



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



**Examination Technique Seminar on  
Section A (Case)  
for  
Module D on Taxation**

**Speaker  
Dr. Fiona Lam**

**6 May 2013**



# EXECUTIVE TRAINING COMPANY (INTERNATIONAL) LTD



# About the Lecturer



## Dr Fiona Lam

**Managing Director and Principal Lecturer - MC & MD**

*PhD, ACA(UK), FCCA, FAIA,  
CPA(Practising), BBA(Acc & Fin), ATIHK*

- ❖ **Practising partner of a medium size firm**
- ❖ **Practical experience in corporate governance, risk management, auditing and tax**
- ❖ **Passed QP exams and other exams ie ACCA, AIA, PC all in one go**
- ❖ **Professional training 10 years ago and has been teaching MC & MD since then**
- ❖ **Taught over 5000 students**



## Examination Technique Seminar on Section A (Case)

- **June 2012**
- **December 2012**
- **Other Hot Topics in MD**



## June 2012 CASE

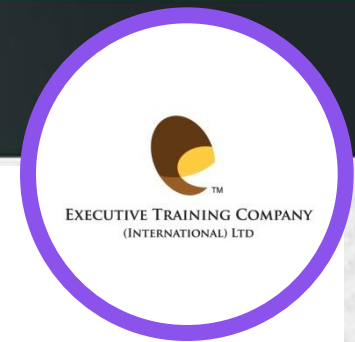
# MD – June 2012 (Case)



Manchester Knitting Limited (“MKL”) is a company **established in Hong Kong** carrying on a garment trading business.

The accounts and information for the year ended 31 March 2011 are provided below.

# MD – June 2012 (Case)



	Notes	HK\$	
<b><u>Income</u></b>			
Sales		35,900,000	
Less: Cost of sales		<u>(21,300,000)</u>	
Gross profit	1	14,600,000	
Exchange gain (net)	2	115,000	
Gain on disposal of fixed assets	3	14,000	
Interest income	4	<u>18,000</u>	14,747,000
<b><u>Expenses</u></b>			
Consultancy fee	5	300,000	
Depreciation	6	84,000	
Interest expenses	7	98,000	
Office rental		1,480,000	
Other deductible expenses		5,090,000	
Rental allowance	8	240,000	
Salaries		<u>3,586,000</u>	<u>(10,878,000)</u>
Profit before taxation			3,869,000
Less: Taxation			<u>(500,000)</u>
Profit for the year			<u><u>3,369,000</u></u>

# MD – June 2012 (Case)



## Notes:

1. The goods sold by MKL were mainly **purchased from its PRC wholly owned subsidiary** and were manufactured in mainland China. MKL reported all **its trading profits** as onshore in prior years and will continue to maintain this filing basis for the year 2010/11.
2. Details of net exchange gain were as follows:

	HK\$
Exchange gain on trade debts [DIPN 42]	125,000
Exchange loss on foreign currency bank deposit	(10,000)
<b>Offshore</b>	<u>115,000</u>



# MD – June 2012 (Case)



## 3. Details of the **gain on disposal of fixed assets** were as follows:

	HK\$	HK\$
Sales proceeds of office furniture (ranked into respective pool claiming for depreciation allowance in prior years)		30,000
Original cost	150,000	
Accumulated depreciation	134,000	(16,000)
Gain on disposal		<hr/> 14,000 <hr/>

# MD – June 2012 (Case)



## 4. Details of interest income were as follows:

	HK\$
Interest from local bank deposit pledged as loan security (per Note 7 below)	8,800
Interest from local bank deposit denominated in Euro Dollar	5,500
Interest from overseas overdue trade debts	3,700
	<hr/>
	18,000
	<hr/>

## 5. MKL paid a fee of HK\$300,000 to an individual to provide consultancy work regarding the company's daily business activities. (Expenses)



## 6. Depreciation and additional information on fixed assets:

Accounting depreciation of HK\$84,000 was calculated on the straight-line basis.

MKL acquired a motor vehicle on 1 August 2010 under a **hire purchase scheme** with a local bank and used it for business purposes. The **cash price** of the vehicle was **HK\$300,000**. An initial payment of **HK\$120,000** was made upon acquisition, and the balance was repaid over 20 monthly installments of HK\$10,000 each which commenced on 1 September 2010. The hire purchase interest was evenly allocated into each installment.

MKL did not have any tax written down value brought forward from the prior year in any pool claiming depreciation allowances.

# MD – June 2012 (Case)



## 7. Details of interest expenses were as follows:

	HK\$
Interest on bank loan secured by deposit (per Note 4 above) placed in the same bank, and on hire purchase of the motor vehicle (per Note 6 above)	16,800
Interest to overseas unrelated suppliers on overdue trade debts	66,000
Interest on loan from individual director	15,200
↑ Non-Deductible	<hr/> 98,000 <hr/>

## MD – June 2012 (Case)



8. The amount was a cash allowance paid to a director of MKL.

During the year the director leased a residential flat with an unrelated landlord and **paid the rental of HK\$240,000**. MKL fully subsidised the rental expenses of the director by paying a rental allowance to him without setting any restriction on the usage of the amount.

# MD – June 2012 (Case)



## Question 1 (19 marks – approximately 34 minutes)

- a) Calculate the depreciation allowance that MKL was entitled to claim for the year of assessment 2010/11. (3 marks)  
**(Consider the hire purchase)**
- b) Calculate the profits tax liabilities of MKL for the year of assessment 2010/11 (ignore provisional tax). (8 marks)  
**(Profits Tax Computation)**
- c) Explain the tax treatment on the following items:
- (i) interest income (4 marks)
  - (ii) interest expenses (4 marks)

# MD – June 2012 (Case)



## Question 2 (6 marks – approximately 11 minutes)

Evaluate the PRC Business Tax and Value Added Tax implications on the sales income derived by MKL's PRC subsidiary from goods sold to MKL.

(6 marks)

**(China Tax – PRC Business Tax and VAT)**

# MD – June 2012 (Case)



## Question 3 (17 marks – approximately 31 minutes)

- a) Suggest an **efficient planning scheme** from a salaries tax perspective for the director of MKL to replace the cash allowance in Note 8 of the Case, and analyse how the proposed planning scheme for the director will be assessed under salaries tax. (8 marks)

### **(Tax planning on Salaries Tax)**

- b) Under what circumstance would the proposed planning scheme be tax efficient for the director from a salaries tax perspective? (2 marks)
- c) Explain how the proposed planning scheme should be arranged in order to be accepted as a valid scheme by the Inland Revenue Department ("IRD"). (7 marks)



# MD – June 2012 (Case)



## Question 4 (8 marks – approximately 14 minutes)

a) What is the basic principle to determine whether the income derived by the consultant from MKL, as per Note 5 of the Case, is subject to either profits tax or salaries tax? Cite a court case to illustrate your answer.

(2 marks)

b) Outline the information that needs to be further obtained in order to ascertain the nature of the income derived by the consultant. Provide examples to illustrate your answer.

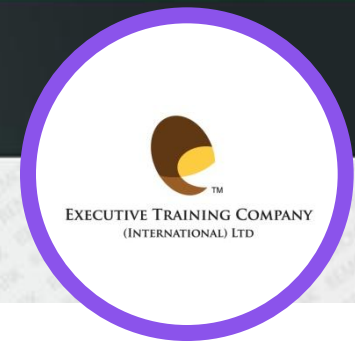
(6 marks)



## June 2012 CASE

### - Answer -

# MD – June 2012 (Case) – ANSWER



## Question 1(a)

Manchester Knitting Limited  
Calculation of Depreciation Allowance 2010/11

	30% <u>HP</u> HK\$	Total depreciation <u>allowances</u> HK\$
Addition	300,000	
Less: Initial Allowance	(Note) <u>(109,800)</u>	109,800
	190,200	
Less: Annual Allowance	<u>(57,060)</u>	<u>57,060</u>
Tax written down value carried forward	<u>133,140</u>	<u>166,860</u>

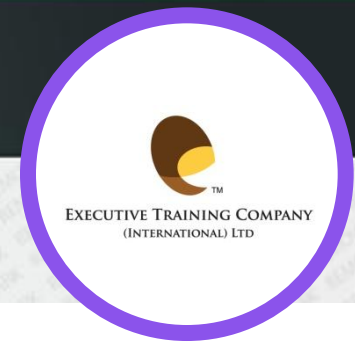
**Principal**



**Depreciation allowances**

Note: Total principal repayment made for the year  
= \$120,000 (down payment) + (300,000 – 120,000) ÷ 20 x 7 = \$183,000  
Initial Allowance : \$183,000 x 60% = \$109,800

# MD – June 2012 (Case) – ANSWER



## Question 1(b)

### Manchester Knitting Limited Profits Tax Computation 2010/11

	HK\$	HK\$
Profit before taxation		3,869,000
Add: Sales proceeds (as balancing charge)	30,000	
Depreciation	84,000	
Interest expenses <b>ND – S16(2)(c)</b>	15,200	
Exchange loss <b>Offshore</b>	<u>10,000</u>	<u>139,200</u>
		4,008,200
Less: Gain on disposal of fixed assets <b>Capital gain</b>	14,000	
Exempt bank interest income <b>Interest income</b>	5,500	
Depreciation allowances <b>exemption order</b>	<u>166,860</u>	<u>(186,360)</u>
Assessable profits		<u>3,821,840</u>
Tax thereon @16.5%		<u>630,603</u>

# MD – June 2012 (Case) – ANSWER



## Question 1(c)(i)

**Local bank interest income** is exempt from profits tax under the Exemption from Profits Tax (Interest Income) Order 1998 ("1998 Order"). However, the bank interest income of \$8,800 derived from the **deposit utilised as security pledged to a loan** incurring deductible interest expenses (conditions under s.16(2)(d) of the Inland Revenue Ordinance ("IRO") are satisfied and ss.16(2A) and 16(2B) of the IRO do not apply) would not be eligible for the exemption. Accordingly, the respective **interest income is taxable**. On the other hand, the bank interest income of \$5,500 is exempt from tax under the 1998 Order regardless of the currency denomination.

Interest income from overseas overdue trade debts is taxable as it is derived from the normal course of business and is on-shore in nature.

# MD – June 2012 (Case) – ANSWER



## Question 1(c)(ii)

**Interest to overseas unrelated suppliers** on overdue trade debts is deductible under **ss.16(1)(a) and 16(2)(e)** of the IRO.

As the interest derived by the **individual director** is not subject to tax under the IRO, the respective interest expenses incurred by MKL are non-deductible as the conditions under **s.16(2)(c)** or any other provisions of s.16(2) of the IRO are not satisfied.

# MD – June 2012 (Case) – ANSWER



## Question 2

Under the Provisional Regulations of the People's Republic of China on **Business Tax**, income derived from (i) **prescribed taxable services** (e.g. transportation industry, construction industry, etc.), (ii) the transfer of intangible assets or (iii) the sale of immovable properties in mainland China are subject to business tax. **The manufacture & sales of garment products are not prescribed taxable services and therefore would not be subject to business tax.**

# MD – June 2012 (Case) – ANSWER



## Question 2 (Cont'd)

Under the Provisional Regulations of the People's Republic of China on Value Added Tax, **the sale of goods**, provision of processing, repair and replacement services and the importation of goods in mainland China are subject to **Value Added Tax ("VAT")**. **In this regard, the respective sales income derived by MKL's PRC subsidiary is subject to VAT.**

The **sale of garment products** does not fall into any prescribed category subject to the lower VAT rate of 13% on the sales amount, it is therefore subject to the basic VAT tax rate of 17% on the sales amount.



# MD – June 2012 (Case) – ANSWER



## Question 2 (Cont'd)

However, as the **garment products manufactured** by MKL's PRC subsidiary are sold and **exported outside mainland China**, the "Exempt, Credit and Refund" method should be adopted to calculate the **VAT refund**.

If the **input VAT** paid for the **purchase** of local raw materials used in the manufacturing of export sales is **larger than the output VAT**, there may be a **VAT refund** to MKL's PRC subsidiary provided that it is a general VAT taxpayer and input VAT has been paid relating to the export sales.

# MD – June 2012 (Case) – ANSWER



## Question 3(a)

In the present situation, **the rental allowance** received by the director is a **cash allowance** and would be subject to salaries tax in full under s. 9(1)(a) of the IRO.

Under s.9(1A)(a)(ii) of the IRO, where an **employer or an associated corporation refunds all or part of the rent paid by the employee**, such a payment or refund is not treated as income. In this regard, MKL can set up a **rental refund scheme** in order to replace the current cash allowance with full discretion on the usage of the money by the director.

# MD – June 2012 (Case) – ANSWER



## Question 3(a) (Cont'd)

Under the above mentioned rental refund scheme, MKL should have **proper controls** to ensure that the director has a genuine **tenancy arrangement** for residential purposes, and that the respective amount paid to the director represents a refund of the rental expenses.

Under s.9(1A)(b) of the IRO, a place of residence for which an employer or associated corporation **has refunded all of the rent is regarded as being provided rent free** by the employer or associated corporation.

# MD – June 2012 (Case) – ANSWER



## Question 3(a) (Cont'd)

Under s.9(1)(b) of the IRO, if a place of residence is provided rent-free by a taxpayer's employer or an associated corporation, the **“rental value”** of the residence is regarded as the **taxpayer's income** which may be chargeable to salaries tax.

Under s.9(2) of the IRO, “rental value” is 10% (for residential flat) of the **assessable income** as described in s.9(1)(a) of the IRO, **after deducting the outgoings, expenses, etc., under s.12(1)(a) and (b), and any lump sum payment or gratuity upon the retirement or termination of the employment of the employee.** (Alternatively the rateable value included in the valuation list prepared under s.12 of the Rating Ordinance may be elected as the taxable “rental value” under s.9(2)(b) of the IRO.)

# MD – June 2012 (Case) – ANSWER



## Question 3(b)

The scheme would be **tax efficient** for the director from a salaries tax perspective if the amount of tax exempt rental refund under s.9(1A)(a)(ii) is greater than the amount of “rental value” as laid down under s.9(2) of the IRO.

The IRD requires that the employer has to **establish clear guidelines to control and exercise proper supervision** over the reimbursements of the rent paid by the employee as tenant to the landlord. Only under these circumstances will the **rent refund scheme be accepted**, so that the “rental value” will be included in the employee’s assessable income while the reimbursement of rent will not be treated as assessable income.

# MD – June 2012 (Case) – ANSWER



## Question 3(c) (Cont'd)

**Proper control** means that

- **a clearly defined system** is in place, including the ranks of those officers entitled and the limit of the entitlements;
- there is a **detailed specification of the rent refund** in the contract of employment; and
- the employer examines the **tenancy agreement, rental receipts, etc.**, and retains them for the record.

The IRD also requires that the tenancy agreement should be based on **the market rent**, and that the **normal letting formalities** (e.g. duly stamped tenancy agreement and periodic issue of rental receipts) have been executed, and that the rights and obligations between ordinary landlord and tenant have been observed.

# MD – June 2012 (Case) – ANSWER



## Question 4(a)

For an employment to exist, there must be an employer and employee relationship or a **“contract of service”**. Under the principle established in the case of *Fall v Hitchen* (1972) 49 TC 433 (or other relevant case), **an employment relationship would not exist** if the person who has engaged himself to perform these services performed them as a person in business on his own account, i.e. under a **“contract for service”**.

# MD – June 2012 (Case) – ANSWER



## Question 4(b)

Four kinds of information should be obtained to evaluate whether the consultancy income was derived under a contract of service or a contract for service from a tax perspective (see Appendix B of the Departmental Interpretation and Practice Notes (“DIPN”) No.25 (November 2011)).

1. Information regarding the **degree of control exercised** by MKL. In this regard, the employer in an employment relationship will exercise a **higher degree of control** over the employee as to how the services are to be performed. Examples of information include: Who decides the work to be done? Who prescribes the work schedule? (or information sought in point 1 of Appendix B of DIPN 25 (November 2011) or other relevant information)



# MD – June 2012 (Case) – ANSWER



## Question 4(b) (Cont'd)

2. Information regarding the **capacity of the consultant of MKL** to provide the consultancy services i.e., whether the consultant holds a position in MKL. Examples of information include: Does **the consultant represent to third parties** that he/she is a staff member of MKL? What are the chances of the consultant getting promotion in MKL? (or information sought in point 2 of Appendix B of DIPN 25 (November 2011) or other relevant information)

# MD – June 2012 (Case) – ANSWER



## Question 4(b) (Cont'd)

3. Information to determine whether there is **any financial risk undertaken by the consultant in providing the services to MKL. Examples of the information include:** Are equipment, capital assets or assistants provided by MKL to the consultant in performing his/her duties? What is the basis of the computation of the consultancy fee received by the consultant from MKL? (or information sought in point 3 of Appendix B of DIPN 25 (November 2011) or other relevant information)

# MD – June 2012 (Case) – ANSWER



## Question 4(b) (Cont'd)

4. Information to determine whether there has been **some form of mutual obligation between the consultant and MKL**. Examples of the information include: Whether MKL is obliged to pay a wage or remuneration? Whether the consultant is obliged to provide his/her work? (or information sought in point 4 of Appendix B of DIPN 25 (November 2011) or other relevant information)



## June 2012 CASE - PANELISTS REPORT -

# MD – June 2012 (Case)



## General Comments

The case study tested the candidates' knowledge in a generic business context from different tax perspectives. The questions comprehensively covered the **computation of tax liabilities**, an elaboration of **a tax efficient planning scheme**, an identification of tax implications on **consulting fee income**, as well as an evaluation of **PRC Business Tax and Value Added Tax** exposures on sales income derived by a PRC entity. Candidates' performance with regard to the scope of profits tax was **generally satisfactory**. However, the results related to **PRC tax** and elaboration of an **efficient planning scheme from salaries tax perspectives** were below expectations. Many candidates were not familiar with the PRC tax regime, and they also could not understand the respective questions about the tax planning scheme. In this regard, substantial marks were lost in these questions, which then affected overall performance in this section.

# MD – June 2012 (Case)



## Specific Comments – Qu 1(a) – 3 marks

This question tested the candidates' ability to **calculate depreciation allowance**. Performance was generally satisfactory. However, common mistakes were found in the incorrect calculation of principal repayment, especially due to applying the incorrect number of instalment months. Also, some candidates did not show their working for the computation of initial allowance.



## Specific Comments – Qu 1(b) – 8 marks

Candidates generally were able to demonstrate the technique for **calculating profits tax liabilities** as required in the question. The majority of the candidates were familiar with the layout for profits tax computation. Performance in this question was also satisfactory. However, some candidates did not **use profit before taxation** to compute the assessable profits. Some candidates concluded their computation on assessable profits without calculating the profits tax liabilities. In addition, some candidates **wrongly focused on writing detailed explanations** with respect to their tax treatments, which were not required by the question.

# MD – June 2012 (Case)



## Specific Comments – Qu 1(c)(i) – 4 marks

This question tested the candidates' knowledge of **the taxability of interest income**. Candidates were generally able to apply the relevant **interest income exemption order** and were able to obtain high marks. However, some candidates **wrongly focused on the "provision of credit" test**, which was irrelevant to this question. Some candidates seemed to have mixed up their answer on the deductibility of interest instead.





## Specific Comments – Qu 1(c)(ii) – 4 marks

This question was aligned with Question 1(c)(i) and tested the candidates' knowledge on **the deductibility of interest expenses**. The performance of the candidates was less satisfactory compared to Qu 1(c)(i). Quite a number of candidates **wrongly applied subsections of section 16(2)** of the Inland Revenue Ordinance ("IRO") when tackling the respective interest expenses as stated in the question. Some candidates did not understand the **inter-relationship of interest income taxability and interest expense deductibility** under the interest income exemption order. Some other candidates just copied the IRO without appropriately applying it to the question.

# MD – June 2012 (Case)



## Specific Comments – Qu 2 – 6 marks

This question tested candidates' knowledge of **PRC's Business Tax and Value Added Tax**. The question was straightforward, but it appeared that candidates were not familiar with the respective tax regime. Some candidates simply copied the law from the study materials without any relevant application to the question. Some other candidates did not attempt this question and left this question totally blank. This indicated that they were not familiar with PRC tax.

# MD – June 2012 (Case)



## Specific Comments – Qu 3(a) – 8 marks

This question required candidates **to identify a tax efficient rental reimbursement scheme** for replacing the prevailing cash allowance received by the director as stipulated in the case question. Candidates generally managed to outline the framework of the scheme, and accordingly obtained satisfactory marks. However, the elaborations provided by candidates were not comprehensive, and lacked a coherent and systematic discussion. Some candidates wrongly focused on discussing the provision of other forms of benefit-in-kind to the director, which were not directly relevant to this question.

# MD – June 2012 (Case)



## Specific Comments – Qu 3(b) – 2 marks

This question required the candidates to identify the circumstances under which **a rental reimbursement scheme** is tax efficient for the taxpayer. However, the results for this question were not satisfactory. Most of the candidates did not understand the question and provided irrelevant answers.



## Specific Comments – Qu 3(c) – 7 marks

This question tested the candidates' knowledge in identifying the requirements of **arranging a proper rental reimbursement scheme** accredited by the Inland Revenue Department ("IRD"). The results for this question were also not satisfactory. Candidates generally did not have sufficient knowledge of the respective **documentation and required control** for a proper rental reimbursement scheme. Some candidates who attempted this question were on the right track, but they could only provide a very brief analysis without detailed elaboration. Some candidates **wrongly approached** the question by discussing anti-avoidance provisions in the IRO or the procedures to apply for an advanced ruling.

# MD – June 2012 (Case)



## Specific Comments – Qu 4(a) – 2 marks

This question tested the candidates' ability to differentiate **“contract of service”** and **“contract for service”** with the support of a relevant court case. The results for this question were fair. Some candidates could distinguish between the two by the appropriate citing of a court case for illustration purposes.

# MD – June 2012 (Case)



## Specific Comments – Qu 4(b) – 6 marks

This question tested the candidates' knowledge in identifying the parameters for **evaluating the taxability of consultancy income from a contract of service or contract for service perspective**. Information relevant to the questions was comprehensively elaborated in the IRD's Departmental Interpretation and Practice Notes ("DIPN") No. 25 (November 2011). Candidates who analyzed the required information mentioned in DIPN 25 could generally obtain high marks for this question. Some candidates wrongly interpreted the questions by focusing on the discussion regarding the **source of income** or the locality of employment income.

It was also noted that some candidates **only managed to mention three kinds of information** which indicated that these candidates were not aware of the **recently revised DIPN 25 (November 2011)** which **mentions four kinds of information**.



## December 2012 CASE



## MD – December 2012 (Case)



**Dr. A operates a medical practice in his own name in Hong Kong. Apart from treating patients from the general public, he was also contracted by Company B to provide medical services to its employees. With the implementation of the Mainland and Hong Kong Closer Economic Partnership Arrangement, Dr. A has also been engaged as a visiting doctor at a Mainland hospital. **[Both onshore and offshore]****

**In the accounts for the year ended 31 December 2011, Dr. A recorded, among others, the following income and expenses for his medical practice:**

# MD – December 2012 (Case)



## (1) Income

- (a) **Consultation fees of RMB100,000** from the Mainland hospital (“the Consultation Fees”). To earn the Consultation Fees, Dr. A provided medical treatment to a patient in the Mainland. At the patient's request, he also prepared in Hong Kong a medical report for the purpose of an insurance claim. **[Income – onshore or offshore – any apportionment?]**
- (b) Compensation payment of HK\$1 million for the termination of Dr. A’s service contract with Company B (“the Compensation Payment”). The Compensation Payment was determined with reference to the consultation fees that Dr. A would have derived during the remaining period of the contract. According to past records, the service fees derived from this service contract would account for about 10% of Dr. A’s annual income. **[Capital or revenue in nature]**

# MD – December 2012 (Case)



## (2) Expenses

- (a) **Medical expenses** of HK\$250,000 in relation to Dr. A's injuries in a traffic accident; **[Private expenses]**
- (b) Additional tax of HK\$5,000 imposed under s.82A of the Inland Revenue Ordinance ("IRO") due to late submission of tax return; and **[incurred in the production of profits?]**
- (c) Expenditures of HK\$300,000 on the renovation of the existing clinic and HK\$500,000 on the initial decoration of a new branch clinic. Both clinics are located in office buildings in prime locations. **[CBA or S16F ?]**

## MD – December 2012 (Case)



Dr. A entered into an agreement to purchase Flat C as the sole owner on **1 February 2011**. Under the agreement, Dr. A was required to settle the consideration within one year, and was permitted to live in the flat during that year. On 1 March 2011, Dr. A obtained an **equitable mortgage loan to pay part of the consideration**. He commenced to repay the loan (with interest of HK\$10,000 per month) on 1 April 2011, and moved into Flat C with his family on 1 June 2011. On 1 November 2011, Dr. A settled the balance of the consideration, and nominated his wife, Mrs. A, to take up the **assignment of Flat C** and the related mortgage loan with him as joint tenants. The relevant assignment and mortgage deed were also executed on that day. **[Individual – home loan interest ?]**

# MD – December 2012 (Case)



Dr. A also entered into an agreement to purchase another residential flat, Flat D, as the sole owner on 1 March 2011. He nominated Company E to take up the assignment of Flat D on 1 October 2011. **Company E** is a corporation of which Dr. A and Mrs. A are the only shareholders and directors. It incurred a significant loss from share dealing in 1997, and has been left dormant since then.

[SSD + How about BSD ? – any thoughts?]

## MD – December 2012 (Case)



Dr. A and Mrs. A have a **son of 7 years old**. The son has been residing in the US with **Mrs. A's parents**, who are aged 65 and emigrated there more than 20 years ago. During the year ended 31 March 2012, the son and Mrs. A's parents did not visit Hong Kong, whilst Dr. A contributed US\$5,000 per month to support their living expenses in the US. Mrs. A did not have any income chargeable to tax, and it is advantageous for her and Dr. A to **elect for personal assessment. [Personal Allowance + PA?]**

Dr. A is considering to carry on his medical practice through Company E. He consults his accountant as whether it is a good idea from a tax perspective.

# MD – December 2012 (Case)



## Question 1 (6 marks – approximately 11 minutes)

Discuss the following issues in respect of the Consultation Fees and the Compensation Payment:

- a) whether the Consultation Fees from the Mainland hospital were sourced in Hong Kong. **[Scope of income]**  
(3 marks)
  
- b) whether the Compensation Payment from Company B was capital or revenue in nature. **[Deduction Rule]**  
(3 marks)

# MD – December 2012 (Case)



## Question 2 (14 marks – approximately 25 minutes)

Analyse whether the following items are deductible under profits tax. For items (a) and (b), cite the relevant case law to support your analysis. **[Deduction rules]**

- a) Dr. A's medical expenses; (3 marks)
- b) Additional tax due to late submission of tax return; and (4 marks)
- c) Expenditures on the renovation of the existing clinic and the initial decoration of the new clinic. (Note: If deductible, compute the maximum amounts of deductions allowable under the IRO for the year of assessment 2011/12.) (7 marks)



# MD – December 2012 (Case)



## Question 3 (8 marks – approximately 14 minutes)

Determine whether and, if so, how Dr. A should be allowed deduction of **home loan interest** in respect of Flat C for the year of assessment 2011/12. (8 marks)

## Question 4 (6 marks – approximately 11 minutes)

Explain whether and, if so, how the following instruments are chargeable **with special stamp duty**:

- a) the agreement dated 1 November 2011 under which Dr. A nominated Mrs. A to take up the assignment of Flat C with him as joint tenants. (2 marks)
- b) the agreement dated 1 October 2011 under which Dr. A nominated Company E to take up the assignment of Flat D. (4 marks)

# MD – December 2012 (Case)



## Question 5 (5 marks – approximately 9 minutes)

Evaluate whether Dr. A can be granted the following allowances under personal assessment:

a) **Child allowance** in respect of his son; and

(2 marks)

b) **Dependent parent allowances** in respect of Mrs. A's parents.

(3 marks)

# MD – December 2012 (Case)



## Question 6 (11 marks – approximately 20 minutes)

Discuss the following issues in relation to Dr. A's idea of carrying on his medical practice through Company E:

- a) whether and, if so, how **the change in mode of carrying on the medical practice** can help Dr. A reduce his tax liabilities;  
(6 marks)
  
- b) what ethical considerations should the accountant be aware of in advising Dr. A on such a tax planning idea? **[Code of Ethics]**  
(5 marks)



## December 2012 CASE

- Answer -

# MD – December 2012 (Case) – ANSWER



## Question 1(a)

The broad guiding principle for determining the source of profits, as laid down by Lord Bridge in *Commissioner of Inland Revenue v Hang Seng Bank Ltd.* [1991] 1 AC 306 and expanded by Lord Jauncey in *Commissioner of Inland Revenue v HK-TVB International Ltd.* [1992] 2 AC 397, is “one looks to see what the taxpayer has done to earn the profit in question and where he has done it”. **[S14(1) + Operation Test]**

In the present case, Dr. A earned the Consultation Fees by providing medical treatment to a patient in the Mainland. Applying the above broad guiding principle, the Consultation Fees did not arise in or were not derived from Hong Kong. **[Service Fee rendered]**

# MD – December 2012 (Case) – ANSWER



## Question 1(a) (Cont'd)

The fact that Dr. A prepared the medical report for the patient in Hong Kong was merely **an antecedent or incidental matter** which did not determine the source of the consultancy income: see ***Kwong Mile Services Limited v. Commissioner of Inland Revenue*** [2004] 3 HKLRD 168. Indeed, there is no evidence suggesting that part of the Consultation Fees arose from the preparation of the medical report and had a locality separate from the part attributable to the provision of medical treatment.

# MD – December 2012 (Case) – ANSWER



## Question 1(b)

The Compensation Payment should be **revenue in nature** because of the following:

- 1) Dr. A entered into the service contract with Company B in the **ordinary course of his medical practice**. Being a sum to **compensate for the termination** of such a contract, the Compensation Payment should be regarded as a normal trading receipt.
- 2) The service contract with Company B only **contributed to 10% of Dr. A's annual income**. It is unlikely that the termination of the service contract would affect the entire framework of Dr. A's business. **[Tree and Fruit analogy]**

# MD – December 2012 (Case) – ANSWER



## Question 1(b) (Cont'd)

The Compensation Payment should be revenue in nature because of the following:

- 3) The Compensation Payment was computed with reference to the **consultation fees** that Dr. A would have earned from the contract. It was more akin to compensation for the **loss of profits** rather than the loss of capital assets.



# MD – December 2012 (Case) – ANSWER



## Question 2(a)

The medical expenses are **not deductible** because of the following:

- 1) They were incurred by Dr. A for the benefit of his health. Plainly, they are of a **private nature** and are prohibited from deduction under s.17(1)(a) of the IRO.
- 2) Although the expenses could also enable Dr. A to continue to carry on his business, there is no sensible way of **apportioning them between private and business purposes.**

Relevant authority: *Fahy v CIR* (1992) 3 HKTC 695

# MD – December 2012 (Case) – ANSWER



## Question 2(b)

The additional tax is **not deductible** because of the following:

- 1) Additional tax is a **kind of fine or penalty**. It was imposed due to a wrongdoing on the part of Dr. A, i.e. late submission of his tax return. It was **not incurred for the purpose of earning profits** from his medical practice and was thus not allowable for deduction by virtue of s.17(1)(b) of the IRO.
- 2) Moreover, the purpose of a fine or penalty is to punish the wrongdoer, and the legislative policy would be diluted if the wrongdoer is allowed to share the burden with the rest of the community.

Relevant authority: *CIR v Chu Fung Chee* 6 HKTC 743

# MD – December 2012 (Case) – ANSWER



## Question 2(c)

The expenditure **on renovation of the existing clinic** is deductible **under s.16F** of the IRO because of the following:

- 1) The relevant unit of building has not been used as a domestic building or structure; and
- 2) The expenditure was incurred in production of chargeable profit.

The renovation expenditure is allowed for deduction **by five equal instalments**, the first of which is allowed in the basis period during which the expenditure was incurred and the **remaining four instalments** in the basis periods of the next four succeeding years of assessment.

# MD – December 2012 (Case) – ANSWER



## Question 2(c) (Cont'd)

Therefore, the deduction of expenditure on renovation of the existing clinic for the year of assessment 2011/12 should be computed **as HK\$300,000 x 1/5 = HK\$60,000.**

By virtue of s.16F(3) of the IRO, Dr. A is **not entitled to Commercial Building Allowance (“CBA”)** in respect of the expenditure which has been allowed under s.16F.

As for the expenditure for the **initial decoration** of the new branch clinic, it was incurred to enable the unit of building to be first used by Dr. A for the production of profits, so does not qualify for deduction under s.16F.

# MD – December 2012 (Case) – ANSWER



## Question 2(c) (Cont'd)

However, CBA can be granted in respect of such initial decoration expenditure under s.33A of the IRO for the year of assessment 2011/12 as follows:

Annual Allowance: **HK\$500,000 x 4% = HK\$20,000**



## Question 3

**Home loan interest deduction** is allowable to a person who has paid interest on a mortgage loan obtained to purchase a residential property if, among others,

- 1) the person who claims the deduction is the **owner of the property; and**
- 2) the property is used by the person as **his place of residence.**

# MD – December 2012 (Case) – ANSWER



## Question 3 (Cont'd)

In *D108/02*, 18 IRBRD 45, *D70/05*, (2006-07) 21 IRBRD 1, *D80/05*, (2006-07) 21 IRBRD 93 and *D3/10*, (2010-11) 25 IRBRD 162, the Board of Review held that no one can claim deduction of home loan interest unless **he is a legal or registered owner of the property**, not just a beneficial owner of an interest in the property.

Although Dr. A commenced to pay mortgage interest in respect of Flat C from April 2011, he **had not used the flat as his place of residence until 1 June 2011**. Furthermore, he only became a legal owner of the flat on **1 November 2011**. In the circumstances, Dr. A is not entitled to any home loan interest deduction for the period from **April 2011 to October 2011**.

# MD – December 2012 (Case) – ANSWER



## Question 3 (Cont'd)

For the period from November 2011 to March 2012, Flat C was held by Dr. A and Mrs. A as **joint tenants**. By virtue of s.26E(2)(b)(i) of the IRO, Dr. A and Mrs. A should each be allowed deduction of home loan interest in proportion to the number of joint tenants, i.e. **HK\$10,000 x 5 months x 1/2 = HK\$25,000.**

Since **Mrs. A did not have any income chargeable to tax for the year of assessment 2011/12, she can nominate Dr. A to claim deduction of her share of home loan interest deduction** pursuant to s.26F of the IRO.



# MD – December 2012 (Case) – ANSWER



## Question 3 (Cont'd)

To sum up, the amount of home loan interest deduction to which Dr. A is entitled should be computed as follows:

His **share of deduction (HK\$25,000)** + The share of deduction nominated by Mrs. A (HK\$25,000) = HK\$50,000

# MD – December 2012 (Case) – ANSWER



## Question 4(a)

Under this nomination agreement, the nominee (i.e. Mrs. A) is the wife of the nominator (i.e. Dr. A).

By virtue of s.29CA(10) of the Stamp Duty Ordinance (“SDO”), the **nomination agreement is exempted from special stamp duty.**

# MD – December 2012 (Case) – ANSWER



## Question 4(b)

Dr. A entered into an agreement to purchase **Flat D on 1 March 2011.**

By entering into the **nomination agreement on 1 October 2011, Dr. A is regarded as having sold the flat to Company E on that date.**

The period between 1 March 2011 and 1 October 2011 **is 7 months and 1 day.**

Since the holding period is more than **6 months but less than 12 months**, the nomination agreement will be chargeable with special stamp duty at **10%** of the consideration stated therein (if any) or the market value of Flat D on 1 October 2011, whichever is the higher, under head 1(1B)(b) in the First Schedule to the SDO.

# MD – December 2012 (Case) – ANSWER



## Question 5(a)

Dr. A can be granted child allowance in respect of his son because:

- 1) **the son is under the age of 18;** and
- 2) he has **maintained the son** by supporting his living expenses in the US.

# MD – December 2012 (Case) – ANSWER



## Question 5(b)

**Mrs. A's parents emigrated to the US more than 20 years ago and have not visited Hong Kong during the year of assessment 2011/12.**

**As Mrs. A's parents were **not ordinarily resident** in Hong Kong during the relevant year, Dr. A cannot be granted the related dependent parent allowances.**

# MD – December 2012 (Case) – ANSWER



## Question 6(a)

By carrying on his medical practice through Company E, Dr. A may reduce his tax liabilities as follows:

- 1) As Company E becomes the person carrying on the medical practice, Dr. A will no longer be liable to profits tax in respect of the profits of the clinics. Instead, he, being the **director of Company E**, will provide medical services at the clinics in return for his director's remuneration. His **remuneration package** can be arranged to include a lot of fully or partially non-taxable fringe benefits (e.g. provision of quarters, domestic helper employed by Company E, etc.), whereas Company E will be able to claim deduction of those benefits as business expenses. ...

# MD – December 2012 (Case) – ANSWER



## Question 6(a) (Cont'd)

**By carrying on his medical practice through Company E, Dr. A may reduce his tax liabilities as follows:**

- 1) ... By such arrangement, although the profits tax rate for a corporation (16.5%) is higher than the standard tax rate for individual (15%), the overall tax liabilities of both Dr. A and Company E can be reduced.**

# MD – December 2012 (Case) – ANSWER



## Question 6(a) (Cont'd)

By carrying on his medical practice **through Company E**, Dr. A may reduce his tax liabilities as follows:

- 2) The **substantial loss** sustained by Company E from share dealing has not yet been utilised due to its dormancy since 1997. In the circumstances, by injecting the medical practice into Company E, the aforesaid loss can **be utilised to set off against the profits of the clinics.**



# MD – December 2012 (Case) – ANSWER



## Question 6(b)

In advising Dr. A on his tax planning idea, the accountant should be aware of the following:

- 1) Tax is a major source of the government's income. To preserve the welfare of the community, **the accountant should act honestly in advising Dr. A** on his tax planning idea.
- 2) The accountant is entitled to put **forward tax advice** as to the best position for Dr. A, provided that he does so within his professional competence and it does not in any way impair his standard of integrity and objectivity, and is in his opinion consistent with the law.

# MD – December 2012 (Case) – ANSWER



## Question 6(b) (Comt'd)

In advising Dr. A on his tax planning idea, the accountant should be aware of the following:

- 3) The accountant should not hold out to Dr. A the assurance that the **tax advice he offers is beyond challenge**. Instead, the accountant should ensure that Dr. A **is aware of the limitations attaching to the advice** (such as the possibility that the Commissioner may invoke ss.61 and 61A of the IRO to deny any tax benefit obtained from the tax plan), so that he does not misinterpret an expression of opinion as an assertion of fact. Moreover, the accountant should remind Dr. A of his exposure to penalty provided under the IRO if the tax plan fails eventually.



# December 2012 CASE - PANELISTS REPORT -

# MD – December 2012 (Case)



## General Comments

The very purpose of a case study is to test the candidates' effectiveness in applying their tax knowledge in a practical business context. In this session, the case was set in a context of a medical practitioner and required the candidates to resolve various issues **under profits tax, salaries tax and stamp duty**. One of the questions also tested the candidates' knowledge about ethical considerations in providing tax advice. Regrettably, the candidates **did not perform well in this case**. Quite a number of candidates did not grasp the essence of the case and the questions. Some of them **just stated the tax principles excessively** in general **without any application to the case**. When sitting for a professional examination on taxation like QP Module D, one should not expect to be able to score a pass by merely stating some general principles, statutory provisions and tax cases.

# MD – December 2012 (Case)



## Specific Comments – Qu 1(a) – 3 marks

This question asked the candidates to determine the **source of the consultancy fees** by distinguishing the profit-producing activity (i.e. the provision of medical treatment in the Mainland) and the **antecedent and incidental activity** (i.e. the preparation of medical report in Hong Kong). Most candidates were able to identify the medical treatment in the Mainland as the profit-producing activity and correctly decided the consultancy fees as offshore income. However, some **candidates mistakenly took the view that both the aforesaid activities were profit-producing and part of the consultancy fees should therefore be chargeable to profits tax.**

# MD – December 2012 (Case)



## Specific Comments – Qu 1(b) – 3 marks

This question tested the candidates' knowledge of the taxability of compensation payment for termination of business contract. The issue should be analysed from three perspectives, namely (a) whether the contract was **derived from the ordinary course of business**, (b) whether the termination had **material effect on the business as a whole**, and (c) whether the compensation payment appeared to be a compensation for **loss of profits or capital assets**. Many candidates could identify item (b) as the relevant factor for consideration. Only a few were able to discuss items (a) and (c) as well. Some even mistook the compensation payment as an employment income and diverted their analyses from the salaries tax perspective.

# MD – December 2012 (Case)



## Specific Comments – Qu 2(a) – 3 marks

The deductibility of medical expenses incurred by the business proprietor was well established in *Fahy v CIR* (1982) 3 HKTC 695, in which the Court held that the expenses were incurred for the **recovery of his personal health (i.e. a private purpose)**. Although such expenses could also be argued to have enabled the proprietor to continue the business (i.e. a business purpose), there is no sensible way of apportioning the expenses between the two purposes. Many candidates could recognise the private purpose argument, but most of them could not explain why the deduction fails on the business purpose. Moreover, despite the requirement stated in the question, only a few could cite the *Fahy* case as the relevant authority.

# MD – December 2012 (Case)



## Specific Comments – Qu 2(b) – 4 marks

This question required the candidates to discuss the deductibility of the additional tax paid under s.82A of the Inland Revenue Ordinance (“IRO”), which was of the nature of fine or penalty. Such payment was not deductible because it, as most candidates recognised, was not **incurred for the purpose of earning profits**, but due to the wrongdoing on the part of Dr. A. Again, not many candidates could cite the relevant authority to support their answers.



# MD – December 2012 (Case)



## Specific Comments – Qu 2(c) – 7 marks

A straightforward question on the renovation and decoration expenditures incurred for Dr. A's two clinics, and the performance was generally satisfactory. Many candidates could point out that the expenditures on **the renovation** of the existing clinic were deductible pursuant to s.16F of the IRO. But for the expenditures on the new clinic, some candidates overlooked the provision under s.16F(4) and incorrectly stated that the expenditures were deductible. Such expenditures should, instead, be entitled to Commercial Building Allowance instead.

# MD – December 2012 (Case)



## Specific Comments – Qu 3 – 8 marks

This question aimed to test the candidates' knowledge of **home loan interest deduction** and in particular the following aspects: (a) only the interest paid for the period in which Dr. A acquired the **legal ownership of Flat C** and used it for residence was eligible for the deduction, (b) as the property was held by Dr. A and Mrs. A as joint tenants, each of them should be entitled to deduction of half of the amount of interest paid, and (c) as Mrs. A has no income chargeable to tax, she could **nominate** Dr. A to claim the deduction of her share of interest. The performance of candidates in this question was not satisfactory. Many candidates could state the correct manner of interest computation referred to in item (b), but only a few were able to point out the availability of nomination as in item (c). For item (a), most candidates could not recognise it and in turn rendered the wrong computation of interest deduction.

# MD – December 2012 (Case)



## Specific Comments – Qu 4(a) – 2 marks

This question tested the candidates' understanding of **the special stamp duty** chargeability of the agreement executed by Dr. A to nominate Mrs. A to take up Flat C with him as joint tenant. This agreement should be exempted from special stamp duty by virtue of s.29CA(10) of the Stamp Duty Ordinance (“SDO”), and most candidates provided the correct answer. Only a few misunderstood the question as one enquiring about the ad valorem stamp duty chargeability and cited the wrong provision, i.e. Note 5 to head 1(1A) in Schedule 1 of the SDO, to support their answers.

# MD – December 2012 (Case)



## Specific Comments – Qu 4(b) – 4 marks

This question asked the candidates to determine whether another agreement executed by Dr. A to **nominate Company E** to take Flat D was chargeable with special stamp duty. Most candidates could state that **special stamp duty should be imposed on this nomination agreement**, but only a few were able to explain the chargeability in detail. Some candidates even wrongly considered that the exemption provided under ss.27(5) and 45 of the SDO were applicable.

# MD – December 2012 (Case)



## Specific Comments – Qu 5(a) – 2 marks

This was a simple question on the eligibility of child allowance and was well-answered. Only some candidates misunderstood that child allowance cannot be claimed if the child was not residing with his parent and/or in Hong Kong and thus gave the wrong answers.

## Specific Comments – Qu 5(b) – 3 marks

Again, a simple question on **dependent parent allowance** and many candidates could recognise the ineligibility because Dr. A's parents-in-law were **not ordinarily resident in Hong Kong**. The performance in this question was very satisfactory.

# MD – December 2012 (Case)



## Specific Comments – Qu 6(a) – 6 marks

This question required the candidates to evaluate whether and how Dr. A can **improve his tax efficiency by carrying the medical practice through Company E** instead of as a proprietorship business. Regrettably, many candidates did not seem to understand the question and misunderstood it as one on Type II service company arrangement or disguised employment to be tackled under s.9A of the IRO. For those who could understand the question correctly, most only stated that more expenses, in particular the **private ones of Dr. A, would be allowed for deduction if the medical practice was carried on by Company E**. However, Company E would not be allowed to deduct the private expenses of Dr. A, unless they were incurred as **part of the remuneration provided to Dr. A** in return for his service. Not many candidates mentioned this point and thus did not score well in this question.

# MD – December 2012 (Case)



## Specific Comments – Qu 6(b) – 5 marks

This question required candidates to apply **the ethical considerations** in the context of tax planning, such as alerting Dr. A of the possible challenges under ss.61 and 61A of the IRO and the penal actions to be instituted by the Commissioner of Inland Revenue if the arrangement failed by virtue of the anti-avoidance provisions. Unfortunately, not many candidates were capable of providing such an analysis. Most of them only set out the **general ethical principles, irrespective of the relevance**. As observed, not only would such practice not help the candidates score well in this type of question, they would almost certainly have wasted a significant amount of time, which in turn, would adversely affect their performance in the rest of the paper as well.



# Other Hot Topics in MD

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# Overall view of Hot Topics in MD



## Profits Tax

- S14(1) - Profits tax scope of charge
- Source concept (Locality of profits) DIPN 21 (Revised)
- Operation test – *Hang Seng Bank Case*, *TVBI Case*
- Trade : Capital gain on disposal – Badges of trade [Marson Vs Morton]
- Capital/revenue items – S14(1)
- Doing business in Hong Kong – Permanent Establishment – Branch or Agent – IRR 5(1)
- Deemed trading receipts – royalty S15(1)(a),(b)(ba), S21A, S20A, 20B, *Emerson Case*, *Lam Soon Trademark Case*
- Interest income – DIPN 13 and DIPN 34 – S15(1)(f) [Provision of credit test] and Interest Income Exemption Order
- Deductible expenses – S16(1)
- Interest Expenses – S16(2), S16(2A)-(2C)

# Overall view of Hot Topics in MD



## Profits Tax

- Interest on Redevelopment Costs – *Wharf Properties and Secan Case*
- Interest to Non-financial institution and related to debentures – S16(2)(c), S16(2)(f), S16(2C)
- IBA & CBA – S40(1), Balancing adjustments
- Deduction of R & D expenses – S16B
- Deduction of patent – S16E [DIPN 49]
- Building Refurbishment Expenses – S16F
- Prescribed Fixed Assets S16G
- Environment protection machinery / Installation S16H-J
- Leased assets – S39E
- Exchange differences and financial instruments DIPN 42 [*Secan Case*]
- Off-shore Funds – DIPN 43, S20AB, S20AC, S20 AE
- S20 Transfer Pricing, S61 and S61A General anti-avoidance provisions
- Profits tax computation
- DTA DIPN 44 – Article 5 and 14

# Overall view of Hot Topics in MD



## Salaries Tax

- Salaries Tax – scope of charge – S8(1), DIPN 10, *Goepfert Case*
- Exemption – S8(1A)(b), S8(1B), S8(1A)(c)
- Rental arrangements
- Share Options and Awards – S9(1)(d) DIPN 38
- Salaries Tax computation – allowances
- Personal assessment ie benefits

# Overall view of Hot Topics in MD



## Tax Administration

- Reporting obligations S51 and S52
- Holdover of provisional tax
- S70A Error and omission claim
- Basis Period
- DIPN 45-48 (only briefly)

## Stamp Duty

- Scope of Charge – Head 1 and 2
- Group Relief – S45
- S27(4) and S27(5)
- SSD + BSD



# Exam Techniques for MD

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# Specific Techniques to pass MD



## A. What kinds of taxes involved ?

<b>Profits Tax</b>	<b>50%</b>
<b>Salaries Tax</b>	<b>30%</b>
<b>Others</b> <b>(Property tax, Tax admin, Stamp Duty, China Tax)</b>	<b>20%</b>

# Specific Techniques to pass MD



## B. Income or expenses?

### Profits Tax income

- S14(1) Charging section
- DIPN 21 (Revised)
- Operation test [*Hang Seng Bank Case* , *TVBI case*]
- S15 (Deeming Provisions) – Royalties

### Profits tax expenses

- Always give General Deduction Rule S16(1) first + Specific Deduction Rules if applicable

# Specific Techniques to pass MD



## C. Give whole set of answer

For example: Royalties income

- Scope of Charge – S15(1)(b) or S15(1)(ba)
- Tax adjustments – S21A – 30% or 100%
- Tax administration – S20A or S20B
- *Emerson Case*



# Specific Techniques to pass MD



## D. Count marks

**5 marks question: around 7 points**

## E. Tax computation

**3 out of 10 for calculation**

**7 out of 10 for explanation**

- **Remember to use cross referencing**
- **Explanations are the most important**

# Final Techniques to pass MD



- A. Consideration of **commencement of business and termination** of business
- B. Always consider **capital or revenue** – capital gain S14(1) not taxable Capital expenditure S17(1)(c)
- C. Disposal of properties or shares – **tax implication and stamp duty implication** – always consider profits tax and stamp duty
- Profits tax: Badges of Trade
  - Stamp Duty: Heads
- D. Watch out for **most updated cases** (subject to 6-month rule)

# Common Techniques to pass MD



- A. Prepare your critical files**
- B. Only need 1 set of notes**
- C. Time yourself**
- D. Start practise writing**
- E. Don't just copy – use key words for application**
- F. Demonstrate logical thinking – sometimes no right or wrong**
- G. No need to highlight everything in the question booklet**
- H. Writing – legible to read**

# MD Preparation with ETC



## Knowledge Course: 10 Sessions

→ Boost your knowledge

## Revision Course: 9 Sessions

→ Practise past papers and other ETC questions

## **Only got 1 month left – What shall you do?**

- Do past papers with updated answers
- Practise writing out:  
Progress test + Exam Pack (2 additional tests) + Final Mock
- Write as many questions out as possible
- Practice using your critical file
- Time yourself

# Final Advice



- **The time to look-up the textbook is limited during an open-book exam**
- **Students should:**
  - ❑ **have a good understanding of the topics before going into the exam**
  - ❑ **read the case and questions carefully**
  - ❑ **answer what is being asked, not what they wanted to be asked**
  - ❑ **identify the core issues of the question and allocate their time accordingly**
  - ❑ **analyse the facts of the case and apply the tax rules or principles to arrive at the conclusion**
  - ❑ **not copy large passages from the textbook**
  - ❑ **use logical thinking to understand and respond to the questions**

At **ETC**, it is our aim to encourage you. Thank you!



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