determined with reference to
- A where the activities of the commission agent are performed.
 - B where the principals are located.
 - C how the principals are identified by the commission agent.
 - D the incidental activities performed prior to or subsequent to the earning of the commission.

(Questions 12 to 17 each carry 1.5 marks, total 9 marks)

12. Mr Lee received a notice of assessment for the year of assessment 1999/2000 (final) and 2000/01 (provisional) with the first instalment of \$80,000 and the second instalment of \$17,000 payable on 10 January 2001 and 10 April 2001 respectively. If Mr Lee does not pay on the first due date, what will be the amount of surcharge to be imposed immediately by the Commissioner of Inland Revenue?
- A \$4,000
 - B \$4,850
 - C \$9,700
 - D \$10,185
13. Mr Cheng retired on 31 January 2000 after working with Kam's Ltd for 15 years. He received a gratuity of \$36,000 from his employer on 29 February 2000. Mr Cheng applied to have the gratuity related back. What will be the amount of gratuity to be included in the year of assessment 1999/2000?
- A \$10,000
 - B \$11,000
 - C \$12,000
 - D \$36,000
14. Calton Ltd commenced business on 1 January 1999 and prepared its first accounts to 31 March 2000. Its adjusted assessable profits for the 15 months from 1 January 1999 to 31 March 2000 are \$150,000. What is the assessable profit of Calton Ltd for the year of assessment 1999/2000?
- A \$30,000
 - B \$120,000
 - C \$150,000
 - D \$300,000
15. Sandy Ltd commenced business on 1 July 1999 and the adjusted assessable profits for the period 1 July 1999 to 31 January 2000 are \$140,000. What will be the estimated assessable profit of Sandy Ltd for provisional profits tax for the year of assessment 2000/01?
- A \$140,000
 - B \$240,000
 - C \$250,000
 - D \$280,000

- 16.** Mr Brown holds a foreign employment and received \$1,098,000 from his employer during the year ended 31 March 2000. During that year, Mr Brown visited Hong Kong for 90 days out of which he only rendered services for 55 days. What will Mr Brown's assessable income be for the year of assessment 1999/2000?
- A \$165,000
 - B \$270,000
 - C 50% of \$1,098,000
 - D \$1,098,000
- 17.** Mr Sze carried on a business for many years and the tax written down value of the assets under 30% pool as at 31 March 1999 was \$140,000. On 1 July 1999, Mr Sze sold all the assets under 30% pool for \$100,000. There was no cessation of Mr Sze's business. What will the depreciation allowance under 30% pool be that can be claimed by Mr Sze for the year of assessment 1999/2000?
- A Balancing allowance of \$40,000.
 - B Balancing charge of \$40,000.
 - C Annual allowance of \$12,000.
 - D Annual allowance of \$4,000.

(Total 20 marks)

[END OF SECTION A]

SECTION B (COMPULSORY) (26 marks)

1. Geo Limited has been carrying on an import and export business in Hong Kong for many years. Its accounts are made up to 31 December each year. The Company's profit and loss account for the year ended 31 December 2000 is as follows:

	\$	\$
Gross profit		12,340,000
Dividends from quoted shares		11,000
Profit on sale of fixed assets		100,000
Compensation (Note 1)		230,000
Interest income (Note 2)		120,000
Exchange gain (Note 3)		<u>50,000</u>
		12,851,000
Less: Salaries and allowance	4,100,000	
Directors' remuneration	2,200,000	
Auditor's fee	50,000	
Rent and rates (Note 4)	380,000	
Interest (Note 5)	83,000	
Contributions to Mandatory Provident Fund (Note 6)	980,000	
Water and electricity	13,000	
Bad debts (Note 7)	42,000	
Donations (Note 8)	160,000	
Legal expenses (Note 9)	44,000	
Insurance	37,000	
Transportation	141,000	
Tax paid (Note 10)	210,000	
Motor car expenses (Note 11)	64,000	
Repairs and maintenance (Note 12)	327,000	
Depreciation	126,000	
Sundry expenses (Note 13)	<u>1,385,000</u>	<u>10,342,000</u>
Net profit		<u>2,509,000</u>

Notes

	\$
(1) Compensation for loss of trading stock	90,000
Compensation for breach of a trading contract	60,000
Compensation for loss of a motor car	<u>80,000</u>
	<u>230,000</u>
(2) Interest on Tax Reserve Certificate	30,000
Interest on US\$ fixed deposits with Hang Seng Bank	<u>90,000</u>
	<u>120,000</u>
(3) Exchange gain on trade debts collected	38,000
Exchange gain on conversion of US\$ fixed deposits into HK\$	<u>12,000</u>
	<u>50,000</u>

(4)	Rent and rates for directors' quarters		365,000
	Rates for Company's office		<u>15,000</u>
			<u>380,000</u>
(5)	Interest paid to a director		26,000
	Interest on bank overdraft which was secured by the Company's property		<u>57,000</u>
			<u>83,000</u>
(6)	Initial contribution		800,000
	Ordinary contribution		<u>180,000</u>
			<u>980,000</u>
(7)	Bad debts		
		\$	\$
	Trade debts written off	30,000	General provision b/f
	Loan to staff written off	10,000	Profit and loss a/c
	General provision c/f	<u>137,000</u>	
		<u>177,000</u>	<u>177,000</u>
(8)	Cash donation to Hong Kong Community Chest		100,000
	Donation of beds to Tung Wah Group of Hospitals		<u>60,000</u>
			<u>160,000</u>
(9)	Collection of trade debts		30,000
	Collection of loan to staff		2,000
	Compilation of tax returns		<u>12,000</u>
			<u>44,000</u>
(10)	Profits tax		130,000
	Salaries tax of the directors		<u>80,000</u>
			<u>210,000</u>
(11)	Petrol		33,000
	Repairs		18,000
	License		5,800
	Fines		<u>7,200</u>
			<u>64,000</u>
(12)	General repairs of fixed assets		50,000
	Renovation of office premises		140,000
	Renovation of directors' quarters		<u>137,000</u>
			<u>327,000</u>
(13)	All sundry expenses were allowable for profits tax purposes.		

Other information for the year of assessment 2000/01:

- (14) The Assessor agreed that the Company was entitled to a total depreciation allowance on plant and machinery of \$315,000.
- (15) Deemed cost of construction of \$300,000 of the Company's office premises was agreed to have been incurred.

REQUIRED:

- (a) **Compute the profits tax payable by Geo Limited for the year of assessment 2000/01. Ignore provisional profits tax. All workings must be shown.**
(18 marks)
- (b) **Briefly explain your tax treatment of the following items in your profits tax computation:**
- (i) **interest expenses,**
 - (ii) **renovation of office premises,**
 - (iii) **renovation of directors' quarters.**

(8 marks)

(Total 26 marks)

[END OF SECTION B]

SECTION C (ANSWER THREE QUESTIONS ONLY) (54 marks)

Answer any **THREE** questions in this section. Each question carries 18 marks

2. Mr Li is employed as a general manager of Bitech (HK) Ltd, a company incorporated and managed in Hong Kong. Bitech (HK) Ltd is a subsidiary of Bitech International Corporation, a company incorporated and managed in the US. Under his terms of employment, Mr Li is required to travel to different places to perform his duties. He stayed in the following places during the year of assessment 1999/2000:

Hong Kong	160
Mainland China	120
Singapore	38
USA	30
Thailand (on vacation)	18
	<u>366</u>

During the year ended 31 March 2000, you have been supplied with the following information in respect of Mr Li:

- (1) Salary: \$1,440,000.
- (2) Bonus: \$120,000.
- (3) Living allowance: \$60,000.
- (4) Holiday passage allowance: \$12,000. Mr Li and his spouse spent \$7,600 joining a tour to Thailand during his vacation leave.
- (5) Bitech (HK) Ltd rented a flat at a monthly rent of \$32,000 for Mr Li's accommodation. Bitech (HK) Ltd deducted 5% of Mr Li's salary as rent contribution.
- (6) Reimbursement of education expenses: \$120,000.
Mr Li's child, who is aged 9, is studying in an international school and Bitech (HK) Ltd will reimburse the school fees upon production of the receipts.
- (7) Mr Li obtained a low-interest loan of \$300,000 from Bitech (HK) Ltd to purchase a car for his own use. Mr Li would have had to pay \$12,000 more interest if he obtained a loan from a bank to buy the car. During the year, the employer also gave him \$6,000 as a travelling allowance for using his car to travel between his home and office.
- (8) Mrs Li's wife gave birth to his second child in November 1999, and Bitech (HK) Ltd gave Mr Li a gift valued at \$3,000 to celebrate the occasion.
- (9) On 1 May 1998, Mr Li was granted an option at a cost of \$10,000 to subscribe for 100,000 shares in his employer's parent company at \$1 each. He paid \$10,000 for the option on that date. On 1 February 1999, he exercised part of the option to

subscribe for 50,000 shares. On 1 June 1999, he exercised the remaining option to subscribe for 50,000 shares. Mr Li sold all the shares on 31 January 2000. The market values per share at the relevant dates were as follows:

1 May 1998	\$2.80
1 February 1999	\$3.10
1 June 1999	\$2.50
31 January 2000	\$4.20

- (10) Mr Li paid income tax of \$120,000 to the Chinese Tax Authority in respect of his income of \$480,000, being attributable to his services rendered in Mainland China.
- (11) Mr Li is married and his spouse is a housewife. Their first child is aged 9.
- (12) Mr Li paid \$70,000 to a residential care home in Hong Kong which provides residential care to his father who is aged 62.
- (13) Mr Li and his spouse made a total cash donations of \$140,000 to approved charitable organisations.

REQUIRED:

- (a) **Compute Mr Li's net chargeable income for the year of assessment 1999/2000. All workings must be shown.**
(14 marks)
- (b) **Briefly explain the tax treatment of the following items:**
 - (i) **reimbursement of education expenses;**
 - (ii) **low-interest loan;**
 - (iii) **gift for new born child.**(4 marks)

(Total 18 marks)

3. (a) **State the circumstances where rental income received by an individual from land and buildings situated in Hong Kong is subject to profits tax.**

(6 marks)

- (b) Mr Poon purchased a residential property in City Garden many years ago. The property was let to Mr Fong under a three-year lease starting from 1 December 1996 under the following terms:

- (a) Monthly rent: \$16,000 payable at the beginning of each month.
- (b) Premium: \$54,000 payable on 1 December 1996.
- (c) Refundable deposit: \$32,000 payable on 1 December 1996 and refundable at the expiry of the lease.
- (d) Rates: \$2,100 per quarter payable by the landlord.
- (e) Government rent: \$800 per quarter payable by the landlord.
- (f) Management fee: \$1,000 per month payable by the tenant to the management company.

On 15 November 1999, Mr Poon and Mr Fong agreed to a new lease starting from 1 December 1999 with the following particulars:

- (a) Period of lease: 1 December 1999 to 31 May 2002.
- (b) Monthly rent: \$12,000 payable at the beginning of each month.
- (c) Premium: \$30,000 payable on 1 December 1999.
- (d) Rental deposit: The rental deposit was to be reduced to \$20,000 and Mr Poon would set the refund of \$12,000 against December 1999's rent.
- (e) Rates, government rent and management fee: The amounts were the same as the old lease but all were now to be paid by the tenant.

Mr Poon has mortgaged the property to the Bank of East Asia to finance the purchase of the property. He paid mortgage loan interest of \$140,000 and \$128,000 during the two years ended 31 March 1999 and 2000 respectively.

REQUIRED:

Compute the property tax liabilities of Mr Poon for the years of assessment 1998/99 and 1999/2000. Ignore provisional property tax. All workings must be shown.

(12 marks)

(Total 18 marks)

4. (a) **What are the requirements of a valid objection under the Inland Revenue Ordinance?**
(6 marks)
- (b) **What are the requirements of a valid appeal against the determination of the Commissioner of Inland Revenue?**
(6 marks)
- (c) **What are the requirements if a taxpayer wants to appeal to the Court of First Instance directly?**
(6 marks)

(Total 18 marks)

5. Mr and Mrs Chiu had the following income, loss and expenses during the following relevant years of assessment:

Year of assessment	1997/98	1998/99	1999/00
	\$	\$	\$
<u>Mr Chiu</u>			
Net assessable value	144,000	144,000	115,200
Net assessable income	600,000	660,000	700,000
Approved charitable donations	50,000	80,000	--
Mortgage loan interest	150,000	142,000	130,000
Home loan interest	130,000	115,000	105,000
Residential care expenses	54,000	54,000	54,000
<u>Mrs Chiu</u>			
Net assessable income	120,000	120,000	20,000
Agreed business loss	(150,000)	(900,000)	--
Approved charitable donations	4,000	6,000	--

Other information:

- The mortgage loan interest was incurred for the purpose of producing the rental income.
- The home loan interest was paid to Hong Kong Bank for the mortgage loan obtained for the purchase of property as Mr Chiu's place of residence.
- The residential care expenses were paid during the year 1999/2000 in respect of his mother who is 65 years old.
- Mrs Chiu's business ceased on 31 March 1999.

REQUIRED:

Compute the total income before personal allowances of Mr and Mrs Chiu under personal assessment for the years of assessment 1997/98, 1998/99 and 1999/2000.

(18 marks)

6. Sunshine Limited is a furniture manufacturing company incorporated in Hong Kong. It prepares its accounts to 31 March annually.

On 1 November 1997, Sunshine Limited purchased three units of equal size in a new factory with the following particulars:

Purchase price for three units	\$7,500,000
Cost of construction	\$2,500,000
Cost of land	\$2,500,000

Sunshine Limited used the first two units for manufacturing purposes and the third unit as a general office.

On 1 December 1998, Sunshine Limited acquired a piece of land in Yuen Long at a cost of \$8,000,000 to build a five-storey building. The building was completed on 31 December 1999. Sunshine Limited used the whole building for manufacturing purposes immediately after completion.

Sunshine Limited incurred the following costs of construction on the new building:

Year ended 31 March 1999	\$4,000,000
Year ended 31 March 2000	\$2,000,000

On 1 January 2000, Sunshine Limited sold the first two units in the old building to Moonlite Limited for \$4,000,000 (including the price of land) while the building was still an industrial building. The third unit was still used by Sunshine Limited as its general office.

Moonlite Limited used the factory for manufacturing purposes after it had spent \$300,000 on improvements. Moonlite Limited prepares its accounts to 31 March annually.

REQUIRED:

- (a) **Compute the respective amounts of industrial building allowance and commercial building allowance that Sunshine Limited is entitled to claim for the years of assessment 1997/98, 1998/99 and 1999/2000.**

(12 marks)

- (b) **Compute the amount of industrial building allowance that Moonlite Limited is entitled to claim for the year of assessment 1999/2000.**

(6 marks)

(Total 18 marks)

All workings must be shown.

[END OF PILOT EXAMINATION PAPER]

Accounting Technician Examinations

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Level II

Paper 5

Hong Kong Taxation

Suggested Answers

and

Marking Scheme

SECTION A (MULTIPLE CHOICE QUESTIONS)

(Questions 1 to 11 each carry 1 mark, total 11 marks)

- 1. C
- 2. A
- 3. D
- 4. C
- 5. D
- 6. D
- 7. C
- 8. A
- 9. B
- 10. B
- 11. A

(Questions 12 to 17 each carry 1.5 marks, total 9 marks)

- 12. B
- 13. A
- 14. B
- 15. B
- 16. B
- 17. C

(Total 20 marks)

SECTION B (COMPULSORY) (26 marks)**Marks**

1. (a)		Geo Limited		
		Profits tax computation		
		Year of assessment 2000/01		
		Basis period: year ended 31 December 2000		1
		\$	\$	
Profit per account			2,509,000	0.5
Less:	Dividends	11,000		0.5
	Profit on sale of fixed assets	100,000		0.5
	Compensation	80,000		0.5
	Interest	120,000		1
	Exchange gain	<u>12,000</u>	<u>323,000</u>	1
			2,186,000	
Add:	Interest paid to director		26,000	0.5
	Initial contribution to MPF (\$800,000 × 4/5)		640,000	2
	Loan to staff		10,000	0.5
	Increase in general provision of bad debt \$(137,000 – 135,000)		2,000	1
	Donations		160,000	0.5
	Legal fee re collection of loan to staff		2,000	0.5
	Profits tax		130,000	0.5
	Fines		7,200	0.5
	Refurbishment expenditure of office premises (\$140,000 × 4/5)		112,000	1
	Renovation of directors' quarters		137,000	1
	Depreciation		<u>126,000</u>	0.5
			3,538,200	
Less:	Depreciation allowance	315,000		0.5
	Commercial building allowance			
	\$(300,000 + 137,000) × 4%	<u>17,480</u>	<u>332,480</u>	1
			3,205,720	
Less:	Approved charitable donations		<u>100,000</u>	1
Assessable profits			<u>3,105,720</u>	1
Tax thereon @16%			<u>496,915</u>	1

(18 marks)

- (b) (i) Interest expenses
- The interest paid to a director is not deductible because the recipient is not liable to pay any tax on the interest income received (section 16(2)(c)) and other statutory conditions are not satisfied. 1
- The bank overdraft interest is deductible because section 16(2)(d) is satisfied. 1

- (ii) Renovation of office premises
The capital expenditure on the renovation of office premises is deductible in five equal instalments over five years, beginning with the basis period in which the payment was actually made (section 16F). Therefore, 4/5 of the expenditure is not deductible in the year of payment and must be added back in the computation. **1**
1
1
- (iii) Renovation of directors' quarters
Refurbishment allowance will not be available for capital expenditure incurred for a domestic building, and therefore expenditure on the renovation of directors' quarters is not deductible. However, a commercial building allowance can be claimed on the capital expenditure incurred. **1**
1

(8 marks)

(Total 26 marks)

SECTION C (ANSWER THREE QUESTIONS ONLY) (54 marks)

			Marks
2. (a)	Mr Li		
	Salaries tax computation		
	Year of assessment 1999/00		
	Basis period: 1 April 1999 to 31 March 2000		
	\$	\$	
Salary		1,440,000	0.5
Bonus		120,000	0.5
Living allowance		60,000	0.5
Holiday passage allowance \$(12,000 – 7,600)		4,400	1
Reimbursement of education expenses		120,000	0.5
Travelling allowance		6,000	0.5
Gain on share option (working)		70,000	0.5
		<u>1,820,400</u>	
Less: Income excluded under s8(1A)(c)		480,000	2
		<u>1,340,400</u>	
Rental value \$(1,340,400 – 70,000) × 10%	127,040		1
Less: Rent suffered (\$1,440,000 × 5%)	<u>72,000</u>	<u>55,040</u>	1
		1,395,440	
Less: Concessionary deductions			
Approved charitable donations (10% on \$1,395,440)			1
	139,544		
Elderly residential care expenses	<u>60,000</u>	<u>199,544</u>	0.5
		1,195,896	
Less: Married person's allowance	216,000		0.5
Child allowance	<u>60,000</u>	<u>276,000</u>	0.5
Net chargeable income		<u>919,896</u>	1
Working on gain on share option			
Market value of shares at the date of exercise (50,000 × \$2.5)		125,000	1
Less: Cost of option	5,000		0.5
Cost of shares (50,000 × \$1)	<u>50,000</u>	<u>55,000</u>	1
		<u>70,000</u>	

(14 marks)

- (b) (i)** Reimbursement of education expenses
The education expenses are private in nature and any reimbursement of non-allowable expenses by the employer to an employee is chargeable to salaries tax. **1.5**
- (ii)** Low interest loan
A low interest loan provided by an employer to an employee is not a taxable benefit as the employee cannot convert the benefit into cash (DIPN 16). **1.5**

Marks

- (iii) Gift for new born child
The gift given by an employer to an employee is a non-taxable receipt because it is given to the employee for personal reasons and not as a reward for services rendered. **1**

(4 marks)

(Total 18 marks)

	Marks
3. (a) The following rental income derived by an individual will be subject to profits tax:	
(a) sub-letting by an individual of:	2
(i) any premises or	0.5
(ii) portion of any premises	0.5
held by him under a lease or tenancy other than from the Government of the HKSAR; and	1
(b) letting and related activities carried out by an individual amount to the carrying on of a trade or business.	2

(6 marks)

(b)	Mr Poon Property Tax Year of assessment 1998/99	\$	
	Rent (\$16,000 × 12)	192,000	1
	Premium (\$54,000 × 12/36)	<u>18,000</u>	1
		210,000	
	Less: Rates (\$2,100 × 4)	<u>(8,400)</u>	1
		201,600	
	Less: 20% statutory deduction	<u>(40,320)</u>	0.5
	Net assessable value	<u><u>161,280</u></u>	1
	Property tax payable @ 15%	<u><u>24,192</u></u>	0.5
	Year of assessment 1999/2000		
	Rent (1.4.99 – 30.11.99) (\$16,000 × 8)	128,000	1
	(1.12.99 – 31.3.00) (\$12,000 × 4)	48,000	1
	Premium (\$54,000 × 8/36)	12,000	1
	(\$30,000 × 4/30)	<u>4,000</u>	1
		192,000	
	Less: Rates (1.4.99 – 30.11.99) (\$2,100 × 8/3)	<u>5,600</u>	1
		186,400	
	Less: 20% statutory deduction	<u>37,280</u>	0.5
	Net assessable value	<u><u>149,120</u></u>	1
	Property tax payable @ 15%	<u><u>22,368</u></u>	0.5

(12 marks)

(Total 18 marks)

Marks

- 4. (a)** The requirements of a valid objection as provided under section 64 of the Inland Revenue Ordinance are:
- (i) the notice of objection must be in writing **1**
 - (ii) the notice of objection must be received by the Commissioner within one month from the date of issue of the notice of assessment **1**
 - (iii) the notice of objection must state precisely the grounds of objection, and **1**
 - (iv) in the case of an estimated assessment raised in the absence of return, a properly completed return must be submitted with the notice of objection or within such further period as the Commissioner of Inland Revenue may allow. **1**
- However, if the person is prevented from giving a notice of objection within the one month period because: **1**
- (i) he was absent from Hong Kong
 - (ii) he was sick, or
 - (iii) of any other reasonable cause
- the Commissioner may extend the one month limit for lodging an objection as may be reasonable in the circumstance. **1**

(6 marks)

- (b)** If a person disagrees with the determination of the Commissioner of Inland Revenue, he can appeal to the Board of Review. A person can give a written notice of appeal to the clerk to the Board of Review,
- (a) within one month of the Commissioner of Inland Revenue's determination, together with: **1**
 - (i) a statement of the grounds of appeal **0.5**
 - (ii) a copy of the Commissioner of Inland Revenue's determination **0.5**
 - (iii) a copy of the reasons for the determination, and **0.5**
 - (iv) the statement of facts; and **0.5**
 - (b) at the same time serve a copy of the notice of appeal and the statement of the grounds of appeal to the Commissioner of Inland Revenue. **1**
- The Board of Review can grant an extension of time for submission of the notice of appeal if it is satisfied that the appellant was prevented from giving an appeal in time due to: **0.5**
- (i) illness **0.5**
 - (ii) absence from Hong Kong, or **0.5**
 - (iii) any other reasonable cause. **0.5**

(6 marks)

- (c)** After a person has lodged a valid appeal with the Board of Review, he can give notice in writing to the Commissioner of Inland Revenue that he desires the appeal to be transferred to the Court of First Instance without going through the Board of Review. Such notice must be given to the Commissioner of Inland Revenue: **1**
- (a) within 21 days after the date on which the notice of appeal is received by the clerk to the Board of Review, or **1**

	Marks
(b) any further time as the Board of Review may permit.	0.5
If the Commissioner of Inland Revenue on receiving such notice agrees to the transfer of the case, he must give his consent in writing to the Board of Review:	1
(a) within 21 days after the date on which the notice was given, or	0.5
(b) such further time as the Board of Review may permit, and at the same time, serve a copy on that person.	0.5

(6 marks)

(Total 18 marks)

Marks

5.

Mr and Mrs Chiu Personal assessment			
	Mr Chiu	Mrs Chiu	Total
	\$	\$	\$
Year of assessment 1997/98			
Net assessable value	144,000		0.5
Net assessable income	600,000	120,000	1
	<u>744,000</u>		
Less: Mortgage interest	<u>(144,000)</u>		1
	600,000		
Less: Approved charitable donations	<u>(50,000)</u>	<u>(4,000)</u>	0.5
	550,000	116,000	
Business loss		<u>(150,000)</u>	0.5
		<u>(34,000)</u>	
Inter-spouse loss set-off	<u>(34,000)</u>	34,000	1
Total income before personal allowances	<u>516,000</u>	Nil	<u>516,000</u> 0.5
Year of assessment 1998/99			
Net assessable value	144,000		0.5
Net assessable income	660,000	120,000	1
	<u>804,000</u>		
Less: Mortgage interest	<u>(142,000)</u>		1
	662,000		
Less: Concessionary deductions			
Approved charitable donations	(66,200)	<u>(12,000)</u>	1
Home loan interest	(100,000)		0.5
Elderly residential care expenses	<u>(54,000)</u>		0.5
	441,800	108,000	
Business loss		<u>(900,000)</u>	0.5
		<u>(792,000)</u>	
Inter-spouse loss set-off	<u>(441,800)</u>	441,800	1
Total income before personal allowances	Nil	Nil	<u>Nil</u> 0.5
Loss c/f		<u>(350,200)</u>	0.5

Workings on calculation of approved charitable donations to 1998/99:

Mr Chiu:

$$\$662,000 \times 10\% = \$66,200$$

$$\text{Amount of donations transferred to Mrs Chiu: } \$80,000 - \$66,200 = \$13,800$$

Mrs Chiu:

1. Total amount of approved charitable donations available for deduction:

$$\$6,000 + \$13,800 = \$19,800$$

$$\text{Amount of donations to be allowed: } \$120,000 \times 10\% = \$12,000$$

				Marks
Year of assessment 1999/2000				
Net assessable value	115,200			0.5
Net assessable income	<u>700,000</u>	20,000		1
	815,200			
Less: Mortgage interest	<u>(115,200)</u>			1
	700,000			
Less: Concessionary deductions				
Home loan interest	(100,000)			0.5
Elderly residential care expenses				
	<u>(54,000)</u>			0.5
	546,000			
Loss b/f		<u>(350,200)</u>		1
		(330,200)		
Inter-spouse loss set-off	<u>(330,200)</u>	<u>330,200</u>		1
Total income before personal allowances	<u>215,800</u>	<u>Nil</u>	<u>215,800</u>	0.5

(Total 18 marks)

Marks

6. (a)

Sunshine Limited

Year of assessment 1997/98

Basis period: year ended 31 March 1998

(i) Industrial building allowance	\$	
Qualifying expenditure		
$\$7,500,000 \times 2,500,000/5,000,000 \times 2/3$	2,500,000	1.5
Initial allowance: $\$2,500,000 \times 20\%$	(500,000)	1
Annual allowance: $\$2,500,000 \times 4\%$	<u>(100,000)</u>	1
WDV c/f	<u>1,900,000</u>	
(ii) Commercial building allowance		
Capital expenditure		
$\$7,500,000 \times 2,500,000/5,000,000 \times 1/3$	1,250,000	1
Annual allowance ($\$1,250,000 \times 2\%$)	<u>25,000</u>	1
	<u>1,225,000</u>	

Year of assessment 1998/99

Basis period: year ended 31 March 1999

(i) Industrial building allowance		
WDV b/f	1,900,000	
Annual allowance	<u>100,000</u>	0.5
WDV c/f	<u>1,800,000</u>	
Initial allowance on new building:		
Cost of construction	4,000,000	
Initial allowance ($\$4,000,000 \times 20\%$)	<u>800,000</u>	1
WDV c/f	<u>3,200,000</u>	
Annual allowance	<u>NIL</u>	0.5
(ii) Commercial building allowance		
Deemed cost of construction	1,225,000	
Annual allowance ($\$1,225,000 \times 4\%$)	<u>49,000</u>	0.5
WDV C/F	<u>1,176,000</u>	

Year of assessment 1999/2000

Basis period: year ended 31 March 2000

(i) Industrial building allowance		
WDV b/f	1,800,000	
Less: Sales proceeds ($\$4,000,000 \times 1/2$)	<u>2,000,000</u>	1
Balancing charge	<u>200,000</u>	1

		Marks
New building:		
WDV b/f	3,200,000	
Addition	<u>2,000,000</u>	
	5,200,000	
Initial allowance ($\$2,000,000 \times 20\%$)	<u>400,000</u>	1
	4,800,000	
Annual allowance $\$(4,000,000 + 2,000,000) \times 4\%$	<u>240,000</u>	0.5
WDV c/f	<u><u>4,560,000</u></u>	
 (ii) Commercial building allowance		
WDV b/f	1,176,000	
Annual allowance	<u>49,000</u>	0.5
WDV c/f	<u><u>1,127,000</u></u>	
		(12 marks)

(b)

Moonlite Limited
Year of assessment 1999/2000
Basis period: year ended 31 March 2000

		Total	
Residue of expenditure before sale	1,800,000		0.5
Balancing charge	<u>200,000</u>		0.5
Residue of expenditure after sale	2,000,000		
Annual allowance $\$2,000,000 \times 1/24$	<u>83,334</u>	83,334	1
WDV c/f	<u><u>1,916,666</u></u>		

* Year of first use by Sunshine Limited

1997/98

25th year after year of first use

2022/23

Year of first use by Moonlite Limited 1999/2000

Number of years from 1999/2000 to 2022/23 24 years **1.5**

Addition of capital expenditure	300,000		
Initial allowance – 20%	<u>60,000</u>	60,000	1
	240,000		
Annual allowance – 4%	<u>12,000</u>	12,000	1
	<u><u>228,000</u></u>		
		<u><u>155,334</u></u>	0.5

(6 marks)

(Total 18 marks)

– END –