Answers

Cases are given in the answers for educational purposes. Unless specifically requested, candidates are not required to quote specific case names to obtain the marks. Only the general principles involved are required.

Section A *Marks*

1 D

2 D (1m/5*3 – 500,000) = $100,000

3 A

4 C

5 A

6 C

7 B (50,000 – (30,000*1 / 1 + 0.5)) = $30,000

8 A Assessable income on a time-basis (730,000*200/365) = $400,000
Rental value = (400,000*10% – 12,000) = $28,000
Total assessable income = $428,000

9 D

10 D

11 A ((120,000*12/36 + 22,500*12 + 60,000)*80%*15%) = $44,400

12 B ((16,000 + 2,000)/2 – 2,000) + (30,000*5/20)) = $14,500

13 A

14 D

15 C

2 marks each **30**

Section B *Marks*

1 Merry Ltd

(a) A valid objection may be lodged by:

(1) sending an objection in writing addressed to the Commissioner of Inland Revenue (CIR);

(2) stating precisely the grounds of objection, e.g. the profits being assessed are excessive and estimated;

(3) ensuring that the objection is received by the CIR within one month after the date of the notice of assessment, unless the CIR extends the permitted period or accepts a late objection based on a reasonable cause; and

(4) in the case of an estimated assessment issued in the absence of a proper tax return, the objection will only be valid if the completed tax return, as well as all supporting documents such as audited accounts, is submitted together with the objection. 4

(b) Despite a valid objection being lodged, the taxpayer is still required to pay the tax as assessed according to the payment due date. However, the taxpayer may apply for a hold-over of the 'tax in dispute' pending the decision or settlement of the objection. If the CIR agrees, the hold-over may either be unconditional or conditional. 1

In the case of an unconditional hold-over the tax in dispute will not be payable until the objection is determined. This type of hold-over is usually granted where it is quite obvious that the objection would be allowed (e.g. a mistake has been made by the assessor, or an estimated assessment is likely to be nullified following a proper return being lodged), or where a highly contentious tax or legal issue is involved. However, in the event that the tax does ultimately become payable, the taxpayer will be required to pay interest for the period from the later of the original due date or the date of the hold-over notice to the date that the objection is determined. 1·5

A conditional hold-over can take various forms at the discretion of the CIR, as follows:

(1) The taxpayer is required to purchase a tax reserve certificate (TRC) equivalent to the amount of the tax held over. In the event that the tax finally becomes payable, the TRC will be accepted as settlement of the tax payable but no interest will accrue on the TRC. If the tax is ultimately held to be not payable, the TRC may be redeemed in cash with interest, or replaced with a new TRC not earmarked for objection only. 1

(2) The taxpayer is required to furnish a banker's undertaking. This is usually granted only when the taxpayer has financial difficulty in purchasing a TRC. The bank should undertake to pay the tax plus interest, if the tax held over becomes payable upon settlement of the objection. 1

The assessable profits based on the draft audited accounts and profits tax computation are less than the estimated assessable profits, therefore it is likely that the objection would be accepted and unconditional hold-over granted for the tax in dispute of $49,500 ($330,000 – $280,500). Merry Ltd should expect to receive a notice from the Inland Revenue Department confirming the amount agreed to be held over, the balance of the tax that is payable and the due date of payment. If the assessable profits per the return of $1,700,000 are accepted, a revised assessment will be issued to supersede the earlier estimated assessment and Merry Ltd will be obliged to pay the tax due accordingly. 1·5

6

10

Marks

2 John Ma

Personal assessment computation for the year of assessment 2014/15

	$	Marks
Net assessable income	800,000	0·5
Net assessable value		
– Property A (30,000*12*80%)	288,000	1
– Property B (20,000*80%)	16,000	1
Share of net profits from partnership business ($200,000 – $50,000)	150,000	1·5
Total income	1,254,000	
Less: Deductions		
Mortgage loan interest		
– Property A (limited to net assessable value)	(288,000)	1
Approved charitable donations	(10,000)	0·5
Elderly residential care expenses (maximum)	(80,000)	0·5
Home loan interest (Property C) (maximum)	(100,000)	1
Contributions to mandatory provident fund (maximum)	(17,500)	0·5
Reduced total income	758,500	
Less: Part 5 allowance		
Basic allowance	(120,000)	0·5
Net chargeable income	638,500	

Correct treatment of items that require no adjustment: no dependent parent allowance ($40,000), rental deposit ($60,000), charitable donation of toys ($3,000), charitable donation of distilled water ($2,000).

0·5 mark each 2

10

Marks

3 Mr Ho

Property tax assessment
Year of assessment 2013/14 (original)

	$	Marks
Rent: 1 July 2013 to 31 March 2014 (75,000*9)	675,000	0·5
Premium (135,000*11/36)	41,250	0·5
Less: Rates (12,150*4*11/12)	(44,550)	1
	671,700	
Less: 20% statutory deduction	(134,340)	0·5
Net assessable value	537,360	
Tax at 15%	80,604	0·5

Year of assessment 2014/15 (original)

	$	Marks
Rent: 1 April 2014 to 31 May 2014 (75,000*2)	150,000	0·5
1 February 2015 to 31 March 2015 (45,000*2)	90,000	0·5
Premium (135,000*25/36) + (360,000*2/24)	123,750	1
	363,750	
Less: Irrecoverable rent (75,000*7 – 150,000)	(375,000)	1
Irrecoverable rent carried back	(11,250)	0·5
Net assessable value	Nil	
Tax payable	Nil	0·5

Tutorial note: *Since there was no assessable value in the year of assessment 2014/15, the rates of $8,100 for the months of April and May 2014 were not deductible.*

Year of assessment 2013/14 (revised)

	$	Marks
Rent	675,000	
Premium	41,250	
	716,250	0·5
Less: Irrecoverable rent carried back	(11,250)	0·5
Assessable value	705,000	
Less: Rates	(44,550)	0·5
	660,450	
Less: 20% statutory deduction	(132,090)	0·5
Net assessable value	528,360	
Tax at 15%	79,254	0·5
Less: tax paid	(80,604)	
Tax refunded	(1,350)	0·5
		10

		Marks

4 CC Ltd

(a) Qualifying expenditure for commercial building allowance

	$	
Foundation cost	3,000,000	0·5
Cost of site investigation	2,600,000	0·5
Cost to lay drains, water mains etc	2,400,000	0·5
Architectural fee	5,000,000	0·5
Cost of lift, including installation	0	0·5
Construction cost	50,000,000	0·5
Total qualifying expenditure	63,000,000	
		3

(b) Commercial building allowance table

	Qualifying expenditure (QE)/ deemed QE $	Written down value (WDV) $	Commercial building allowance $	
1995/96				
QE (from part (a))	63,000,000	63,000,000		0·5
Less: rebuilding allowance at 2%*$63,000,000		(1,260,000)	1,260,000	0·5
WDV carried forward		61,740,000		
1996/97 and 1997/98				
Less: rebuilding allowance at 2%*$63,000,000*2 years		(2,520,000)	2,520,000	1
WDV		59,220,000		
1998/99				
Deemed QE	59,220,000	59,220,000		1
Less: annual allowance at 4%*$59,220,000		(2,368,800)	2,368,800	0·5
WDV carried forward		56,851,200		
1999/2000 to 2013/14				
Less: annual allowance at 4%*$59,220,000*15 years		(35,532,000)	35,532,000	1
WDV carried forward		21,319,200		
2014/15				
Residue of expenditure before sale		21,319,200		0·5
Less: sale proceeds (150m – 90m)		(60,000,000)		1
Excess of proceeds		38,680,800		
Balancing charge, limited to total allowances received since 1998/99		37,900,800	(37,900,800)	1
				7
				10

Marks

5 Simon Smith

Salaries tax assessment for the year of assessment 2014/15

	$	$	
Salary (96,000*12)		1,152,000	0·5
Entertainment allowance		48,000	0·5
Holiday journey benefit (45,000 + 1,000)		46,000	1
Petrol cost (3,000*12*25%)		9,000	0·5
Reimbursement of club membership fee (35,000/2)		17,500	0·5
Share award benefit		66,000	1
		1,338,500	
Time-apportionment:			
(24 + 69 + 114) + 20*207/(365 – 20) days = 219 days			2·5
Taxable: 1,338,500*219/365		803,100	0·5
Rental value: (803,100 – 2,600)*10%	80,050		1·5
Less: rent suffered (144,000*5%)	(7,200)	72,850	0·5
Share option benefit [(18 – 15)*50,000 – 1,000] = $149,000			2
Apportioned on the number of days: 149,000*219/365		89,400	1
Assessable income		965,350	
Less: Membership fee to Chartered Association of Marketing	2,600		0·5
Self-education expenses (15,000/2)	7,500	(10,100)	0·5
Net assessable income		955,250	

Correct treatment of items that require no adjustment: entertainment expenditure ($40,000), hotel charges ($144,000), reimbursement of medical expenses ($45,000) from, and annual premium ($6,000) to, the medical insurance scheme, value of the car, membership fee to the International Golf Club ($35,000).

0·5 mark each 2

15

			Marks
6 Moonshadow Ltd			

Profits tax computation for the year of assessment 2014/15
Basis period: year ended 31 December 2014 0.5

	$	$	Marks
Loss for the year per accounts		(400,000)	0.5
Add: Depreciation	214,000		0.5
Commercial building – balancing charge	4,000,000		0.5
Loss from securities trading – China	300,000		0.5
Interest on loan from director	6,000		0.5
Donations	400,000	4,920,000	0.5
		4,520,000	
Less: Depreciation allowance	51,360		0.5
Profit from disposal of property	3,500,000		0.5
Dividends (8,000 + 12,000)	20,000		1
Interest income (5,000 + 3,000)	8,000	(3,579,360)	1
		940,640	
Less: Approved charitable donations (restricted to 35%)		(329,224)	1
Net assessable profits		611,416	
Profits tax at 16.5%		100,883	0·5
Less: Property tax paid (s.25 set-off)		(14,400)	0·5
Profits tax payable		86,483	

Correct treatment of items that require no adjustment (candidates are NOT required to prepare the following table in their answers). Marks will be awarded if they are not adjusted in the tax computation.

Taxable/non-deductible items	**$**	**Deductible/non-taxable items**	**$**	
Property rental income	120,000	Hire purchase finance charge	3,000	
Profit from securities trading – HK	200,000	Interest on bank overdraft	2,000	
			0·5 mark each	2

Depreciation allowance schedule

	20%	**30%**	**HP – 30%**	**Allowance**	
	$	**$**	**$**	**$**	
Written down value brought forward	50,000	60,000			0·5
Additions					
Furniture	10,000				0·5
Computers			30,000		0·5
	60,000				
Initial allowance (IA) (10,000*60%)	(6,000)			6,000	0·5
IA – HP (6,000 + 4,000*3)*60%			(10,800)	10,800	1·5
	54,000		19,200		
Annual allowance	(10,800)	(18,000)	(5,760)	34,560	1
Written down value carried forward	43,200	42,000	13,440		
Total for plant and machinery				51,360	
					15