
Answers

1 (a)

Mr and Mrs Sham
 Personal Assessment – Year of Assessment 2003/04

	\$	\$
Mr Sham		
Salary		980,000
Less: Exemption on PRC income		<u>150,000</u>
		830,000
Bonus		40,000
Cost of petrol reimbursed		9,000
Tour coupon purchased by employer		<u>10,000</u>
		889,000
<i>Add:</i>		
Value of quarters		
(\$889,000 – \$2,500) x 10% – (\$30,000 – \$28,000) x 12		64,650
Share option gain (\$10 x 1,000 shares) – \$3,000		<u>7,000</u>
		960,650
Assessable Income		960,650
Less: Annual membership fee		<u>2,500</u>
		958,150
Mrs Sham		
Net Assessable Value (\$200,000 x 80% x 2)	320,000	
Less: Mortgage interest		
[\$150,000 + (\$200,000 x 80%) restricted]	<u>310,000</u>	
	10,000	
Business loss	<u>(200,000)</u>	(190,000)
		768,150
<i>Less:</i>		
Charitable donations	40,000	
Married person's allowance	208,000	
Child allowance (1)	30,000	
Dependent parent allowance (1)	30,000	
Additional dependent parent allowance (1)	<u>30,000</u>	338,000
		430,150
		<u>430,150</u>
	Tax payable thereon:	
	\$32,500 at 2%	650
	\$32,500 at 7.5%	2,437
	\$32,500 at 13%	4,225
	\$332,650 at 18.5%	<u>61,540</u>
		68,852

(b) By electing for personal assessment Mr and Mrs Sham:

- have obtained relief in full for Mrs Sham's business loss and charitable donations in the current year; and
- avoided the loss of any personal reliefs.

(c) At any time in the year of assessment 2003/04, the parent must be ordinarily resident in Hong Kong and aged 60 or more or if less than 60, must be eligible to claim an allowance under the Government Disability Allowance Scheme. Furthermore, the taxpayer must have maintained the parent during that year. A parent is maintained by a taxpayer if the latter resided with the parent for at least a continuous period of six months in that year or contributed not less than \$12,000 towards the maintenance of the parent.

- 2 (a) An assessment becomes final and conclusive under the Inland Revenue Ordinance if:
- there has been no valid objection or appeal lodged;
 - an appeal to the Board of Review has been withdrawn or dismissed;
 - an objection has been settled by agreement; or
 - the assessment has been determined on objection or appeal.
- (b) (i) An assessor may raise an additional assessment within the year of assessment or within six years after the end of the year of assessment concerned.
- (ii) Where the non-assessment or under-assessment is due to fraud or willful evasion, the time limit is extended to 10 years after the year of assessment.
- (iii) In the case of a deceased person, the additional assessment in respect of a period prior to the date of death must be made within one year from the date of death or within one year from the date of filing any affidavit required under the Estate Duty Ordinance, whichever is the later.
- (c) (i) Ms Lam: $\$100,000 \times 1/2 = \$50,000$
- (ii) Mr Hui: NIL. The premium paid did not constitute an acquisition of a new dwelling. The premium was not a payment for the acquisition of his flat under the Home Ownership Scheme.
- (iii) Mr Yeung: $\$90,000 \times 1/2 = \$45,000$
- (iv) Mr Yung: NIL. The flat in Lantau Island was not used as a place of residence for Mr Yung at any time during the year ended 31 March 2004.

3 (a)

Fingo Ltd
Profits Tax Computation – Year of assessment 2003/04
Basis Period: Year ended 31 March 2004

	\$	\$
Profit per account		1,435,000
<i>Add:</i>		
Depreciation	42,000	
Loss on disposal of fixed assets	12,000	
Stock revaluation on LIFO basis	37,500	
Tax paid (\$54,000 + \$8,000)	62,000	
Bad debts (\$19,000 + \$12,500)	31,500	
Annual contribution to MPF scheme [$\$80,000 - (\$80,000 \times 15/20)$]	20,000	
Special contribution to MPF scheme ($\$40,000 \times 4/5$)	32,000	
Donations	40,000	
Renovations ($\$450,000 \times 4/5$)	360,000	
Legal fees ($\$50,000 + \$67,500 + \$12,500 + \$5,000$)	135,000	
Exchange loss on year-end conversion	56,400	
Purchase of patent	350,000	
	1,178,400	2,613,400
<i>Less:</i>		
Dividends received	350,000	
Rental income	50,000	
Gain on disposal of patent	1,000,000	
Interest income ($\$35,000 + \$25,000$)	60,000	
Compensation ($\$12,000 + \$8,000$)	20,000	
	1,480,000	1,480,000
Adjusted profits		1,133,400
<i>Less:</i>		
Depreciation allowance		321,500
		811,900
<i>Less:</i>		
Donations		25,000
		786,900
Tax payable thereon at 17.5%		137,707

- (b) The interest incurred is deductible because the money was borrowed by Hingo Ltd wholly and exclusively to finance the purchase of trading stock in the production of profits chargeable to profits tax. The money was neither borrowed from an associate of Hingo Ltd nor from the trustee of a trust estate or a corporation under which the trustee, the corporation or the beneficiary under the trust was an associate of Hingo Ltd.

- 4 (a) (i) Any two of the following:
- for the purposes of a trade carried on in a mill, factory or similar premises;
 - for the purposes of a transport, tunnel, dock, water, gas or electricity undertaking or a public telephone or telegraph service;
 - for the purposes of a trade consisting of the manufacture or processing of goods or materials;
 - for the purposes of a trade which consists in the storage of:
 - goods or materials which are to be used in the manufacture of other goods and material,
 - goods or materials which are to be subjected to any process in the course of a trade, or
 - goods or materials on their arrival into Hong Kong;
 - for the purposes of a farming business; or
 - for the purposes of scientific research in relation to any trade, profession or business.

(ii) Since 1 August 2003, the non-qualifying portion of the building (i.e. general office and show room) exceeded the 10% limit of the allowable non-qualifying use of an industrial building, an adjustment of 3/15 will be applied to the cost of construction to exclude the amount of non-qualifying expenditure. The calculation of the industrial building allowance will be based on the remaining portion, namely, 12/15 of the total cost of construction. However, a commercial building allowance will be granted to the non-qualifying portion.

(iii) Year of assessment 2002/03
 Industrial building allowance: $\$3,900,000 \times 4\% = \$156,000$
 Year of assessment 2003/04
 Industrial building allowance: $\$3,900,000 \times 12/15 \times 4\% = \$124,800$
 Commercial building allowance: $\$3,900,000 \times 3/15 \times 4\% = \$31,200$

	10% pool	20% pool	30% pool	H.P. (30%)	Total
	\$	\$	\$	\$	\$
Written down value b/f	1,258,000	600,000	400,000		
Additions			90,000	240,000	
Less: Initial allowance (60%)			54,000	76,800	130,800
	1,258,000	600,000	436,000	163,200	
Add: Transfer of motor car			61,740		
	1,258,000	600,000	497,740	163,200	
Less: Disposals		550,000	50,000		
Transfer of assets	1,258,000				
	NIL	50,000	447,740	163,200	
Less: Annual allowance		10,000	134,322	48,960	193,282
Written down value c/f	NIL	40,000	313,418	114,240	
					<u>324,082</u>

(1) Initial allowance for lorry acquired under hire purchase:

	\$
Down payment ($\$240,000 \times 20\%$)	48,000
Instalment payments [$\$240,000 - \$48,000$] \div 24] \times 10	80,000
	<u>128,000</u>
Initial allowance at 60%	<u>76,800</u>

(2) Motor car transferred from Mr Ling:

	\$
Cost	180,000
Less: Notional allowance for years 2000/01 to 2002/03	118,260
Value transferred to 30% pool	<u>61,740</u>

- (ii)** The interest incurred is deductible because the money was borrowed by Fingo Ltd wholly and exclusively to finance the purchase of trading stock in the production of profits chargeable to profits tax. The money was neither borrowed from an associate of Fingo Ltd nor from the trustee of a trust estate or a corporation under which the trustee, the corporation or the beneficiary under the trust was an associate of Lingo Ltd.

	Marks
1 (a) Mr and Mrs Sham – 2003/04 Personal Assessment	
Salary	1
Exemption on PRC income	1
Bonus	1
Cost of petrol reimbursed	1
Tour coupon purchased by employer	1
Value of quarters	2.5
Share option gain	1.5
Annual membership fee	1
Net assessable value	1.5
Mortgage interest	2.5
Business loss	1
Charitable donations	1
Married person's allowance	1
Child allowance	2
Dependent parent allowance	2
Additional parent allowance	1
No adjustment for non-cash benefit	1
Tax payable	1
	<hr/> 24
(b) Why beneficial to elect for personal assessment	
Business loss	1
Donations	1
Personal reliefs	1
	<hr/> 3
(c) Dependent parent allowance	
Ordinarily resident in Hong Kong	1
Aged 60 or more	1
If less than 60, eligible to claim disability allowance	1
Maintained by taxpayer	1
Resided with parent for at least six months	1
Contributed not less than \$12,000	1
	<hr/> 6
	<hr/> 33 <hr/>

		Marks
2	(a) Final and conclusive of an assessment	
	1 mark for each point	4
	(b) Time limit for raising additional assessments	
	Within the year of assessment	1
	Or within six years after the end of assessment concerned	1
	For willful evasion, extended to 10 years	1
	For deceased cases, within one year from date of death	1
	Or within one year from the date of filing affidavit	1
		<hr style="width: 100%; border: 0.5px solid black;"/> 5
	(c) (i) 2 marks for the answer	2
	(ii) Nil	1
	Did not constitute an acquisition of dwelling	1
	(iii) 2 marks for the answer	2
	(iv) Nil	1
	Not used as a place of residence	1
		<hr style="width: 100%; border: 0.5px solid black;"/> 8
		<hr style="width: 100%; border: 0.5px solid black;"/> 17

		Marks
3	(a) Fingo Ltd – 2003/04 profits tax	
	Depreciation	0.5
	Loss on disposal of fixed assets	0.5
	Stock revaluation	1
	Tax paid (1 mark for each item)	2
	Bad debts (1 mark for each item)	2
	Annual contribution to MPF	1.5
	Special contribution to MPF	1.5
	Donations	1
	Renovations	1.5
	Legal fees (1 mark for each item)	4
	Exchange loss on conversion	1
	Purchase of patent	1.5
	Dividends received	1
	Rental income	1
	Gain on disposal of patent	1
	Interest income (1 mark for each item)	2
	Compensation (1 mark for each item)	2
	Allowable donations deduction	0.5
	Depreciation allowance	1
	Tax payable	0.5
		<u>27</u>
	(b) Whether interest expense deductible	
	Deductible	1
	Wholly and exclusively to finance the purchase of trading stock	1
	In the production of profits chargeable to profits tax	1
	Not borrowed from associate	1
		<u>4</u>
		<u>31</u>
4	(a) (i) Qualifying purposes of an industrial building	
	1 mark for any two qualifying purposes	2
	(ii) Tax treatment after 1 August 2003	
	General office and showroom exceeded 10% limit	1
	Adjustment of 3/15 to exclude non-qualifying expenditure	1
	Apply 12/15 to calculate qualifying expenditure	1
	Granted commercial building allowance to non-qualifying portion	1
	(iii) 1 mark for each correct figure calculated	<u>3</u>
		<u>9</u>
	(b) Depreciation allowances – 2003/04	
	Additions to pool asset and HP asset (0.5 mark each)	1
	Initial allowance for pool asset	0.5
	Initial allowance for HP asset	2
	Transfer of motor car	1.5
	Disposals of pool assets (0.5 mark each)	1
	Transfer of assets to associated company	2
	Annual allowance (0.5 mark each)	1.5
	Total allowances calculated	0.5
		<u>10</u>
		<u>19</u>