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

Hong Kong's
CPA Qualification
香港會計師專業資格

Qualification Programme

Associate Module 9
Principles of Taxation

Pilot Examination Paper

Time Allowed	2 hours 30 minutes	
Examination Assessment Allocation		
Objective Type / Scenario-based Questions	50 Marks	All questions are compulsory
Task-based Questions	50 Marks	All questions are compulsory

This pilot examination paper simulates a typical examination paper that assesses candidates' core foundational technical knowledge of the subject matters, and their skills in applying the knowledge to tackle routine professional problems, including computations. Mark(s) for each question is set in accordance with its level of difficulty.

The sample questions in this paper are to help candidates familiarise themselves with the form and style of questions which they may see in the Module 9 examination. The sample questions and answers are for reference only, and the content may not have been updated to reflect any changes in relevant standards or legislation.

You should answer **all questions** in this paper and allocate approximately 1.5 minutes for each mark.

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Published in August 2025

Table A: Personal allowances and deductions

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

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Table B: Tax rates

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

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

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Table C: Stamp duty rates

Conveyance and Agreement for sale		
Ad Valorem Duty		
(marginal reliefs ignored)	**Scale 1**	**Scale 2**
Not exceeding HK$2,000,000	1.5%	HK$100
HK$2,000,001 to HK$3,000,000	3%	1.5%
HK$3,000,001 to HK$4,000,000	4.5%	2.25%
HK$4,000,001 to HK$6,000,000	6%	3%
HK$6,000,001 to HK$20,000,000	7.5%	3.75%
Exceeding HK$20,000,000	8.5%	4.25%
		From 5 November 2016
For residential property		15%
		(unless specifically exempted or provided otherwise)
Lease		
Rent only:		
Not exceeding 1 year		0.25%
Not exceeding 3 years		0.5%
Exceeding 3 years		1%
Premium and rent:		
Premium part		4.25%
Rent part		same as rent only lease
Hong Kong Stock Transfer		
Contract notes (for every sold note and every bought note)		0.1%
Instrument of transfer		HK$5

Table D: Abbreviation

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

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OBJECTIVE TYPE / SCENARIO-BASED QUESTIONS (Total: 50 marks)

Answer **ALL** questions in this section. Together they are worth 50% of the total marks for this examination.

1 Identify which of the following conditions the CIR may holdover the tax in dispute under an objection. *(1 mark)*

- A. The taxpayer provides a written guarantee that he/ she will pay the tax in dispute if the objection fails.
- B. The holding company of the taxpayer guarantees that it will pay the tax in dispute if the objection fails.
- C. The taxpayer purchases a tax reserve certificate.
- D. The taxpayer places a cash deposit with the IRD.

2 Identify which of the following does **NOT** constitute wilful evasion of tax under s.82(1) of the IRO. *(1 mark)*

- A. A person fails to keep records of business income and expenditure for a period of not less than seven years.
- B. A person makes a false statement in any return.
- C. A person gives a false answer to any question or request for information asked or made.
- D. A person makes a false statement in connection with a claim for any deduction or allowance.

3 Identify which of the following powers conferred upon the CIR under the IRO can be delegated to other officers in the IRD. *(2 marks)*

- A. Power to agree with the taxpayer on assessment under objection under s.64(3) of the IRO.
- B. Power to obtain statement of assets and liabilities under s.51A of the IRO.
- C. Power to issue notice under s.82A(4) of the IRO in order to obtain representation from a taxpayer who has committed an offence.
- D. Power to issue notice of additional tax assessment (monetary penalty) under s.82A of the IRO.

4 Identify which of the following is correct regarding an error and omission claim under s.70A of the IRO. *(2 marks)*

- A. An error or omission claim must be made in writing.
- B. An error or omission claim must be lodged within one month after the date of the issue of the assessment.
- C. No correction may be made if an assessment was made in accordance with the practice prevailing at the time when the return or statement was made by the IRD.
- D. If an assessor refused to correct the assessment, the claimant had no right to lodge an objection against the assessor's decision.

5 Identify which of the following is/ are a valid ground for applying for the holdover of provisional salaries tax. (You may select more than one answer option) *(1 mark)*

- A. The taxpayer encounters financial difficulty that has reduced his/ her net worth.
- B. The taxpayer's net chargeable income for the year is likely to be less than 90% of the provisional amount assessed.
- C. An objection has been lodged by the taxpayer against the final assessment on which the provisional assessment is based.

6 Identify which of the following is/ are power(s) provided under the IRO to recover tax in default. (You may select more than one answer option) *(2 marks)*

- A. To take civil action in the District Court against the tax defaulter.
- B. To give a notice to the employer of a taxpayer to pay the amount of outstanding tax from the taxpayer's salary.
- C. The CIR can issue a departure prevention direction to prevent the tax defaulter from leaving Hong Kong.
- D. Impounding ships or aircraft in case of a default by an owner or charterer of ships or aircraft.

Question

7 Determine whether the below statements regarding stamp duty liability of instruments is **TRUE** or **FALSE**. *(2 marks)*

Answer area

(a) An instrument to transfer one's residential property in Hong Kong to his or her daughter without consideration is chargeable.

- A. True
- B. False

(b) An agreement for sale and purchase of an immoveable property in Hong Kong is chargeable.

- A. True
- B. False

(c) A 5-year lease agreement of a commercial building in Central at a monthly rent of HK$50,000 is chargeable.

- A. True
- B. False

(d) A loan agreement for the purpose of acquiring a residential property in Hong Kong is chargeable.

- A. True
- B. False

Question

8 Determine whether the below statements regarding an objection lodged against an estimated assessment are **TRUE** or **FALSE**. *(2 marks)*

Answer area

(a) The objection needs to be in writing.

- A. True
- B. False

(b) A valid return has to be filed together with the notice of objection if not filed before.

- A. True
- B. False

(c) The onus of proof is on the CIR to show that the assessment is correct.

- A. True
- B. False

(d) The taxpayer has to state precisely the grounds for the objection.

- A. True
- B. False

9 Fill in the blank with the appropriate word/ number.

Under s.60(1) of the IRO, the assessor may raise an assessment or an additional assessment within _____ years after the end of the year of assessment concerned according to his own judgement. *(1 mark)*

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10 Identify which of the following is **NOT** a valid ground for applying for the holding-over of provisional property tax. *(1 mark)*

- A. The assessable value is likely to be less than 90% of that for the preceding year of assessment.
- B. The taxpayer has elected personal assessment, which is likely to reduce his/ her property tax liability for the year of assessment.
- C. The taxpayer has departed from Hong Kong in the year of assessment and will not return to Hong Kong for a considerable period.
- D. The taxpayer has lodged a valid objection to his/ her property tax assessment for the preceding year of assessment.

11 Identify which of the following statements is **CORRECT** for the purpose of property tax. *(2 marks)*

- A. Rental income received by a corporation carrying on business in Hong Kong is not subject to Property tax.
- B. An individual owner whose rental income from a property in Hong Kong will not be liable to Property tax if the rental income is less than the basic allowance.
- C. Joint owners of a property in Hong Kong will receive the property tax assessment on such property separately.
- D. Property tax is charged at the standard rate on the net assessable value.

12 In respect of "land or buildings" or "land and buildings", determine which of the following persons is an owner for property tax purposes. (You may select more than one answer option) *(1 mark)*

- A. A mortgagor.
- B. A mortgagee.
- C. A tenant for life.

13 Identify which of the following statements about personal assessment is **NOT** true. *(1 mark)*

- A. Under personal assessment, a husband and wife cannot elect to be separately asessed.
- B. Under personal assessment, a husband can claim the married person's allowance if his wife has no chargeable income.
- C. An individual must be aged 21 or above to elect for personal assessment.
- D. An unmarried individual must be a permanent or temporary resident of Hong Kong to elect for personal assessment.

14 Stephen is employed by B Limited in Country B and it is accepted that his employment is located outside Hong Kong. During the year ended 31 March 2024, he visited Hong Kong for 140 days during which he rendered services for 120 days. His employer provided him with a hotel suite with one bedroom when he stayed in Hong Kong. During the year ended 31 March 2024, Stephen received total salaries of HK$730,000 from his employer.

Calculate Stephen's assessable income for the year of assessment 2023/24. *(2 marks)*

- A. HK$249,600.
- B. HK$291,200.
- C. HK$302,400.
- D. HK$308,000.

15 Determine which of the following conditions must be fulfilled before a taxpayer can claim salaries tax relief under s.8(1A)(c) of the IRO. *(2 marks)*

- A. The tax rate at which the taxpayer paid the foreign tax is higher than the effective Hong Kong salaries tax rate.
- B. The amount of foreign tax paid exceeds that of the Hong Kong salaries tax the taxpayer would need to pay under the IRO.
- C. The taxpayer has submitted his/ her statutory declaration that he/ she has paid the foreign tax.
- D. The taxpayer can show evidence that the foreign tax has been paid or deducted.

16 Fill in the blank with the appropriate numbers.

Luke is the general manager of a Hong Kong company. You have been supplied with the following information regarding the year ended 31 March 2019:

- Luke's annual salary was HK$960,000;
- His employer provided a flat to him at a monthly rent of HK$4,000. The flat was owned by his employer; and
- He paid self-education expenses of HK$120,000 to attend an MBA course at a university in Hong Kong.

Calculate Luke's net assessable income for the year of assessment 2018/19. *(3 marks)*

	HK$
Salaries	
Rental value	
Less: Rent suffered	
Deductions	
Net assessable income	

17 According to DIPN No. 21 (Revised), identify which of the following risks will be considered by the IRD in determining whether a re-invoicing centre is a trader or service provider. *(1 mark)*

I. Product risks.
II. Credit risks.
III. Exchange risks.
IV. Capital risks.

- A. I only.
- B. I and II only.
- C. I, II and III only.
- D. I, II, III and IV.

18 Determine which of the following items (all for producing chargeable profits) is **NOT** deductible for profits tax purposes. *(1 mark)*

- A. Specific trade debts written off.
- B. Loss on disposal of production equipment.
- C. Legal fees incurred on the renewal of a lease of a commercial property.
- D. Repair expenses for a computer.

19 Identify which of the following are included in the definition of "business" under s.2(1) of the IRO. *(2 marks)*

I. Agricultural undertaking.
II. Pig rearing.
III. Letting or subletting by a corporation.

- A. I and II only.
- B. I and III only.
- C. II and III only.
- D. I, II and III.

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20 BC Inc is a company incorporated in France. It brews and sells whisky in France and other countries in Europe. In 2023, it set up a branch in Hong Kong to sell its whisky to Hong Kong customers. You have been supplied with the following information about BC Inc for the year ended 31 December 2023:

Worldwide turnover:	HK$250 million
Hong Kong turnover:	HK$50 million
Worldwide assets:	HK$100 million
Hong Kong assets:	HK$30 million
Adjusted worldwide profits:	HK$15 million

Calculate the assessable profits of BC Inc chargeable to Hong Kong profits tax for the year of assessment 2023/24. *(2 marks)*

- A. Nil.
- B. HK$3 million.
- C. HK$4.5 million.
- D. HK$7.5 million.

21 B Ltd carries on properties trading business in Hong Kong and prepares its accounts to 31 December each year. In June 2022, B Ltd purchased a shop in an old commercial building. To finance the purchase of the shop, B Ltd obtained a loan from Mr Bai, who is retired and is the father of a director of B Ltd. B Ltd renovated the shop and let it out in September 2022 until January 2023 when the shop was sold at a profit. The profit was subject to profits tax. Identify which of the following statements is/ are **TRUE**. *(3 marks)*

I. B Ltd can claim exemption from the payment of property tax in respect of the shop.
II. B Ltd can claim deduction of commercial building allowance in respect of the shop.
III. B Ltd can claim deduction of refurbishment expenditure in respect of the cost of renovation of the shop.
IV. B Ltd can claim deduction of interest paid to Mr Bai in respect of the loan borrowed to finance the acquisition of the shop.

- A. I only.
- B. I and II only.
- C. I, II and III only.
- D. I, II, III and IV.

22 Identify which of the following foreign taxes or duties may be deductible under s.16(1) of the IRO. (You may select more than one answer option). *(2 marks)*

- A. Duties on commodities.
- B. Vehicle licence fees.
- C. Rates levied on properties.
- D. Capital gain tax.

23 Fill in the blank with the appropriate numbers.

During the year ended 31 March 2016, E Ltd purchased a shop in Kowloon at a price of HK$10,000,000 for selling goods. The cost of construction of the shop is HK$5,000,000 (excluding the cost of land). During the year ended 31 March 2021, E Ltd incurred HK$1,000,000 for renovating the shop. During the year ended 31 March 2024, E Ltd sold the shop for HK$20,000,000 (one half of which was related to the value of land).

Calculate the following for the year of assessment 2023/24. *(3 marks)*

	HK$
Cost of construction	
Less: Annual allowance claimed per year **X** no. of years Annual allowance could be claimed	
Residue of expenditure	
Less: Sale proceeds	
Balancing allowance/ (charge), restricted to allowance given	
Refurbishment allowance	

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24 Fill in blank with the appropriate numbers.

Mr Au and Mr Bau were partners of AB Co up to 30 April 2023.

On 1 May 2023, Mr Bau retired. The accounts of AB Co end on 31 March each year. Before Mr Bau's retirement, they shared the profit/ loss at a ratio of 3:2 after charging monthly salaries of HK$30,000 to Mr Au and HK$18,000 to Mr Bau. Mr Au continues to carry on the business of AB Co after Mr Bau's retirement. The adjusted profit of AB Co for the year of assessment 2023/24 is HK$1,200,000 after charging the monthly salaries paid to Mr Au and Mr Bau. Mr Bau ceased to receive monthly salaries from AB Co as from 1 May 2023. Mr Bau has a share of partnership loss of HK$100,000 brought forward from the year of assessment 2022/23. Both Mr Au and Mr Bau have not elected for personal assessment for the year of assessment 2023/24.

Calculate the net assessable profit of AB Co for the year of assessment 2023/24. *(3 marks)*

	HK$
Adjusted profit	1200000
Partner's salaries	
- Mr Au	
- Mr Bau	
Assessable profit	
Assessable profit for first 1 month	
Assessable profit for last 11 months	

	Mr. Au	Mr. Bau	Total
	HK$	HK$	HK$
Period - First 1 month			
Salaries			
Residue			
Period - Last 11 months			
Residue		-	
Loss b/f			
Net assessable profits			

25 Upper Limited is a wholly owned subsidiary of Lower Limited and they are incorporated in Hong Kong. Lower Limited owns an office, which was purchased in September 2023.

On 30 September 2023, Lower Limited and Upper Limited executed a lease agreement under the following terms:
Lease period: 1 October 2023 to 30 September 2026 (three years)
Monthly rent: HK$30,000

Calculate the amount of ad valorem duty payable under the Stamp Duty Ordinance in respect of the lease agreement. *(2 marks)*

- A. Nil due to s.45 exemption claim.
- B. HK$900.
- C. HK$1,800.
- D. HK$3,600.

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26 East Limited owns 90% of the issued shares in West Limited. West Limited owns 90% of the issued shares in North Limited. East Limited, West Limited and North Limited are companies incorporated in Hong Kong. East Limited executed an agreement of sale and purchase to sell its office property in Hong Kong to North Limited for a consideration of HK$15 million.

Identify which of the following statements is **CORRECT** for the purpose of s.45 relief under the Stamp Duty Ordinance. *(1 mark)*

- A. East Limited and North Limited are associated corporations as East Limited is considered as holding 90% of the issued shares in North Limited.
- B. East Limited and North Limited are associated corporations as East Limited is considered as holding 81% of the issued shares in North Limited.
- C. East Limited and North Limited are not associated corporations as East Limited is considered as holding 81% of the issued shares in North Limited.
- D. S.45 relief under the Stamp Duty Ordinance is not relevant in this case as it only provides relief for transfer of Hong Kong stock.

Question

Split Restore

You are required to complete two questions based on the following scenario:

Peter owns Property A and Mary owns Property B. Both properties are situated in Hong Kong. Peter and Mary married on 1 December 2024. Before their marriage, they lived at their own property. After marriage, they lived at Property B. Property A was used by Peter's parents as their residence. Peter and Mary paid the following mortgage loan interest for Property A and Property B respectively during the year ended 31 March 2025:

	1 April 2024 – 30 November 2024	1 December 2024 – 31 March 2025
Peter – Property A	HK$80,000	HK$40,000
Mary – Property B	HK$56,000	HK$28,000

* * * END OF SCENARIO * * *

Answer area

Restore

27 Calculate the amount of home loan interest that can be allowed to Peter for the year of assessment 2024/25. *(1 mark)*

- A. HK$40,000.
- B. HK$80,000.
- C. HK$100,000.
- D. HK$120,000.

28 Calculate the amount of home loan interest that can be allowed to Mary for the year of assessment 2024/25. *(1 mark)*

- A. HK$28,000.
- B. HK$56,000.
- C. HK$84,000.
- D. HK$100,000.

Question

Split Restore

You are required to complete two questions based on the following scenario:

K Limited commenced business on 1 July 2023 and prepared its first account on 31 October 2024. Its adjusted profits for the period from 1 July 2023 to 31 October 2024 are HK$300,000.

* * * END OF SCENARIO * * *

Answer area

Restore

29 Calculate the amount of adjusted profits for the year of assessment 2023/24. *(1 mark)*

- A. HK$37,500.
- B. HK$75,000.
- C. HK$112,500.
- D. HK$168,750.

30 Calculate the amount of adjusted profits for the year of assessment 2024/25. *(1 mark)*

- A. HK$131,250.
- B. HK$187,500.
- C. HK$225,000.
- D. HK$262,500.

TASK-BASED QUESTIONS (Total: 50 marks)

Answer **ALL** questions in this section. Together they are worth 50% of the total marks for this examination.

Question

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

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

Notes:

(1) All gross profits are sourced in Hong Kong

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

		HK$
(3)	Gross dividend	70,000
	Less: Withholding tax @ 5%	(3,500)
		66,500

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

		HK$
(5)	Rent of office premises paid to landlord*	600,000
	Rates of office premises	40,000
		640,000

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

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

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

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

			HK$
(8)	Salesmen's commission		320,000
	Commission to undisclosed recipients		230,000
			550,000

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

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

			HK$
(10)	Fine		14,000
	Petrol		170,000
	Car-parking charges		72,000
	Repairs		19,000
			275,000

			HK$
(11)	Trade debt written off		127,000
	Loan to a customer written off		100,000
			227,000

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

Other information:

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

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

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

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Answer area

↔ Res

(a) Compute AG Limited's profits tax liability for the year of assessment 2018/19. Ignore provisional profits tax. **Please scroll down to the bottom of the Answer to complete the workings for the Profits Tax Computation.** If an item is not taxable/ deductible, please input "zero/ 0" into the corresponding field blank. *(20 marks)*

AG Limited	
Profits tax computation	
Year of assessment 2018/19	
Basis period: year ended 31 March 2019	
	HK$
Net profit	
Add:	
Special contribution to mandatory provident fund ("MPF") (Working 1)	
Annual contribution to MPF (Working 2)	
Loss on sale of fixed asset	
Sale proceeds of fixed assets	
Commission	
Interest expenses	
Fine/ Penalty	
Bad debt written off	
Donations	
Depreciation	
Less:	
Dividend income	
Depreciation allowance for plant and machinery (Working 3)	
Commercial building allowance (Working 4)	
Prescribed fixed assets	
Less:	
Approved charitable donations (XX% limit) (Working 5)	
Assessable profit	
Profits tax @ 8.25%	
Less: Tax reduction	
Profits tax payable	

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(b) Complete the workings for the Profits Tax Computation.

Working 1:

Expenditure	x	Non-deductible annual instalments	/	Total number of annual instalments	=	Non-deductible Special contribution to MPF
HK$						HK$
	x		/		=	

Working 2:

Annual contribution to MPF Scheme in respect of the employee	- [	Emolument of the employee	x	% specified in s.17(1)(h)	] =	Taxable benefit
HK$		HK$				HK$
	- [		x		%] =	

Working 3:

		30% pool	Depreciation allowance
		HK$	HK$
T.W.D.V. b/fwd			
Additions			
Less:	IA (i.e. Relevant amount (HK$) x %)		
Less:	Sales proceeds		
Less:	AA @30%		
T.W.D.V. c/fwd			

Working 4:

Qualifying expenditure	x	Rate of annual allowance	(%)	=	Commercial building allowance
HK$		HK$			HK$
	x		%	=	

Working 5:

The lower of the following:

(i) Charitable donations HK$; OR

(ii) (The applicable amount HK$ x %) = HK$

(x %) =

Therefore, the approved charitable donation is HK$

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Question

Split Restore

32 Steve is employed by AA Limited as general manager in Hong Kong. AA Limited is incorporated and carried on business in Hong Kong. You have been supplied with the following information regarding Steve's employment for the year ended 31 March 2020:

(1) Salary: HK$1,200,000

(2) Bonus: HK$200,000

(3) During the period from 1 April 2019 to 30 September 2019, Steve rented a flat as his residence at a monthly rent of HK$40,000. AA Limited refunded the whole amount of rent to him.

Starting from 1 October 2019, Steve moved into his own flat purchased by him in September 2019. The cost of the flat was HK$12,500,000, which was financed with the mortgage loans granted by AA Limited (HK$4,000,000) and Bank A in Hong Kong (HK$5,000,000). AA Limited also gave a monthly allowance of HK$40,000 to Steve for the repayment of mortgage loans. During the period from 1 October 2019 to 31 March 2020, Steve paid the followings in respect of the two mortgage loans:

Recipient	AA Limited	Bank A
	HK$	HK$
Principal	0	120,000
Interest	30,000	90,000

(4) In April 2019, Steve took a nine days business trip to Germany, followed by a seven days' vacation leave there. His wife, Mary, joined him during the vacation leave. AA Limited paid HK$90,000 to a travel agency for Steve's air-ticket, accommodation and catering. Steve paid HK$54,000 to the travel agency for Mary's air-ticket and catering. No additional cost was required for accommodation. The cost of the air-ticket was HK$40,000 each.

(5) On 1 June 2019, Steve was granted an unconditional option to purchase 100,000 shares of AA Limited at HK$2 each within two years. Steve paid HK$10,000 for the option. On 10 July 2019, he exercised the option. On 30 November 2019, he received dividends of HK$80,000 from AA Limited. The market values per share were as follows:

1 June 2019	HK$3.80
10 July 2019	HK$5.00
30 November 2019	HK$4.50

(6) Steve's elder son, Ronald, is studying full-time in an international school in Hong Kong. AA Limited signed a contract with the school so that the school fees of Ronald were payable by AA Limited. During the year, AA Limited paid total school fees of HK$140,000 to the school.

(7) Steve is the director of AB Limited. AB Limited is a wholly owned subsidiary of AA Limited, carrying on business in Hong Kong. During the year, he received director's fees of HK$150,000 from AB Limited.

(8) Mary is a housewife. They have two sons, Ronald and George. George was born on 2 March 2020. Steve's father who is aged 68 is living with them.

(9) During the year, Steve paid the following:

		HK$
(a)	Subscription to professional association related to his employment	2,150
(b)	Cash donations for AA Limited's lucky draw at its annual dinner	3,000
(c)	Cash donations to approved charitable organizations	90,000
(d)	Self-education expenses for an MBA course	60,000
(e)	Mandatory contribution to MPF scheme	18,000
(f)	Qualifying annuity premiums	60,000

Answer area

(a) Compute the amount of share option gain chargeable to salaries tax for the year of assessment 2019/20. *(3 marks)*

Steve		
Share option gain		
Year of assessment 2019/20		
		HK$
Market value **(Working 1)**		
Less:	Cost of option	
	Cost of shares **(Working 2)**	
Share option gain chargeable to salaries tax		

Working 1

Number of shares	x	Market value HK$	=	HK$
	x		=	

Working 2

Number of shares	x	Consideration per share HK$	=	Cost of shares HK$
	x		=	

(b) Compute Steve's salaries tax liability for the year of assessment 2019/20. Ignore provisional salaries tax. **Please scroll down to the bottom of the Answer to complete the workings for the Salaries Tax Computation.** If an item is not taxable/ deductible, please input "zero/ 0" into the corresponding field blank. *(17 marks)*

		HK$
Salary		
Bonus		
Housing allowance - Period 1 **(Working 3)**		
Holiday journey benefit **(Working 4)**		
Education benefit		
Director's fees		
Rental value - Period 2 **(Working 5)**		
Share option gain (from (a))		
Total assessable income		
Less:	Subscription	
	Self-education expenses	
Net assessable income		

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Less:	Approved charitable donations	
	Home loan interest	
	Mandatory contribution to MPF scheme	
	Qualifying annuity premiums	
Less:	Married person's allowance	
	Child allowance **(Working 6)**	
	Dependent parent allowance with additional	
Net chargeable income		
Tax at progressive rate **(Working 7)**		
Tax at standard rate		
Salaries tax		
Less:	Tax reduction	
Salaries tax payable		

Working 3

Monthly rent HK$	x	Number of months	=	Housing allowance - Period 1 HK$
	x		=	

Working 4

[	Cost of journey paid by employer HK$	-	Amount excluded to calculate taxable holiday journey benefit HK$	]	x	Non-business days	/	Total number of days for the journey	=	Holiday journey benefit HK$
[		-		]	x		/		=	

Working 5

[	Taxable income HK$	-	Housing benefit HK$	-	Allowable outgoing and expenses HK$	]	x	Number of months to accomodation on benefit - Period 2	/	Number of months in a year
[		-		-		]	x		/	

x	% of calculating rental value	=	Rental value
x		% =	

Working 6

[	Child allowance for each of the 1st to 9th child) HK$	x	Number of child	]	+	[	Child allowance for each child born during the year HK$	x	Number of child	]	=	Child allowance HK$
[		x		]	+	[		x		]	=	

Working 7

	HK$
First HK$50,000 @2%	
Next HK$50,000 @6%	
Next HK$50,000 @10%	
Next HK$50,000 @14%	
Remainder of net chargeable income @17%	
Tax at progressive rate	

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Question

33 Tom is a Hong Kong permanent resident. He owns all the issued shares in Upper Limited, Middle Limited and Low Limited. Upper Limited, Middle Limited and Low Limited are companies incorporated in Hong Kong and the shareholders registers are kept in Hong Kong.

Upper Limited and Middle Limited beneficially solely owned Property X and Property Y respectively. Property X is a residential property in North Point and Property Y is an office in Central.

On 1 April 2020, Tom sold to an unrelated individual, Kevin, all his shares in Upper Limited for a consideration of HK$10 million. As part of the agreement, Tom would assign to Kevin the shareholder's loan of HK$2 million due by the Company. Kevin is a Hong Kong permanent resident and did not own any residential property in Hong Kong.

On 15 September 2020, Middle Limited leased to Low Limited its Property Y for a period of four years starting from 1 October 2020 under the following terms:

(a) Lump sum premium: HK$300,000 payable on 1 September 2020

(b) Monthly rent:
HK$20,000 for the period from 1 October 2020 – 30 September 2022; and
HK$22,000 for the period from 1 October 2022 – 30 September 2024.

All the relevant documents of the above transactions are executed in Hong Kong. *(5 marks)*

Answer area

(a) Identify which of the following documents have to be stamped as required under the Stamp Duty Ordinance. (You may select more than one answer option)

- [ ] A. Loan agreement
- [ ] B. Instrument of transfer
- [ ] C. Lease agreement
- [ ] D. Bought note
- [ ] E. Sold note

(b) Regarding the sale of shares in Upper Limited by Tom to Kelvin, compute the amount of stamp duty payable.

Value HK$	x	Stamp duty rate (%)	x	No. of dutiable document	+	Stamp duty on instrument of transfer HK$	=	Stamp duty payable HK$
	x		% x		+		=	

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Question

34 Mr Lo owns a residential flat in Wanchai. The property was let to Mr Fong under the following terms:

(1) Lease period 1: 1 October 2016 – 30 September 2018 (24 months)
(2) Monthly rent: HK$15,000 payable at the beginning of each month
(3) Premium: HK$60,000 payable on 1 October 2016
(4) Rates (after rates concession): HK$800 per quarter payable by Mr Fong
(5) Management fee: HK$1,100 per month payable by Mr Lo

On 1 August 2018, Mr Fong told Mr Lo that he would move out from the property upon expiry of the lease and he failed to pay rent since then. On 1 December 2018, Mr Fong was declared bankrupt and it was accepted that the rent owed by Mr Fong was irrecoverable on this date.

The property was then let to Mr Zhen under the following terms:

(1) Lease period 2: 1 January 2019 – 30 June 2022 (42 months)
(2) Monthly rent: HK$20,000 payable at the beginning of each month
(3) Premium: HK$72,000 payable on 1 January 2019
(4) Rates and management fee: payable by Mr Lo

During the year ended 31 March 2019, Mr Lo paid the following expenses in relation to the property:

(1) Rates: HK$1,600 (2 quarters)
(2) Management fee: HK$13,200
(3) Decoration: HK$200,000
(4) Mortgage loan interest: HK$90,000

Answer area

Compute the net assessable value of Mr Lo's property for the year of assessment 2018/19. *(5 marks)*

Mr Lo		
Property tax		
Year of assessment 2018/19		
		HK$
Rent receivable for Lease period 1 **(Working 1)**		
Rent receivable for Lease period 2 **(Working 2)**		
Permium (1) in Lease period 1 **(Working 3)**		
Permium (2) in Lease period 2 **(Working 4)**		
Less:	Irrecoverable rent **(Working 5)**	
Less:	Rates	
Less:	Statutory decuction	
Net assessable value		

Working 1

Monthly rent	x	Number of months	=	Rent receivable for Lease period 1
HK$				HK$
	x		=	

Working 2

Monthly rent	x	Number of months	=	Rent receivable for Lease period 2
HK$				HK$
	x		=	

Working 3

Premium	x	Number of months	/	Lease period (Capped at 36 months)	=	Permium (1)
HK$						HK$
	x		/		=	

Working 4

Premium	x	Number of months	/	Lease period (Capped at 36 months)	=	Permium (2)
HK$						HK$
	x		/		=	

Working 5

Monthly rent	x	Number of months	=	Irrecoverable rent
HK$				HK$
	x		=	

* * * END OF EXAMINATION PAPER * * *

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Module 9
Principles of Taxation

Answers

The purpose of the suggested answers is meant to help candidates in their revision and learning.

OBJECTIVE TYPE / SCENARIO-BASED QUESTIONS (Total: 50 marks)

Questions	Answer	Marks
1	C	1
2	A	1
3	A	2
4	C	2
5	B,C	1
6	A,B,D	2
7(a)	A	2
7(b)	A	
7(c)	A	
7(d)	B	
8(a)	A	2
8(b)	A	
8(c)	B	
8(d)	A	
9	6,six	1
10	C	1
11	D	2
12	A,C	1
13	C	1
14	B	2
15	D	2
16		3
17	D	1
18	B	1
19	D	2
20	B	2
21	A	3
22	A,B,C	2

	HK$
Salaries	960,000
Rental value	96,000
Less: Rent suffered	(48,000)
	1,008,000
Deductions	(100,000)
Net assessable income	908,000

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Questions	Answer	Marks
23		3

	HK$
Cost of construction	5,000,000
Less: Annual Allowance claimed per year X no. of years Annual Allowance could be claimed	(1,600,000)
Residue of expenditure	3,400,000
Less: Sale proceeds	(10,000,000)
Balancing allowance / (charge), restricted to allowance given	(6,600,000)
Refurbishment allowance	200,000

24 (3 marks)

		HK$
Adjusted profit Partner's salaries		1,200,000
- Mr Au	360,000	
- Mr Bau	18,000	378,000
Assessable profit		1,578,000
Assessable profit for first 1 month		131,500
Assessable profit for last 11 months		1,446,500
		1,578,000

	Mr Au HK$	Mr Bau HK$	Total HK$
Period - First 1 month			
Salaries	30,000	18,000	48,000
Residue	50,100	33,400	83,500
	80,100	51,400	131,500

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	Period - Last 11 months				
	Residue	1,446,500	-	1,446,500	
		1,526,600	51,400	1,578,000	
	Loss b/f	-	(51,400)	(51,400)	
	Net assessable profit	1,526,600	-	1,526,600	
25	C				2
26	C				1
27	B				1
28	C				1
29	B				1
30	C				1

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TASK-BASED QUESTIONS (Total: 50 marks)

Questions	Answer		Marks
31(a)	AG Limited Profits tax computation Year of assessment 2018/19 Basis period: year ended 31 March 2019		20
		HK$	
	Net profit	398,500	
	Add:		
	Special contribution to mandatory provident fund ("MPF") **(Working 1)**	400,000	
	Annual contribution to MPF **(Working 2)**	60,000	
	Loss on sale of fixed asset	10,000	
	Sale proceeds of fixed assets	20,000	
	Commission	230,000	
	Interest expenses	50,000	
	Fine/ Penalty	14,000	
	Bad debt written off	100,000	
	Donations	400,000	
	Depreciation	312,000	
		1,994,500	
	Less:		
	Dividend income	(66,500)	
	Depreciation allowance for plant and machinery (**Working 3**)	(589,800)	
	Commercial building allowance **(Working 4)**	(11,000)	
	Prescribed fixed assets	(120,000)	
		1,207,200	
	Less:		
	Approved charitable donations (XX% limit) **(Working 5)**	(400,000)	
	Assessable profit	807,200	
	Profits tax @ 8.25%	66,594	
	Less: Tax reduction	(20,000)	
	Profits tax payable	46,594	

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31(b)

Working 1

Expenditure (HK$)	x	Non-deductible annual instalments	/	Total number of annual instalments	=	Non-deductible initial and/ Special contribution to MPF (HK$)
					=	
500,000	x	4	/	5		400,000

Working 2

Annual contribution to MPF Scheme in respect of the Employee (HK$)	-	(	(Emolument of the Employee (HK$)	x	Deductible amount of the contribution % specified in s.17(1)(h))	)	=	Taxable benefit (HK$)
240,000	-	(	1,200,000	x	15%	)	=	60,000

Working 3

	30% pool (HK$)	Depreciation allowance (HK$)
T.W.D.V. b/fwd	76,000	
Additions	800,000	
	876,000	
Less: I.A. (i.e. Relevant amount (HK$)	(480,000)	480,000
(800,000 X60%)		
	396,000	
Less: Sale proceeds	(30,000)	
	366,000	
Less: A.A. @XX%	(109,800)	109,800
T.W.D.V. c/fwd	256,200	589,800

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	Working 4 Qualifying expenditure (in HK$) x Rate of annual allowance (%) = Commercial building allowance (HK$) 275,000 x 4% = 11,000	
	Working 5 The lower of the following: Charitable donation (HK$) or (The applicable amount (HK$) x %) = Approved charitable donations (HK$) 400,000 or (1,207,200 x 35%) = 400,000	
32(a)	Steve Share option gain Year of assessment 2019/20 HK$ Market value **(Working 1)** 500,000 Less: Cost of option (10,000) Cost of shares **(Working 2)** (200,000) Share option gain chargeable to salaries tax 290,000	3
	Working 1 Number of shares x Market value (HK$) = HK$ 100,000 x 5 = 500,000	
	Working 2 Number of shares x Consideration per share (HK$) = HK$ 100,000 x 2 = 200,000	

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32(b)		HK$	17
	Salary	1,200,000	
	Bonus	200,000	
	Housing allowance - Period 1 **(Working 3)**	240,000	
	Holiday journey benefit **(Working 4)**	21,875	
	Education benefit	140,000	
	Director's fees	150,000	
		1,951,875	
	Rental value - Period 2 **(Working 5)**	85,486	
		2,037,361	
	Share option gain	290,000	
	Total assessable income	2,327,361	
	Less: Subscription	(2,150)	
	Self-education expenses	(60,000)	
	Net assessable income	2,265,211	
	Less: Approved charitable donations	(90,000)	
	Home loan interest	(100,000)	
	Mandatory contribution to MPF scheme	(18,000)	
	Qualifying annuity premiums	(60,000)	
		1,997,211	
	Less: Married person's allowance	(264,000)	
	Child allowance **(Working 6)**	(360,000)	
	Dependent parent allowance with additional	(100,000)	
	Net chargeable income	1,273,211	
	Tax at progressive rate **(Working 7)**	198,445	
	Tax at standard rate	299,581	
	Salaries tax	198,445	
	Less: Tax reduction	(20,000)	
	Salaries tax payable	178,445	

<u>Working 3</u>

Monthly rent HK$	x	Number of months	=	Housing allowance – Period 1 HK$
40,000	x	6	=	240,000

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Working 4

[	Cost of journey paid by employer (HK$)	-	Amount excluded to calculate taxable holiday journey benefit (HK$)	] x	Non-business days	/	Total number of days for the journey	=	Holiday journey benefit (HK$)
[	90,000	-	40,000	] x	7	/	16	=	21,875

Working 5

[	Taxable income (HK$)	-	Housing benefit (HK$)	-	Allowable outgoing and expenses (HK$)	]	x	Number of months entitled to accommodation benefit - Period 2	/	Number of months in a year	x	for calculating rental value	%	=	Rental value
[	1,951,875	-	240,000	-	2,150	]	x	6	/	12	x	10	%	=	85,486

Working 6

[	Child allowance (For each of the 1st to 9th child (HK$))	x	Number of child	] +	[	Child allowance for each child born during the year (HK$)	x	Number of child	] =	Child allowance
[	120,000	x	2	] +	[	120,000	x	1	] =	360,000

Working 7

	HK$
First HK$50,000 @ 2%	1,000
Next HK$50,000 @ 6%	3,000
Next HK$50,000 @ 10%	5,000
Next HK$50,000 @ 14%	7,000
Remainder of net chargeable income @ 17 %	182,446
Tax at progressive rate	198,445

33(a)	B,D,E													5
33(b)	(	Value HK$	x	Stamp duty rate	% x	No. of dutiable document	)	+	Stamp duty on instrument of transfer HK$	=	HK$			
	(	12,000,000	x	0.1	% x	2	)	+	5	=	24,005			

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34	Mr Lo Property tax Year of assessment 2018/19	5

	HK$
Rent receivable for Lease period 1 **(Working 1)**	90,000
Rent receivable for Lease period 2 **(Working 2)**	60,000
Premium (1) in Lease period 1 **(Working 3)**	15,000
Premium (2) in Lease period 2 **(Working 4)**	6,000
	171,000
Less: Irrecoverable rent **(Working 5)**	(30,000)
	141,000
Less: Rates	(1,600)
	139,400
Less: Statutory deduction	(27,880)
Net assessable value	111,520

Working 1

Lease period (1)

Monthly rent (HK$)	x	Number of months	=	HK$
15,000	x	6	=	90,000

Working 2

Lease period (2)

Monthly rent (HK$)	x	Number of months	=	HK$
20,000	x	3	=	60,000

Working 3

Premium (1)

Premium	x	Number of months	/	Lease period (Capped at 36 months)	=	HK$
60,000	x	6	/	24	=	15,000

Working 4

Premium (2)

Premium	x	Number of months	/	Lease period (Capped at 36 months)	=	HK$
72,000	x	3	/	36	=	6,000

Working 5

Monthly rent (HK$)	x	Number of months	=	HK$
15,000	x	2	=	30,000

* * * END OF EXAMINATION PAPER * * *

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