

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.

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 and disposal of property, plant and equipment
- Depreciation allowance and commercial building allowance
- Interest income and interest expense
- Salaries, interest and rent to partners
- MPF contributions for staff and partners
- Allocation of partnership profit/loss (LP chapter 3, section 12.3)

Sample Profits Tax Computation

	<u>HK\$</u>	<u>HK\$</u>
Profit before tax		xxxx
Add: Non-deductible items (eg. Acc Depreciation)	xxx	
Taxable items (not included in A/Cs)	<u>xxx</u>	xxxx
Less: Non-taxable items	xxx	
Deductible items (not included in A/Cs)	<u>xxx</u>	(xxx)
Add: Balancing charges		xxx
Less: Depreciation allowance/balancing allowance		(xxx)
Assessable profits		<u>xxxx</u>

<u>Sample Allocation of Profits</u>	<u>Peter</u>	<u>Paul</u>	<u>Mary</u>	<u>Total</u>
	HK\$	HK\$	HK\$	HK\$
Salary	xxxx	xxxx	xxxx	xxxxx
Interest on loan	xxxx	xxxx	xxxx	xxxxx
Share of profits	<u>xxxx</u>	<u>xxxx</u>	<u>xxxx</u>	<u>xxxxx</u> (bal fig.)
Assessable profits (AP)	xxxx	xxxx	xxxx	xxxxx
Transfer to Personal Assessment (PA)	<u>(xxx)</u>	<u>(xxx)</u>	<u>(xxx)</u>	<u>(xxx)</u>
AP after transfer to PA	<u>xxxx</u>	<u>xxxx</u>	<u>xxxx</u>	<u>xxxx</u>

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 their 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 see these issues from different perspectives.

Main topics discussed

- Gain on disposal of property – Trade versus investment
- Badges of Trade (LP chapter 3, section 2.1)
- Other relevant factors to determine if carrying on a trade
- Source of trading profit from internet business (DIPN 21 and 39)
- Broad guiding principle (LP chapter 3, section 4.1)

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 possible tax liability of an individual.

Main topics discussed

- Salaries tax computation (LP chapter 5, section 7.3)
- Time apportionment
- Share-based benefits
- Housing benefit
- Holiday warrant and other fringe benefits
- Outgoing and expenses
- Personal allowances
- Individual tax return

Sample time apportionment calculation

Number of days attributable to services provided in Hong Kong

$$\text{No. of days in HK} + \left[\text{Leave Days} \times \frac{\text{Working days in HK}}{\text{Total working days}} \right] = \text{X}$$

Income attributable to services provided in Hong Kong

$$= \text{Income} \times \frac{\text{X}}{\text{Total days in the year}}$$

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 their particular facts and circumstances.

Main topics discussed

- Location of employment (DIPN 10)
- 60 days rule
- Taxable and non-taxable fringe benefits (DIPN 16)
- Estimated assessments
- Termination payments