

JUNE 2011 SUPPLEMENT

Qualification Programme

Module D

Taxation



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

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Introduction

This Supplement has been produced for those candidates preparing for the June 2011 examination session of the HKICPA Qualification Programme.

It is designed to be used in conjunction with the 2010 edition of the Learning Pack, and it will bring you fully up to date for developments that have occurred in the period since publication of the Learning Pack and 29 December 2010, the cut-off date for examinable standards and legislation for the June 2011 examination.

The Supplement contains two sections:

Part A contains a list of any notified errors in the material in the current edition of the Learning Pack. These are identified in chapter order, therefore as you start a new chapter in the Learning Pack you are advised to refer to the list to see whether there is anything relevant.

Part B comprises a technical update on developments that will be examinable in June 2011 that are not currently covered in the Learning Pack. The topics covered are listed on the contents page, and again are covered in chapter order.

In each case the text in the supplement explains how the Learning Pack is affected by the change, for example whether the new material should be read in addition to the current material in the Learning Pack, or whether the new material should be regarded as a replacement.

Careful study of both the Learning Pack and this supplement should ensure that you are fully prepared for the June 2011 examination session.

Good luck with your studies!

Part A: Identified Errata

Tax Tables

Personal allowances
Page xxiii

- Add " – additional allowance in the year of birth (each)" after "New born child"
- Add "(each)" after "Dependent parent / grandparent allowance".
- Replace "(Age 55-60 / >60)" with "(Age 55-59 / ≥ 60*)" after "Dependent parent / grandparent allowance"
- Replace " - basic additional" with "Additional dependent parent / grandparent allowance (each)"
- Add footnote " *Can also claim the \$30,000 allowance if the dependent parent or grandparent is eligible to claim an allowance under the Government Disability Scheme"
- Add "(each)" after "Dependent brother/sister allowance"
- Replace "Disabled dependent allowance" with "Disabled dependant allowance" and add "(each)"
- Add "(max.)" after "MPF"
- Add "(max.)" after "Approved charitable donations"

Chapter 1

The tax system in Hong Kong

Section 3.1
Page 9

In the last paragraph of section 3.1, replace "Section 7" with "chapter 2, section 7, page 54".

Section 4.5
Page 15

For DIPN 5 (Revised):

- Replace "(A) Scientific Research" with "(A) Research and Development"

Page 16

Remove "DIPN 11A – Elements of Field Audit".

Section 5.3
Page 21

Replace "refer to section 14" with "refer to chapter 11".

Section 5.4
Page 22

In the Example:

- Replace "tax rate of 16.5%" with "tax rate of 15%"
- Replace "\$165" with "\$150"

Chapter 2

Administration procedures under the Inland Revenue Ordinance

Section 3.1
Page 46

In the 3rd last paragraph of section 3.1, replace "Section 56(c)" with "Section 54(b)".

Answers to self-test questions

Page 80

Replace "Section 70A before" with "Section 70A for".

Chapter 3	Hong Kong profits tax
Section 3.6 Page 111	In the 1 st paragraph, replace "other than those deemed chargeable under Section 15(1)(a) or (b)" with "other than those deemed chargeable under Sections 15(1)(a), (b) or (ba)".
Section 8 Page 167	In the second last paragraph of the page, add "Refer to chapter 3, page 133 (s16(1)(f)) for details." In the last paragraph of the page, add "Refer to chapter 3, section 7.4.8, page 147 for details."
Page 168	In the first paragraph of the page, add "Refer to chapter 3, section 7.4.9, page 148 for details."
Section 10.2 Page 181	In the second paragraph, remove "of no more than twenty partners".
Answers to self-test questions	
Page 211	Answer 2 In the second last paragraph of the page, remove "22".
Chapter 6	Hong Kong property tax
Section 1 Page 314	In the first paragraph of the page, replace "DIPN No. 14 (Revised)" with "Refer also to DIPN No.14 (Revised), paragraphs 41 to 43".
Chapter 8	Hong Kong stamp duty
Section 2.1 Page 351	In the last row of the Stamp Duty table <ul style="list-style-type: none">Replace "\$21,739,120" with "> \$21,739,120"
Chapter 9	Introduction to tax planning
Section 5.5.6 Page 410	In the 3 rd paragraph on the page, replace "Please see Section 16, 16.7 " with "Please refer to chapter 12, section 4.2 ".
Chapter 12	Double taxation arrangement and agreements
Section 3.1.14 Page 507	In the 3 rd paragraph on the page, replace "Please refer to Section 13 " with "Please refer to chapter 9, section 4 ".
Chapter 13	Overview of China tax system
Section 8.1 Page 545	In the 2 nd paragraph on the page, replace " ... magazines, fees, chemical fertilisers ... " with " ... magazines, feeds, chemical fertilisers ... ".
Table of Board of Review decisions	
Page 621	Remove "DR Humphrey [(1970) HKTC 451]".

Part B: Technical Update

- Chapter 1** **DIPN No.40 (Revised)** was issued in August 2010.
(Relevant to section 4.5 on page 17. Also applies to pages 131 and 176)
- Chapter 2** ***CIR v. Roderick John Sutton, Joint and Several Liquidator of Moulin Global Eyecare Trading Ltd [2010] 4 HKLRD 283***
A tax assessment is held to be final and conclusive under s70, even if the liquidator considers that the accounts of the company were not real and did not disclose true profits.
(Add to the Appendix on page 78)
- Kinco Investment Holding Ltd v. CIR***
A Judicial Review application against the CIR's decision to require the taxpayer to purchase a tax reserve certificate for conditional holdover of tax and the CIR's refusal to grant an unconditional holder.
The taxpayer's application was dismissed.
(Add to the Appendix on page 78)
- Board of Review Case D17/08***
The Board's provided its view on whether proceedings under s82A involved the determination of a criminal charge as considered in *Koon Wing Yee v. Insider Dealing Tribunal CACV 358 and 360 of 2005*.
(Relevant to section 7.6 on page 65)
- Chapter 3** ***CIR v. C G Lighting Limited [2010] 3 HKLRD 110***
The Court of First Instance allowed the appeal and held that the profit-producing transactions of the taxpayer consisted of the acquisition of the finished goods from its PRC subsidiary and the on-selling of the same to its customers. The manufacturing activities carried out in the PRC were antecedent or incidental to the taxpayer's profit-producing transactions.
(Add to Appendix 1 on page 202)
- Answers to self-test questions** **DIPN No.21 (Revised)**
The IRD updated its view on commission income or profit that accrues to a "re-invoicing centre" in paragraphs 27 to 28 of DIPN No.21 (Revised).
(Relevant to Answer 2 on page 211)

Chapter 8 Special Stamp Duty (SSD)

The Government has proposed to amend the Stamp Duty Ordinance to introduce an additional stamp duty, known as SSD, on disposal of residential properties which were acquired by the vendor on or after 20 November 2010 and resold within 24 months of acquisition.

SSD is calculated based on the stated consideration or the market value, whichever is higher, at the following rates depending on the holding period:

- If held for 6 months or less 15%
- If held for more than 6 months
but for 12 months or less 10%
- If held for more than 12 months
but for 24 months or less 5%

Please refer to the IRD's website for more details:

Introduction to Special Stamp Duty (SSD)

<http://www.ird.gov.hk/eng/faq/ssdintro.htm>

Illustrative examples of the application and computation of SSD

<http://www.ird.gov.hk/eng/faq/ssdexample.htm>

(Relevant to section 2.1 on page 351)

Chapter 13

"Taxation Administration Review Regulations" [2010] No.21 issued by the State Administration of Taxation (SAT) on 10 February 2010 which became effective from 1 April 2010.

The references to the Articles have therefore changed as follow:

- The scope of the tax administrative review is now in Article 14 instead of Article 8
- The right to institute legal proceedings with the People's court is now in Article 6 instead of Article 22

(Relevant to section 4.2 on page 535 and section 4.3 on page 536)