

Workshop 1 – Profits Tax Computation

(Group Discussion Exercise)

Reason for activity

Being a CPA, it is important to have a basic understanding of the Hong Kong tax system and be able to exercise your professional judgement in determining the possible tax liability and exposure for a business.

Main topics discussed

- Profits tax computation (LP chapter 3, section 10.1)
- Addition to plant and equipment (including environmental protection cleaning machine)
- Depreciation allowance
- Addition to and disposal of leasehold land and building (a swap transaction)
- Industrial and commercial building allowance and balancing charge
- Sale of patent on which deduction of acquisition cost has been claimed (s.16E and s.16E(3))
- Products research expense (including acquisition of research equipment and decoration of research centre)
- Capital versus revenue receipt

Workshop 1 – Profits Tax – Contentious Issues

(Group Discussion and
Negotiation Exercise)

Reason for activity

CPAs may encounter contentious tax issues, often with no definite right or wrong answers. CPAs will need to use their professional judgement and negotiation skills to resolve each case based on the particular facts and circumstances.

The negotiation exercise will provide an opportunity for the students to develop the above-mentioned skills and also allow them to view these issues from different perspectives.

Main topics discussed

- Source of income derived from sourcing and other related services (DIPN 21)
- Broad guiding principle (LP chapter 3, section 4.1)
- Effective causes versus antecedent or incidental matters (LP chapter 3, section 4.1.2)
- Use of a Special Purpose Vehicle (SPV) to hold a property and its tax implication
- Gain on disposal of property – trade versus investment
- Badges of Trade (LP chapter 3, section 2.1)
- Other relevant factors to determine if a trade is carried out

Workshop 1 – Salaries Tax Computations

(Group Discussion Exercise)

Reason for activity

A CPA should have a good understanding of the basic concepts in determining the tax liability of an individual.

Main topics discussed

- Salaries tax computation (LP chapter 5, section 7.3)
- Housing benefit
- Interest free loan and other fringe benefits
- Outgoing and expenses
- Self-education expense
- Charitable donation
- MPF contribution
- Personal allowances
- Rental income and property tax
- Individual tax return

Workshop 1 – Salaries Tax – Contentious Issues

(Group Discussion Exercise)

Reason for activity

CPAs may encounter contentious tax issues, often with no definite right or wrong answers. CPAs will need to utilise their professional knowledge and experience as well as negotiation skills to resolve each case based on the particular facts and circumstances.

Main topics discussed

- Employment termination payments (payment in-lieu of notice, compensation for early termination, and payment for restrictive covenant)
- Holiday benefits
- Employment income and director's fee received by a frequent traveller
- Share benefit scheme