

Preamble

The focus of the workshops under the Enhanced Qualification Programme is on formative development of skills, i.e. to train students to become future CPAs.

Many of the cases and issues discussed during the workshops were designed to encourage different points of view which may result in different conclusions being drawn by the students during the workshops.

The main topics covered during the workshops are listed below. They are not intended for any purpose other than for review purpose.

For Departmental Interpretation and Practice Notes (DIPN), they can be downloaded from the Inland Revenue Department (IRD) website: <http://www.ird.gov.hk/eng/ppr/dip.htm> .

Workshop Two – Tax Avoidance Cases

(Group Discussion Exercise)

Reason for activity

CPAs need to be familiar with anti-avoidance provisions in order to identify and manage the risk of possible challenges by the IRD on transactions or arrangements.

Main topics discussed

- Change in shareholding by acquiring the shares in a company, and selling goods to that acquired company at 20% below the previous price level.
- Deductibility of interest on loan financed from proceeds of debentures issued overseas and deductibility of interest on loan secured by an overseas deposit.
- Stamp duty implications on transfer of properties and shares
- Transfer pricing (tax avoidance issues on relocation of subcontractor to a lower tax jurisdiction (with more staff and undertakes more risk) and the increase in the mark-up on prices of goods sold back to the parent company in Hong Kong).

Workshop 2 – Cross Border Tax Issues

(Group Discussion Exercise)

Reason for activity

CPAs should have an awareness of the tax issues arising from cross-border transactions, especially due to the increase in cross border transactions between Hong Kong and the Mainland.

Main topics discussed

- Chargeability to Hong Kong profits tax for a Hong Kong incorporated company that entered into an import processing arrangement with a group company in the mainland (DIPN 21)
- Chargeability to Value Added Tax (VAT) for raw materials purchased by a PRC manufacturer in the mainland (Learning Pack (LP) chapter 13, section 9)
- Chargeability to Business Tax (BT) for design fees received by a Hong Kong incorporated company from a service recipient located in the mainland (LP chapter 13, section 5)
- Chargeability to Corporate Income Tax (CIT) (on a withholding basis) for a Hong Kong incorporated company with no Permanent Establishment (PE) in the mainland (LP chapter 12, section 3, and chapter 13, section 22)

Workshop 2 – Tax Planning for Individuals

(Group Discussion Exercise)

Reason for activity

CPAs should be able to apply up-to-date tax knowledge together with innovative and critical thinking to minimise the tax exposure of an individual in a legal and commercially realistic manner.

Main topics discussed

- Difference between contract of service and contract for service
- Difference between being assessed under salaries tax and profits tax

Workshop 2 – Tax Planning for Corporations

(Group Discussion Exercise)

Reason for activity

CPAs should be able to apply up-to-date tax knowledge together with innovative and critical thinking to minimise the tax exposure of a company or a group of companies in a legal and commercially realistic manner.

Main topics discussed

- Professional ethics for a tax consultant (LP chapter 11, section 1.3)
- Acquisition of assets – the allowances / deductions that can be claimed, the price that can reasonably be allocated to each asset, and the stamp duty implications
- Mainland tax exposure for sending staff to perform services in the mainland – HK-Mainland DTA – 183 days in any 12 month period etc
 - ➔ Individual Income Tax – LP chapter 13, section 21.4;
 - ➔ Corporate Income Tax – LP chapter 12, section 22.2
- Transfer pricing – setting appropriate prices to reflect the functions and risks undertaken by each of the group companies.