

Fundamentals Level – Skills Module

Taxation (Hong Kong)

Specimen questions for June 2015

This is not a full specimen paper, it is a selection of specimen questions to give an indication of the style of the questions. It includes three multiple choice questions and one long question.

The full exam will consist of the following:

Section A – 15 multiple choice questions for 2 marks each

Section B – Four 10 mark questions and two 15 mark questions

All questions are compulsory.

To see an example of the full specimen exam, please refer to the F6 (UK) Specimen Paper.

The Association of Chartered Certified Accountants

Paper F6 (HKKG)

The ACCA logo consists of the letters 'ACCA' in a bold, white, sans-serif font, centered within a solid black rectangular background.

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SUPPLEMENTARY INSTRUCTIONS

1. Calculations and workings should be rounded down to the nearest HK\$.
2. Apportionments need only be made to the nearest month, unless the law and prevailing practice require otherwise.
3. All workings should be shown when answering Section B.
4. Ignore provisional tax and statutory tax reductions, unless specified otherwise.

TAX RATES AND ALLOWANCES

The following 2014/15 tax rates, allowances and deductions are to be used in answering the questions.

Tax rates

Salaries tax rates:	
First \$40,000	2%
Next \$40,000	7%
Next \$40,000	12%
Remainder	17%
Standard rate	15%
Profits tax rate for corporations	16.5%

Allowances

	\$
Basic allowance	120,000
Married person's allowance	240,000
Single parent allowance	120,000
Child allowance – 1st to 9th child (each)	70,000
– additional allowance in the year of birth (each)	70,000
Dependent parent/grandparent allowance – basic	20,000/40,000
– additional	20,000/40,000
Dependent brother/sister allowance	33,000
Disabled dependant allowance	66,000

Deductions

	\$
Self-education expenses (maximum)	80,000
Home loan interest (maximum)	100,000
Elderly residential care expenses (maximum)	80,000
Contributions to recognised retirement schemes (maximum)	17,500

Depreciation allowance rates

Initial allowance:	
Plant and machinery	60%
Industrial buildings	20%
Annual allowance:	
Computers	30%
Motor cars	30%
Furniture and fixtures	20%
Lifts and air-conditioning plant	10%
Machines	10%–30%
Industrial buildings	4% or formula
Commercial buildings	4% or formula

Section A – ALL 15 questions are compulsory and MUST be attempted

Note: Only three specimen questions provided. For full specimen exam, see F6 (UK) Specimen paper

Please use the grid provided on page two of the Candidate Answer Booklet to record your answers to each multiple choice question. Do not write out the answers to the MCQs on the lined pages of the answer booklet. Each question is worth 2 marks.

1 Mr Chan acquired a property on 1 September 2013. He let it to Mr Woo on 1 October 2013 for a term of two years on the following terms:

- (1) Premium: \$15,000
- (2) Monthly rent: \$7,500
- (3) Quarterly rates: \$450 payable by the tenant
- (4) Monthly management fees: \$750 payable by the tenant to the management company

What is the total property tax payable by Mr Chan for the years of assessment 2013/14 (final) and 2014/15 (provisional)?

- A** \$11,700
- B** \$15,606
- C** \$17,550
- D** \$18,846

2 Mr Wong has four properties:

- (1) A property occupied by Mr Wong's parents
- (2) A property occupied by Mr Wong and his family for vacation purposes
- (3) The principal residence of Mr Wong financed by a mortgage loan obtained from a financial institution
- (4) The principal residence of Mr Wong financed by a mortgage loan obtained from Mr Wong's employer

Which of the above four properties would likely enable Mr Wong to claim a deduction for home loan interest?

- A** 3 only
- B** 3 and 4 only
- C** 2, 3 and 4 only
- D** 1, 2, 3 and 4

3 Hitech Software Publishers is a publisher and distributor of computer software and has been carrying on business in Hong Kong for many years. For the year of assessment 2014/15, it has the following sources of income:

- (1) Profits from the sale of shares quoted on the New York Stock Exchange
- (2) 5% interest charged on overdue trade debts from a customer in Australia
- (3) Unrealised gains arising from conversion of US\$ fixed deposits placed with a Hong Kong bank
- (4) Dividends from quoted shares listed on the Hong Kong Stock Exchange

Which of the above four sources of income is assessable for profits tax purposes?

- A** 2 only
- B** 3 only
- C** 1 and 4
- D** 2 and 3

Section B – ALL SIX questions are compulsory and MUST be attempted

Note: Only one specimen question provided. For full specimen exam, see F6 (UK) Specimen paper

- 1** On 1 April 2014, George Young was appointed as the general manager of Diamond (HK) Ltd (Diamond), a company carrying on business in Hong Kong. George is in charge of Diamond's office in Beijing and starting from May 2014, he has travelled to Hong Kong on a regular basis.

The following information is available in respect of George for the year ended 31 March 2015:

- (1) George's basic salary is \$100,000 per month.
- (2) During the year, George spent nine months in China. The total salary paid for his nine months' services rendered in China was subject to individual income tax in China, and George was required to pay \$200,000 to the Chinese tax authority. This tax was paid and borne by Diamond in April 2015.
- (3) For the month of April 2014 George was given a cash allowance of \$15,000 to cover his accommodation costs. From 1 May 2014 onwards, he was provided with a house owned by Diamond in Beijing, and 5% was deducted from his monthly salary. Diamond also employed an amah for George at a cost of \$2,000 per month and refunded George his utilities bills for the house, which were \$12,000 for the year.
- (4) Diamond provided George with a car and a driver. The car was rented by Diamond at an annual rental of \$36,000. The driver was hired by Diamond at \$3,000 per month. George received a total reimbursement of \$18,000 from Diamond to cover the petrol costs of the car for the year. The Assessor agreed that the extent of private use of the car was 20%.
- (5) On 1 October 2014, George was given an option to purchase 100,000 shares in Diamond (International) Ltd, a company listed on the London Stock Exchange, at a price equivalent to \$15 per share. George paid \$2,000 for the option. The market price of Diamond (International) Ltd shares on 1 October 2014 was \$16 per share. George exercised the option to purchase 50,000 shares on 30 November 2014 when the price of the shares was \$20 per share.
- (6) George purchased a notebook for \$10,000 and used it both for work and private purposes.
- (7) George is studying for a MBA degree at the Tsinghua University, Beijing. During the year, he paid a tuition fee of \$100,000, half of which was reimbursed by Diamond.
- (8) George's wife is a housewife. The couple have two sons, aged 21 and 15. The elder son is attending a full-time masters degree course at a UK university.
- (9) George's mother, aged 68, lives with his family in Beijing. His mother has a Hong Kong identity card and travels frequently to Hong Kong.
- (10) During the year, George contributed \$18,000 to the mandatory provident fund.

All currency amounts are given in Hong Kong dollars.

Required:

- (a) Calculate the Hong Kong salaries tax payable by George Young for the year of assessment 2014/15.** (12 marks)
- (b) Give reasons for the treatment of the items referred to in notes (4), (6) and (7).** (3 marks)

(15 marks)

Answers

Section A

1 C (Rent $\$7,500 \times 6$ + premium $\$15,000 \times 6/24 \times 80\% \times 15\%$ = $\$5,850$ (final) + $\$11,700$ (provisional) = $\$17,550$)

2 B

3 A

Section B

Marks

1 (a)

George Young
Salaries tax assessment
Year of assessment 2014/15

	\$	
Salary (100,000*12)	1,200,000	0·5
Less: Amount charged to income tax in China (100,000*9)	(900,000)	0·5
	300,000	
Refund of utilities bills	12,000	1
Reimbursement of petrol cost (18,000*20%)	3,600	0·5
	315,600	
Rental value [(300,000 + 3,600)*11/12 + 12,000]*10%	29,030	2·5
Less: Rent paid (100,000*11*5%)	(55,000)	0·5
	315,600	
Cash allowance to cover accommodation cost	15,000	1
Share option benefit [(20 – 15)*50,000 – 1,000]	249,000	2
	579,600	
Assessable income	579,600	
Less: Self-education expenses	(50,000)	0·5
	529,600	
Net assessable income	529,600	
Contributions to mandatory provident fund (maximum)	(17,500)	0·5
	512,100	
Married person's allowance	(240,000)	0·5
Child allowance (70,000*2)	(140,000)	0·5
Dependent parent allowance	0	0·5
	132,100	
Net chargeable income	132,100	
Salaries tax payable at progressive rates	10,457	0·5
Salaries tax at standard rate (512,100*15%) is not applicable	76,815	0·5
	87,272	12

(b) Non-taxable/non-deductible items

Note 4. The provision of the car and driver are a non-taxable benefit in kind as they are not convertible into cash.	0·5
The reimbursement of the proportion of petrol costs relating to business use (80%) is an allowable expenditure and so not taxable.	0·5
Note 6. The cost of the notebook is a capital expense. It is therefore precluded from deduction under s.12(1)(a).	0·5
The notebook does not qualify for depreciation allowance under s.12(1)(b), as although it is an item of plant, its use is not essential to the production of assessable income.	0·5
Note 7. The self-education expense (half of the tuition fee) is deductible as the course is offered by a university and is an approved course under s.12(6).	0·5
The reimbursement of a deductible expense (half of the tuition fee) is not taxable.	0·5

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