
Answers

- 1 (a) An individual who is of or above the age of 18 years, or under that age if both his parents are dead; and who or whose spouse is either a permanent or temporary resident may elect for personal assessment. The election shall be made within two years after end of the relevant year of assessment or one month after an assessment for the year of assessment has become final and conclusive, whichever is the later.
- (b) A husband and wife shall be deemed to be living apart when they are living apart:
- (i) under a decree or order of a competent court in or outside Hong Kong;
 - (ii) under a duly executed deed of separation or any instrument of similar effect; or
 - (iii) in such circumstances that the Commissioner is of the opinion the separation is likely to be permanent.

(c) (i) Mr Yim's personal assessment – 2005/06

	\$
Salary income	50,000
Business profits	540,000
Assessable value (80% of rental income)	44,800
	634,800
Less: Business loss	38,000
Mortgage interest	34,000
	562,800
Less: Home loan interest	23,400
Charitable donations	24,600
Basic allowance	100,000
	414,800
	414,800
	Tax payable thereon:
\$30,000 at 2%	600
\$30,000 at 8%	2,400
\$30,000 at 14%	4,200
\$324,800 at 20%	64,960
	72,160
	72,160

Mrs Yim's personal assessment – 2005/06

	\$
Salary income	30,000
Assessable value (80% of rental income)	43,200
	73,200
Less: Business loss	85,000
Mortgage interest (restricted)	43,200
	(55,000)
Loss for the year and carried forward	(55,000)

(ii) Mr and Mrs Yim's personal assessment – 2005/06

	Mr Yim \$	Mrs Yim \$	Total \$	
Salary income	50,000	30,000	80,000	
Business profits	540,000	–	540,000	
Assessable value (80% of rental income)	44,800	43,200	88,000	
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	634,800	73,200	708,000	
Less: Business loss	38,000	85,000	123,000	
Mortgage interest (restricted)	34,000	43,200	77,200	
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	562,800	(55,000)	507,800	
Less: Loss transferred	(55,000)	55,000	0	
	<hr/>	<hr/>	<hr/>	
Reduced income	507,800	0	507,800	
	<hr/>	<hr/>	<hr/>	
Less: Home loan interest			23,400	
Charitable donations (\$24,600 + \$5,900)			30,500	
Married person's allowance			200,000	
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Net chargeable income			253,900	
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			Tax payable thereon:	
			\$30,000 at 2%	600
			\$30,000 at 8%	2,400
			\$30,000 at 14%	4,200
			\$163,900 at 20%	32,780
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				39,980
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2 (a) A taxpayer may apply for holdover of provisional property tax within 28 days before the tax due date or 14 days after the date of the notice of payment of provisional property tax, whichever is the later, on the grounds that:

- (i) the assessable value for that year is or is likely to be less than 90% of the assessable value for the preceding year of assessment; or
- (ii) he or she has ceased, or will before the end of that year of assessment, cease to own the property and the assessable value of that year of assessment is or is likely to be less than the sum on which the charge has been made; or
- (iii) he or she has elected for personal assessment which is likely to reduce his or her liability to tax, or
- (iv) a valid objection has been lodged against the assessment to property tax for the year preceding that year of assessment.

(b) Mr Wong's property tax assessment – 2004/05

	\$
Rental income (\$7,000 × 9)	63,000
Lease premium (\$136,800 × $\frac{9}{36}$)	34,200
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	97,200
Less: Rates (\$6,800 × $\frac{9}{12}$)	5,100
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	92,100
Less: Statutory deduction (20%)	18,420
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Net assessable value	73,680
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Property tax payable at 16%	11,789
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Mr Wong's property tax assessment – 2005/06

	\$
Rental income (\$7,000 × 12)	84,000
Lease premium (\$136,800 × $\frac{12}{36}$)	45,600
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	129,600
Less: Rates	6,800
	<hr/>
	122,800
Less: Statutory deduction (20%)	24,560
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Net assessable value	98,240
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Property tax payable at 16%	15,718

(c) Wong's Ltd's profits tax assesment – 2004/05

	\$
Rental income (\$7,000 × 9)	63,000
Lease premium	136,800
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	199,800
Less: Rates	6,800
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Assessable profits	193,000
	<hr/>
Profits tax payable at 17.5%	33,775

Wong's Ltd's profits tax assessment – 2005/06

	\$
Rental income (\$7,000 × 12)	84,000
Less: Rates	6,800
Repairs	7,300
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Assessable profits	69,900
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Profits tax payable at 17.5%	12,232

3 (a)

Prosperity Ltd
Profits tax computation – Year of assessment 2005/06
Basis period: Period ended 31 December 2005

	\$	\$
Profits per accounts		726,900
Add: Interest expense to a creditor	99,000	
Donations to approved charities	80,000	
Loss on exchange	7,600	
Bad debts – general provision	44,000	
Initial contributions to retirement fund [$\$250,000 \times \frac{4}{5}$]	200,000	
Depreciation	77,000	
	<hr/>	507,600
		<hr/>
		1,234,500
Less: Profit on sale of office building	130,000	
Interest income	19,000	
Depreciation allowances on plant and machinery	231,000	
Industrial building allowance*	240,000	
Commercial building allowance**	72,160	
	<hr/>	692,160
		<hr/>
Adjusted profits		542,340
Less: Donations to approved charities		80,000
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Assessable profits		462,340
		<hr/>
Tax payable thereon at 17.5%		80,910

* Industrial building allowance:

$$[(\$1,500,000 \times \frac{2}{3}) \times 20\%] + [(\$1,500,000 \times \frac{2}{3}) \times 4\%] = \$240,000$$

** Commercial building allowance

$$[\$2,340,000 \times 60\% \times 4\%] + [(\$1,200,000 \times \frac{1}{3} \times 4\%)] = \$72,160$$

(b) An 'approved research institute' means:

- (i) any university;
- (ii) any college;
- (iii) any institute, association or organisation which is approved in writing by the Commissioner of Inland Revenue as an institute, association or organisation, for undertaking research and development which is or may prove to be of value to Hong Kong.

The following payments and expenditure incurred on research and development are qualified for deduction under section 16B of the Inland Revenue Ordinance:

- (i) payments to an approved research institute for research and development related to that trade, profession or business;
- (ii) payments to an approved research and development institute, the object of which is the undertaking of research and development related to the class of trade, profession or business to which that trade, profession or business belong; and
- (iii) expenditure on research and development related to that trade, profession or business, including capital expenditure except to the extent that it is expenditure on land or buildings or on alterations, additions or extensions to buildings.

- 4 (a)
- (i) Deductible
 - (ii) Both the acquisition cost and registration fee are deductible
 - (iii) Not deductible but qualifying for commercial building allowance
 - (iv) Not deductible but qualifying for commercial building allowance
 - (v) Not deductible but qualifying for depreciation allowance
 - (vi) Not deductible but qualifying for industrial building allowance
 - (vii) Not deductible but qualifying for depreciation allowance
 - (viii) Not deductible but qualifying for depreciation allowance
 - (ix) Not deductible but qualifying for industrial building allowance
 - (x) Not deductible but qualifying for industrial building allowance

Depreciation allowance schedule

	\$	20% pool \$	\$	30% pool \$	Allowance \$
Balance b/f		246,700		\$276,700	
Additions	26,000		93,000		
Less: I.A. (60%)	15,600	10,400	55,800	37,200	71,400
		257,100		313,900	
Add: Transfer*				41,846	
				355,746	
Less: A.A.		51,420		106,724	158,144
Balance c/f		205,680		249,022	
					229,544

* Transfer of motor vehicle:

	\$
2003/04 Cost	85,400
Less: Notional allowance	25,620
	59,780
2004/05 Less: Notional allowance	17,934
	41,846
Value to be transferred in	41,846

Industrial building allowance schedule

	\$
New industrial building under construction:	
Cost of drainage	210,000
Cost of materials	643,000
Construction workers' wages	457,000
Other construction expenses	161,000
	1,471,000
Qualifying expenditure	1,471,000
Initial allowance at 20%	294,200
	1,158,000
Second-hand industrial building:	
Residual after sale*	1,158,000
Annual allowance at 4%**	50,348
	9,360
Fire escape in the industrial building:	
Qualifying expenditure	39,000
Initial allowance at 20%	7,800
Annual allowance at 4%	1,560
	9,360
Total industrial building allowance (\$294,200 + \$50,348 + \$9,360)	353,908

* Residue after sale:

	\$
2002/03	2,530,000
Qualifying expenditure	2,530,000
Less: I.A. (20%)	506,000
A.A. (4%)	101,200
	1,922,800
2003/04	101,200
Less: A.A. (4%)	101,200
	1,821,600
2004/05	101,200
Less: A.A. (4%)	101,200
	1,720,400
Residue before sale	1,720,400
Less: Balancing allowance (balancing figure)	562,400
	1,158,000

** Annual allowance:

Year of first use –	2002/03
25th year after year of first use	2027/28
1st year of annual allowance to the company	2005/06
Number of years from 2005/06 to 2027/28	23
Annual allowance ($\$1,158,000 \times \frac{1}{23}$)	\$50,348

Commercial building allowance schedule

	\$
Qualifying cost b/f	549,680
Add: Extension to showroom	147,000
Office ceiling lighting points	3,700
	700,380
Qualifying cost c/f	700,380
Annual allowance at 4%	28,015

- (b) (i)** Before making an assessment to additional tax the Commissioner shall cause notice to be given to the person he proposes so to assess which shall:
- (1) inform such person of the alleged offence in respect of which the Commissioner intends to assess additional tax;
 - (2) include a statement that such person has the right to submit written representations to the Commissioner with regard to the proposed assessment to additional tax;
 - (3) specify the date, which shall not be earlier than 21 days from the date of service of the notice, by which representations the person may wish to make must be received.

The Commissioner shall also consider and take into account any representations which he may receive from or on behalf of a person proposed to be assessed to additional tax.

However, if the Commissioner is of the opinion that the person he proposes to assess to additional tax is about to leave Hong Kong, he need not serve the above notice but may assess that person to additional tax straightaway.

- (ii)** The requirements of a valid appeal to the Board of Review against an assessment to additional tax are:
- (1) the notice of appeal must be given within one month after the notice of assessment is given to him (new);
 - (2) the notice must be given in writing to the Clerk to the Board;
 - (3) the notice must be accompanied by the following documents –
 - a copy of the notice of assessment;
 - a statement of the grounds of appeal from the assessment;
 - a copy of the notice of intention to assess additional tax given by the Commissioner; and
 - a copy of any written representations made.

		Marks
1	(a) Personal assessment:	
	Individual	1
	Of or above 18	1
	Under 18 if both parents dead	1
	Permanent or temporary resident in Hong Kong	1
	Within 2 years after the year of assessment	1
	Within 1 month after assessment final and conclusive	1
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	(b) Husband and wife living apart:	
	Under a decree or order of competent court	1
	Under duly executed deed of separation	1
	The separation is likely to be permanent	1
		<hr/> 3 <hr/>
	(c) (i) Mr Yim's personal assessment:	
	Salary	0.5
	Business profits	0.5
	Assessable value	1
	Business loss	1
	Exclusion of excess disposal proceeds	0.5
	Mortgage interest	0.5
	Home loan interest	0.5
	Charitable donations	0.5
	Basic allowance	0.5
	Tax payable	0.5
	Mrs Yim's personal assessment:	
	Salary	0.5
	Assessable value	1
	Exclusion of interest income	0.5
	Business loss	1
	Mortgage interest (restricted)	1
	Loss carried forward	1
		<hr/> 11 <hr/>
	(ii) Mr and Mrs Yim's joint personal assessment:	
	Total salary income	0.5
	Total business profits	0.5
	Total assessable value	0.5
	Total business loss	0.5
	Total mortgage interest	0.5
	Loss transferred	1.5
	Home loan interest	0.5
	Charitable donations	0.5
	Married person's allowance	1
	Tax payable	1
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		<hr/> 27 <hr/>

	Marks
2 (a) Holdover of property tax:	
Timing	2
1 mark for each ground	4
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(b) Mr Wong's property tax assessment – 2004/05	
Rent	1
Premium	1
Rates	1
Statutory deduction	0.5
Tax payable	0.5
Mr Wong's property tax assessment – 2005/06	
Rent	1
Premium	1
Rates	1
Statutory deduction	0.5
Tax payable	0.5
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Wong's Ltd's profits tax assessment – 2004/05	
Rent	1
Premium	1
Rates	1
Tax payable	1
Wong's Ltd's profits tax assessment – 2005/06	
Rent	1
Non-inclusion of premium	1
Rates	1
Repairs	1
Tax payable	1
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	9
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	23
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3 (a) Prosperity Ltd's profits tax computation	
Interest expense	1
Donations to approved charities	1
Loss on exchange	1
Bad debts – general provision	1
Initial contribution to retirement fund	1.5
Depreciation	0.5
Profit on sale of office building	1
Interest income	1
Depreciation allowances on plant and machinery	1
Industrial building allowance	2
Commercial building allowance	2
Donations allowed	1
Tax payable	1
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		Marks
(b) Approved research institute:		
	Any university	1
	Any college	1
	Any institute, association or organisation approved by the Commissioner	1
	For undertaking research and development proved to be of value to Hong Kong	1
	1 mark for each item of payment or expenditure	3
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4	(a) (i) Whether deductible:	
	1 mark each for parts (ii) and (v)	2
	0.5 mark for each of the remaining parts	4
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	(ii) Ddepreciation allowance schedule:	
	0.5 mark for each additions to pool assets	1
	0.5 mark for each I.A. calculated for pool assets	1
	Transfer of asset	1
	0.5 mark for each A.A. calculated for pool assets	1
	Industrial building schedule:	
	0.5 mark or each component of qualifying expenditure for the new building	2
	I.A.	0.5
	No A.A. granted	0.5
	Residual after sale for second-hand building	1.5
	A.A.	1.5
	Qualifying expenditure for fire escape	0.5
	I.A.	0.5
	A.A.	0.5
	Commercial building schedule:	
	Extension to showroom	0.5
	Office ceiling lighting points	0.5
	A.A.	0.5
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		13
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	(b) Formal procedures:	
	1 mark for (1) to (3)	3
	Commissioner shall consider representations	1
	Not to serve notice upon leaving Hong Kong	1
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	Requirements for appeal:	
	1 mark for (1) and (2)	2
	0.5 mark for each document under (3)	2
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