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# Answers

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1 (a) Mr Lau's Salaries Tax Assessment – 2004/05

	\$	\$
Salary		400,000
Commission		150,000
School fee		<u>63,000</u>
		613,000
Add: Value of quarters (\$613,000 – \$1,000 – \$43,200) x 10%		<u>56,880</u>
Assessable Income		669,880
Less: Membership fee		1,000
Depreciation allowance of motor car		<u>43,200</u>
Net Assessable Income		625,680
Less: Basic allowance	100,000	
Child allowance	<u>60,000</u>	<u>160,000</u>
Net Chargeable Income		<u>465,680</u>
	Tax payable thereon:	
	\$30,000	at 2%      600
	\$30,000	at 8%      2,400
	\$30,000	at 14%     4,200
	<u>\$375,680</u>	at 20% <u>75,136</u>
		<u>82,336</u>

Depreciation allowance of motor car

	\$	\$
Cost of motor car	200,000	
Less: I.A.	<u>120,000</u>	120,000
	80,000	
Less: A.A.	<u>24,000</u>	24,000
Cost c/f	<u>56,000</u>	
		144,000
Less: Private use (70%)		<u>100,800</u>
Depreciation allowance		<u>43,200</u>

Mrs Lau's Salaries Tax Assessment – 2004/05

	\$	
Salary	220,000	
Housing allowance	<u>36,000</u>	
	256,000	
Less: Basic allowance	<u>100,000</u>	
Net Chargeable Income	156,000	
	Tax payable thereon:	
	\$30,000	at 2%      600
	\$30,000	at 8%      2,400
	\$30,000	at 14%     4,200
	<u>\$66,000</u>	at 20% <u>13,200</u>
		<u>20,400</u>

**(b) Mr Hui's Assessable Income – 2002/03**

Salary from the Hong Kong Government from 01.06.2002 to 30.11.2002 (\$15,000 x 6) \$90,000

**Mr Hui's Assessable Income – 2003/04**

Assessable Income Exempt

Notes

1. Income from the shipping company is exempt under section 8(2)(j) as Mr Hui was not present in Hong Kong for more than 60 days in the basis period and 120 days over two consecutive basis periods, including that of the year concerned:

Year of assessment	Number of days present in Hong Kong
2002/03	43
2003/04	<u>60 (i.e. 80 – 20)</u>
	<u>103</u>

2. During the year of assessment 2003/04, although Mr Hui's ship stayed in Hong Kong for 80 days, Mr Hui himself only spent 60 days in Hong Kong. For section 8(2)(j) purposes, only 60 days are to be taken into account.
3. The presence during 01.06.2002 to 30.11.2003 is not to be taken into account for the purpose of section 8(2)(j) because during this period Mr Hui did not derive his income as a seafarer.

**Mr Hui's Assessable Income – 2004/05**

Assessable Income Exempt

Notes

1. As the conditions under section 8(2)(j) are again fully satisfied the income from the shipping company is exempt from salaries tax.

Year of assessment	Number of days present in Hong Kong
2003/04	60 (i.e. 80 – 20)
2004/05	<u>60</u>
	<u>120</u>

**2 (a) Property A**

	Year of assessment	
	2003/04	2004/05
Rent (\$12,000 x 12)	\$144,000	\$144,000
Premium	12,000	2,000
	<u>156,000</u>	<u>146,000</u>
Less: Rates (\$1,200 x 4)	4,800	4,800
	<u>151,200</u>	<u>141,200</u>
Less: Statutory deduction	30,240	28,240
	<u>120,960</u>	<u>112,960</u>
Tax rate	15.5%	16%
Property tax payable	<u>\$18,748</u>	<u>\$18,073</u>

Apportionment of premium:

The premium is deemed to be payable in 36 monthly instalments commencing from 01.06.2001.

Portion related to the years of assessment 2003/04 and 2004/05:

01.04.2003 to 31.03.2004 = \$36,000 x 12/36 = \$12,000

01.04.2004 to 31.05.2004 = \$36,000 x 2/36 = \$2,000

## Property B

	Year of assessment	
	2003/04	2004/05
Rent (\$14,000 x 12/\$11,000 x 12)	\$168,000	\$132,000
Premium	18,000	18,000
Additional premium	—	18,000
	<hr/>	<hr/>
	186,000	168,000
Less: Statutory deduction	37,200	33,600
	<hr/>	<hr/>
Net Assessable Value	148,800	134,400
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Tax rate	15.5%	16%
Property tax payable	\$23,064	\$21,504
	<hr/>	<hr/>

Apportionment of initial premium:

The premium is deemed to be payable in 36 monthly instalments commencing from 01.04.2002.

Portion related to the years of assessment 2003/04 and 2004/05:

01.04.2003 to 31.03.2004 = \$54,000 x 12/36 = \$18,000

01.04.2004 to 31.05.2005 = \$54,000 x 12/36 = \$18,000

Apportionment of additional premium:

The premium is deemed to be payable in 24 monthly instalments commencing from 01.04.2004.

Portion related to the years of assessment 2003/04 and 2004/05:

01.04.2003 to 31.03.2004 = Nil

01.04.2004 to 31.05.2005 = \$36,000 x 12/24 = \$18,000

## Property C

	Year of assessment	
	2003/04	2004/05
Rent (\$18,000 x 12/\$16,000 x 11)	\$216,000	\$176,000
Monthly charge (\$500 x 11)	—	5,500
	<hr/>	<hr/>
	216,000	181,500
Less: Rates (\$1,300 x 4)	5,200	5,200
Irrecoverable rent (\$18,000 x 3)	—	54,000
	<hr/>	<hr/>
	210,800	122,300
Less: Statutory deduction	42,160	24,460
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	168,640	97,840
	<hr/>	<hr/>
Tax rate	15.5%	16%
Property tax payable	\$26,139	\$15,654
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(b) Any person who without reasonable excuse –

- (1) makes an incorrect return by omitting or understating anything in respect of which he is required by the Inland Revenue Ordinance to make a return; or
- (2) makes an incorrect statement in connection with a claim for any deduction or allowance under the Inland Revenue Ordinance; or
- (3) gives any incorrect information in relation to any matter affecting his own or other person's tax liability; or
- (4) fails to submit a tax return by the due date; or
- (5) fails to notify the Commissioner of Inland Revenue of his chargeability to tax

shall be liable to additional tax, provided that no prosecution has been instituted by the Commissioner of Inland Revenue in respect of the same facts.

The maximum amount of additional tax is treble the amount of tax which –

- (1) has been undercharged in consequence of the incorrect return, statement or information, or would have been so undercharged if the return etc. had been accepted as correct; or
- (2) has been undercharged in consequence of the failure to submit the tax return or a failure to notify tax liability, or which would have been undercharged if such failure had not been detected.

Fota Limited  
 Profits Tax Computation – Year of assessment 2004/05  
 Basis Period : Year ended 31 March 2005

	\$	\$
Profit per accounts		12,947,500
<i>Add:</i>		
Amortisation of factory	100,000	
Depreciation	40,000	
Purchase of trade mark	700,000	
Bad debts	180,000	
Initial contribution to occupational retirement scheme (\$300,000 x 4/5)	240,000	
Annual contribution to occupational retirement scheme re: General manager [\$40,000 – (\$200,000 x 15%)]	10,000	
Donations	2,500,000	
Legal fees (\$20,000 + \$25,000)	45,000	
	<u>3,815,000</u>	
		<u>16,762,500</u>
<i>Less:</i>		
Offshore manufacturing profits (\$5,000,000 – \$2,000,000) x 50%	1,500,000	
Dividends	800,000	
Interest income (\$250,000 + \$450,000)	700,000	
Rental income	250,000	
Sale of trade mark	500,000	
Interest on tax reserve certificate	5,000	
	<u>3,755,000</u>	
Adjusted profits		<u>13,007,500</u>
<i>Less:</i>		
Allowable donations	2,000,000	
Industrial building allowance (see below)	1,400,000	
Depreciation allowance	340,000	
	<u>3,740,000</u>	
Assessable profits		<u>9,267,500</u>
<i>Less:</i> Loss brought forward		<u>200,000</u>
Net Assessable profits		<u>9,067,500</u>
Tax payable thereon at 17.5%		<u>1,586,812</u>

**Industrial building allowance**

Qualifying expenditure:	
Architect's fee	\$500,000
Cost of construction to date	\$6,500,000
	<u>\$7,000,000</u>
	<u>\$1,400,000</u>
Initial allowance at 20%	<u>\$1,400,000</u>

**4 (a) (i) Red Company Ltd:**

Year of assessment 2004/05

Basis period: 01.07.2003 to 30.06.2004

Assessable profits = \$180,000 + (\$180,000 x 6/12)  
= \$270,000

Year of assessment 2003/04

Basis period: 01.07.2002 to 30.06.2003

Assessable profits = (\$180,000 x 6/12) + (\$300,000 x 6/12)  
= \$240,000

**(ii) Yellow Company Ltd:**

Year of assessment 2004/05

Basis period: 01.07.2003 to 31.03.2005

Assessable profits = \$350,000 + \$400,000  
= \$750,000

Year of assessment 2003/04

Basis period: 01.07.2002 to 30.06.2003

Assessable profits = \$300,000

- (b) (i)** The application shall be made within two years after the end of the year of assessment in which the payment is made.
- (ii)** The revocation in writing shall be made within six months after the date on which the deduction is allowed by the Commissioner of Inland Revenue.
- (iii)** An application requiring the Board of Review to state a case on a question of law for the opinion of the Court of First Instance of the High Court shall be delivered to the Clerk to the Board of Review within one month from the date of the board's decision.
- (iv)** The application shall be made within six years after the end of that year of assessment or within six months after the date on which the relevant notice of assessment was served, whichever is the later.
- (v)** A claim for refund of tax overpaid for a particular year of assessment shall be made within six years of the end of that year of assessment or within six months after the date on which the relevant notice of assessment was served, whichever is the later.
- (vi)** An application for holding over of provisional profits tax shall be lodged with the Commissioner of Inland Revenue not later than 28 days before the day by which the provisional tax is to be paid.





		Marks
<b>1</b>	<b>(a) Mr Lau's Salaries Tax Assessment</b>	
	Salary	0.5
	Commission	0.5
	School fee	1
	No adjustment of cost of seminar	1
	Value of quarters	2
	Membership fee	1
	No adjustment for sports club fee	1
	No adjustment for interest free loan	1
	Depreciation allowance	2
	Basic allowance	1
	Child allowance	1
	Tax payable	0.5
	 <b>Mrs Lau's Salaries Tax Assessment</b>	
	Salary	0.5
	Housing allowance	1
	No adjustment of payment in lieu of notice	1
	Basic allowance	0.5
	Tax payable	0.5
		<hr/> 16
	<b>(b) Mr Hui's Assessable Income</b>	
	Assessable income for 2002/03	1
	Calculation under section 8(2)(j) for 2002/03	1
	Period of taking holiday overseas not counted	1
	Period of civil service not counted	1
	Assessable income for 2003/04 and 2004/05 (1 mark each)	2
	Calculation under section 8(2)(j) for 2003/04 and 2004/05 (1 mark each)	2
		<hr/> 8
		<b>24</b>
		<hr/>
<b>2</b>	<b>(a) Property A</b>	
	Rent for 2003/04 and 2004/05 (1 mark each)	2
	Premium for 2003/04 and 2004/05 (1 mark each)	2
	Rates for 2003/04 and 2004/05 (0.5 mark each)	1
	Statutory deduction for 2003/04 and 2004/05 (0.5 mark each)	1
	Tax payable for 2003/04 and 2004/05 (0.5 mark each)	1
	<b>Property B</b>	
	Rent for 2003/04 and 2004/05 (1 mark each)	2
	Premium for 2003/04 and 2004/05 (1 mark each)	2
	Additional premium for 2004/05	1
	No deduction of rates for 2003/04 and 2004/05 (0.5 mark each)	1
	Statutory deduction for 2003/04 and 2004/05 (0.5 mark each)	1
	Tax payable for 2003/04 and 2004/05 (0.5 mark each)	1
	<b>Property C</b>	
	Rent for 2003/04 and 2004/05 (1 mark each)	2
	Monthly charge	1
	Rates for 2003/04 and 2004/05 (0.5 mark each)	1
	Irrecoverable rent	1
	Statutory deduction for 2003/04 and 2004/05 (0.5 mark each)	1
	Tax payable for 2003/04 and 2004/05 (0.5 mark each)	1
		<hr/> 22
	<b>(b) Additional tax under s.82A</b>	
	Conditions (1) to (5) (1 mark each)	5
	No prosecution has been instituted	1
	Treble amount of tax under (1) and (2) (1 mark each)	2
		<hr/> 8
		<b>30</b>
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	<b>Marks</b>
<b>3 Fota Limited – 2004/05 Profits Tax</b>	
Amortisation of factory	1
Depreciation	1
Purchase of trade mark	1
Bad debts	1
Initial contribution	1.5
Annual contribution	1.5
Donations	1
Legal fees (1 mark each)	2
Offshore manufacturing profits	2
Dividends	1
Interest income (1 mark each)	2
Rental income	1
Sale of trade mark	1
Interest on tax reserve certificate	1
Allowable donations	1
Industrial building allowance	2
Depreciation allowance	1
Loss brought forward	1
Tax payable	1
	<u><b>24</b></u>
<b>4 (a) (i) Red Company Ltd</b>	
Basis period for 2003/04 and 2004/05 (1 mark each)	2
Assessable profits for 2003/04 and 2004/05 (1.5 marks each)	3
<b>(ii) Yellow Company Ltd</b>	
Basis period for 2003/04 and 2004/05 (1 mark each)	2
Assessable profits for 2003/04 and 2004/05 (1.5 marks each)	3
	<u>10</u>
<b>(b) Time limit</b>	
2 marks for each time limit correctly mentioned	12
	<u><b>22</b></u>