

Workshop 1 Session 4

Computation of the tax liability for an individual

Mr. Johnson is a resident in Hong Kong. He was the Finance Director of Fir Limited for 15 years until 30 November 2009, when his employment was terminated. He was not paid any redundancy payment or long service leave payment as stipulated in the Employment Ordinance. Mr. Johnson received salaries of HK\$800,000 from Fir Limited for the year of assessment 2009/10. As he had some untaken leave, Fir Limited agreed to make payment in lieu of this untaken leave, amounting to HK\$30,000. Since Fir Limited already had a replacement, Fir Limited agreed to make a payment of HK\$249,000 in lieu of notice to Mr. Johnson.

In addition, Mr. Johnson was entitled to executive option benefits. On 1 April 2008, Mr. Johnson received stock options with a vesting period of 3 years. At Johnson's termination, the stock options were not fully vested. Mr. Johnson was able to persuade Fir Limited to pay him a sum of HK\$400,000 (calculated on basis of value of shares if the options were vested and exercised) at his termination date as part of the termination package.

Mr. Johnson leased a flat and lived with his family in Shatin, New Territories. Under his employment contract with Fir Limited, Fir Limited would provide housing benefit by reimbursing Mr. Johnson. During the year of assessment of 2009/10, the housing reimbursement amounted to HK\$382,000 based on actual rental receipts. In addition, Fir Limited also paid Mr. Johnson education allowance amounting to HK\$90,000 for the same period.

Fir Limited also paid Mr. Johnson an arbitrary sum of HK\$511,000 as compensation of his loss of office in view of the difficult economic climate.

For year of assessment 2009/10, Mr. Johnson is married with a son and a daughter, aged 15 and 17 respectively. He lived with his parents (both aged 60) and his parent in laws (both aged 62). Mr. Johnson supported all four parents / parents-in-laws wholly. Mrs. Johnson did not work nor did she derive any assessable income during the year of assessment 2009/10.

Mr. Johnson met his good friend who is the CEO of Sea Limited on 29 November 2009. His friend was glad to employ him as a Manager, commencing on 1 December 2009 with Sea Limited. His job was to work in the representative office in Shenzhen, China (Shenzhen Office). His monthly salary was HK\$100,000. He had no housing benefits under the new package.

In order to formulate the strategic plan for Sea Limited in the Mainland market, Mr. Johnson stayed in Hong Kong for the period from 1 December 2009 to 7 December 2009 to attend a senior staff meeting. On 8 December 2009, Mr. Johnson travelled to the Shenzhen Office to report for duty. During the period from 8 December 2009 to 31 March 2010, he spent 55 days in Hong Kong, all at weekends and on public holidays.

Mr. Johnson's salary was borne by the Shenzhen Office. The relevant remuneration was fully returned to the Mainland's tax bureau as taxable and Mr. Johnson duly paid the Individual Income Tax charged thereon.

Mr. Johnson received his 2008/09 Salaries Tax Assessment and was requested to make tax payments by two instalments of HK\$175,000 and HK\$25,000 respectively. Total Provisional Salaries Tax for 2009/10 was HK\$100,000. Mr. Johnson made the first instalment on January 4, 2010. However, he did not pay the second instalment. He recently received a surcharge notice demanding him to make the second instalment payment with the 5% surcharge. The total contributions made by Mr. Johnson to Mandatory Provident Fund for year of assessment 2009/10 were the mandatory contributions of HK\$12,000.

In April 2010, Mr. Johnson accepted another job offer which required him to relocate to Singapore.

Required

Prepare the Salaries Tax computation for Mr. Johnson. Assume that Mr. Johnson's employments with Fir Limited and Sea Limited were both sourced in Hong Kong.