



Hong Kong
School of Commerce
香港商業專科學校

Objective

To develop examination techniques for Module D Taxation through reviewing past examination questions

Agenda

Examination Techniques – Module D Section A (Case Questions)

Past Examination Questions – June 2014 Session

Past Examination Questions – December 2014 Session

Examination Techniques

SECTION A (CASE QUESTIONS)

Key to Success on Module D

Comprehensive preparation for the examination

Correct reading and interpretation of the questions

Systematic analysis

Good time management

Legible handwriting

Logical argumentation and appropriate presentation of the answers

Key to Success on Module D

Specifically refer to the section, subsection, paragraph and clause number of the IRO instead of only generally referring to the section number

Analyse the case and apply the relevant provisions of the Inland Revenue Ordinance

Mere copying of the provisions without analysing or quoting all the provisions irrespective of their relevance does not help in any examination

Key to Success on Module D

Identify the issues systematically in different years and from different perspectives for questions which have tax implications across different years of assessment with different tax exposures

Make careful consideration and analysis of questions for different tax issues from a wider perspective

Mastering a comprehensive understanding of the interpretation and the application of the Inland Revenue Ordinance (both general and specific provisions) and the Departmental Interpretation and Practice Notes

Past Examination Questions

JUNE 2014 SESSION

Past Examination Questions – June 2014 Session

SECTION A – CASE QUESTIONS (Total: 50 marks)

Answer ALL of the following compulsory questions. Marks will be awarded for logical argumentation and appropriate presentation of the answers.

CASE

Synergy Santa Limited (“Synergy”) is a company established in Hong Kong engaging in the investment holding business. The following incomes and expenditures have been credited and charged respectively to its financial statements for the year ended 31 March 2013.

A1. Interest Income

Bank interest income of HK\$35,000 has been derived from a Hong Kong dollar fixed deposit placed with a local bank. The deposit was pledged to guarantee an overdraft banking facility provided by the same bank to Synergy. During the year, Synergy did not utilise any of the facility and only incurred a HK\$500 bank charge as an overdraft facility renewal expense.

Past Examination Questions – June 2014 Session

A2. Waiver of loan borrowed from a shareholder

A loan of HK\$2,000,000 has been borrowed by Synergy from one of its shareholders in the year 2006. The loan was utilised by Synergy as working capital for its daily business operations, and has been stated in the balance sheet of Synergy in relevant years as a long-term liability. In a recent meeting amongst the shareholders of Synergy, the respective shareholder agreed to waive Synergy from the requirement to repay the loan.

A3. Contributions to Mandatory Provident Fund (“MPF”)

Synergy made an ordinary annual contribution of HK\$630,000. The amount was calculated based on 18% of each employee’s remuneration in line with the company’s policy. In addition, Synergy also made a special contribution of HK\$390,000 to its MPF scheme on top of the ordinary annual contribution.

Past Examination Questions – June 2014 Session

In April 2012, Synergy employed Mr. David Fong (“Mr. Fong”), a Hong Kong resident, as General Manager responsible for the company’s daily business operations. Information available indicated that Mr. Fong had the following remuneration package for the year ended 31 March 2013.

B1. Annual salary HK\$1,500,000

Mr. Fong also paid HK\$45,000 in MPF contributions during the year.

B2. Holiday travel warrant HK\$85,000

Mr. Fong received a round-trip air ticket with hotel accommodation to Europe in the abovesaid value as recognition of his work performance for the year 2012. Synergy directly purchased the holiday warrant from a travel agency and settled the amount in its company account maintained with the travel agent. The package tour cannot be transferred from Mr. Fong to any other persons.

Past Examination Questions – June 2014 Session

B3. Bonus of HK\$100,000

The bonus was given by one of the shareholders of Synergy personally. The amount was given in recognition of Mr. Fong's exceptional performance in his position.

B4. Gain from disposal of shares HK\$400,000

Mr. Fong disposed of 50,000 shares of a listed company on 31 January 2013 and derived a gain of HK\$400,000. The share was exercised by Mr. Fong on 1 September 2012 through a share option scheme granted by his former employer with respect to his former employment in Hong Kong. The exercise price of the share was HK\$2 for each share. The market price of the share on 1 September 2012 and 31 January 2013 was HK\$7 and HK\$10 respectively. Mr. Fong resigned on 31 March 2012 from his former employment immediately prior to joining Synergy.

Past Examination Questions – June 2014 Session

B5. Provision of quarters

Synergy utilised one of its long term investment properties as staff quarters for Mr. Fong during the whole year. The market rental value of the respective property was HK\$288,000 per annum. In accordance with the company's policy, Mr. Fong was required to pay 5% of his basic salary as rental to Synergy.

B6. Cash Coupon of HK\$10,000 from annual dinner lucky draw

Mr. Fong received a department store cash coupon of HK\$10,000 in Synergy's annual dinner lucky draw.

Past Examination Questions – June 2014 Session

Mr. Fong occasionally travels to the PRC for either business or vacation purposes. A summary of PRC traveling records for Mr. Fong for the years 2012 and 2013 (up to 31 March) is as follows:

Periods	Number of days staying in the PRC	Purpose
From 1 January 2012 to 30 June 2012	Nil	N/A
From 1 July 2012 to 31 December 2012	130	Partly for business and partly for vacation
From 1 January 2013 to 31 March 2013	40	Wholly for business

Past Examination Questions – June 2014 Session

In early April 2013, Mr. Fong noticed that he would not be required to travel to the PRC for business purposes until 30 June 2013. He therefore planned to have a vacation trip to the PRC in June 2013 for two to three weeks.

Recently Synergy received a letter from the Inland Revenue Department (“IRD”) stating that the company has been selected for a field audit exercise for reviewing its tax position. The directors of Synergy are worried about the exposure resulting from the field audit exercise and therefore appointed a tax consulting firm namely Wilson Lee & Co. as its tax representative for the field audit exercise.

Past Examination Questions – June 2014 Session

Question 1 (10 marks – approximately 18 minutes)

Discuss the taxability of the following incomes of Synergy for the year. Put forward your analysis from the views of Synergy and the IRD where applicable.

(a) Interest income (5 marks)

(b) Waiver of loan borrowed from a shareholder (5 marks)

Question 2 (4 marks – approximately 7 minutes)

Discuss the deductibility of the MPF contributions made by Synergy for the year and, where applicable, compute the amount of allowable deduction for Synergy. (4 marks)

Past Examination Questions – June 2014 Session

Question 3 (16 marks – approximately 29 minutes)

Compute the salaries tax liabilities of Mr. Fong for the year of assessment 2012/13 based on the available information. (Ignore provisional salaries tax and reduction of salaries tax for the year.)
(16 marks)

Question 4 (5 marks – approximately 9 minutes)

Discuss the PRC Individual Income Tax exposure of Mr. Fong for the period from 1 January 2012 to 30 June 2013.
(5 marks)

Past Examination Questions – June 2014 Session

Question 5 (15 marks – approximately 27 minutes)

(a) Assuming that you are the tax manager of Wilson Lee & Co., elaborate on:

(i) the possible upcoming field audit exercise process; and (5 marks)

(ii) the availability of settlement methodologies to Synergy. (5 marks)

(b) Discuss if there is any exposure to risk for Wilson Lee & Co. in the context of

(i) the Inland Revenue Ordinance and

(ii) ethical perspective in acting as the tax representative of Synergy for the field audit exercise. (5 marks)

General Comments

Performance was generally satisfactory

Able to provide good and concise answers to the computation question

Performance on specific topics, especially in relation to the analysis of PRC tax exposures, taxability of income from a profits tax perspective as well as the discussion of the exposure to risk for tax representatives from an ethical perspective was less than satisfactory

Past Examination Questions

DECEMBER 2014 SESSION

Past Examination Questions – December 2014 Session

SECTION A – CASE QUESTIONS (Total: 50 marks)

Answer ALL of the following compulsory questions. Marks will be awarded for logical argumentation and appropriate presentation of the answers.

CASE

A Ltd is a shipping company incorporated, controlled and managed in Hong Kong. It owns a fleet of ships, all of which are registered on the Hong Kong Shipping Register established under the Merchant Shipping (Registration) Ordinance (Cap. 415). The business of A Ltd includes the chartering and operating of ships and shipping agencies.

A Ltd is a wholly-owned subsidiary of B Ltd, a leading logistic service company in Hong Kong. On 1 April 2013, A Ltd obtained a loan of HK\$100 million from Bank C at 10% per annum (“the Loan”) to finance the acquisition of a new ship. The Loan was secured by a deposit of HK\$60 million placed by B Ltd with the US branch of Bank C at 4% per annum (“the Deposit”). In October 2013, B Ltd sold all its shares in A Ltd at a consideration of HK\$30 million to Mr. D, who did not carry on any business on his own account.

Under the sale and purchase agreement, it was agreed that upon the completion of the transaction on 1 October 2013, B Ltd would cease to provide the Deposit as a security for the Loan and Mr. D would enter into a sub-participation agreement with Bank C, whereby Mr. D would advance HK\$70 million to Bank C on the condition that the repayment of principal and interest of the advance by Bank C was subject to the repayment of principal and interest of the Loan by A Ltd.

As an incentive scheme for its employees, A Ltd implemented a share option scheme under which the options can be exercised by the employees after their continuous service in A Ltd for a minimum of 2 years from the date of grant. Upon fulfillment of such condition, A Ltd would meet its obligation under the share option scheme by issuing new shares against options exercised.

The accounts of A Ltd for the year ended 31 March 2014 showed net profits of HK\$30,000,000, after crediting or debiting the following items:

	HK\$
(1) Shipping income derived from, attributable to or in respect of:	
(a) carriage of goods and passengers shipped in Hong Kong within Hong Kong waters	6,000,000
(b) carriage of goods and passengers shipped in Hong Kong to Japan	8,000,000
(c) towage operations undertaken within Hong Kong waters	4,000,000
(d) towage operations undertaken from Hong Kong to Taiwan	7,000,000
(e) charter hire where the ships navigated within Hong Kong waters	5,000,000
(f) charter hire where the ships navigated between Hong Kong and the inland waterways of Guangdong, China	12,000,000
	<hr/>
	<u>42,000,000</u>

	HK\$
(2) Gross receipts from shipping agencies	20,000,000
(3) Interest expense payable on the Loan	10,000,000
(4) Fair value of the shares issued for share option scheme	1,000,000
(5) The overhead costs attributable to shipping agencies are agreed at 30% of the relevant agency receipts. The remaining overhead costs are attributable to shipping income.	

Mr. E had a Hong Kong employment with A Ltd as a ship captain. The numbers of days on which Mr. E stayed in Hong Kong in the years of assessment 2011/12, 2012/13 and 2013/14 are 30, 40 and 65 respectively. Out of the days he was present in Hong Kong, Mr. E merely attended meetings in Hong Kong for 10 days, 20 days and 30 days during the relevant three years respectively. Mr. E was granted a share option to subscribe for 100,000 shares in A Ltd at HK\$0.8 per share on 1 April 2012. He exercised the option in full after the fulfillment of the minimum service requirement on 1 May 2014, when the agreed fair value of the shares in A Ltd was HK\$1.2 per share.

Question 1 (27 marks – approximately 49 minutes)

(a) Compute, with detailed explanation in support, the relevant sums for A Ltd pursuant to s.23B of the Inland Revenue Ordinance (“IRO”). (6 marks)

(b) Discuss whether B Ltd is chargeable to profits tax in respect of the interest income derived from the Deposit. (5 marks)

(c) Compute, with detailed explanation in support, the interest deduction allowable to A Ltd in respect of the Loan for the year of assessment 2013/14.

(Note: For this question, interest income and expenses are computed on a simple interest basis.) (10 marks)

(d) Determine whether the fair value of the shares issued by A Ltd in respect of the share option scheme, which was recognised in its accounts as an expense, is allowable for deduction. (2 marks)

(e) Compute the assessable profits of A Ltd from its business as an owner of ships for the year of assessment 2013/14. (4 marks)

Question 2 (8 marks – approximately 14 minutes)

Explain the stamp duty obligations of B Ltd and Mr. D in respect of their sale and purchase of shares in A Ltd.

(Note: Computation of the stamp duty payable, if any, is required.)

(8 marks)

Question 3 (15 marks – approximately 27 minutes)

(a) Evaluate whether Mr. E is chargeable to salaries tax for the years of assessment 2012/13 and 2013/14.

(9 marks)

(b) Discuss whether and if so, in which year of assessment and how Mr. E is chargeable to salaries tax in respect of his gain from the share option.

(Note: Computation of the chargeable share option gain, if any, is required.)

(6 marks)

General Comments

Performed well in computing the relevant sums of the shipping company

Performance was not good when came to analysing the deductibility of the interest expense and computing the assessable profits

Had the basic knowledge of assessing in the year of the exercise the gain from the share option but showed little knowledge of the vesting of share option and its tax implications

Final Tips

KEYS TO SUCCESS ON EXAMINATIONS

Keys to Success on Examinations

Be well prepared

Take responsibility for your own learning

Have a good sleep and rest

Bring all necessary stationery

Arrive the venue early

Remain relax

Read and listen to instructions carefully

Keys to Success on Examinations

Don't get shock if expected questions not appear or unexpected questions appear!

Legibility

Time management Write down a thought process

Relate answer to case scenario

Answer the question directly – do not stray

Well plan & structure with one point per short paragraph

Write report if specifically ask for

Keys to Success on Examinations

Show understanding of topics without major errors

Display strong analytical skills

Attempt all parts of questions

Provide evidence of being able to offer good professional advice

Answer professionally

References

Qualification Programme Examination Panelists' Report – Module D

Module D (June 2014 Session) - Section A (Case Questions)

Module D (December 2014 Session) – Section A (Case Questions)

Thank You!

QUESTIONS & ANSWERS