Specimen Exam

Exam Name: Taxation (E1 HKG)
Time Allowed: 3 hours
Pass Mark: 50%

This exam contains 2 sections:

Section A:
15 questions, each worth 2 marks
30 marks in total

Section B:
4 questions, each worth 10 marks
2 questions, each worth 15 marks
70 marks in total

Note: This specimen examination has been prepared based on legislation passed by 30 September 2025 (to be updated).

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Section A

Question 1

Which TWO of the following statements regarding the Hong Kong tax system are true?

A No tax is imposed on offshore profits
B No tax is imposed on dividends from Hong Kong corporations chargeable to profits tax
C Tax imposed on a non-resident will only be collected by withholding tax
D A person earning income sourced in Hong Kong may be subject to tax in Hong Kong regardless of their residency

Question 2

Rebecca, a Hong Kong resident, sells educational books and toys for children on behalf of Diamond Ltd, a company carrying on business in Japan. Diamond Ltd sends her a stock of products each month, and Rebecca arranges home parties to which she invites friends and demonstrates the products.

Rebecca earns a commission of 15% of the gross sales proceeds of the products she sells on behalf of Diamond Ltd. In the year of assessment 2025/26, Rebecca earned commissions totalling $90,000.

Calculate the minimum Hong Kong profits tax liability of Diamond Ltd in respect of the sales made by Rebecca for the year of assessment 2025/26.

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Question 3

Tommy, a resident of Malaysia, is employed by Colour Ltd, a large multinational corporation based in Malaysia. According to his employment contract, which is enforceable in Malaysia, Tommy's duties are performed exclusively to oversee and supervise the operations of Colour Ltd's various affiliated companies in the Far East region.

Tommy's travelling schedule to Hong Kong for the two years ended 31 March 2026 was as follows:

Purpose	**Days in Hong Kong 2024/25**	**Days in Hong Kong 2025/26**
Attend meetings	42	30
Holiday	19	2
Total	**61**	**32**

For the two years ended 31 March 2026, Tommy's annual salary was $1,825,000.

Which of the following options show Tommy's assessable income for the years of assessment 2024/25 and 2025/26?

Option	**2024/25**	**2025/26**
1	$0	$0
2	$305,000	$0
3	$1,825,000	$0
4	$210,000	$150,000

A Option 1
B Option 2
C Option 3
D Option 4

Question 4

Which THREE of the following persons are chargeable to property tax?

A Tenant for life
B Mortgagee in possession
C Shareholder of a corporation which owns land and/or buildings
D Spouse of a deceased owner of land and/or buildings
E Beneficiary of the estate of an owner of land and/or buildings
F Executor of the estate of an owner of land and/or buildings

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Question 5

Which TWO of the following statements best describe an individual who is temporary resident in Hong Kong in the year of assessment 2025/26 for personal assessment purposes, assuming an election is made?

A Stays in Hong Kong for 190 days during the year ended 31 March 2026
B Stays in Hong Kong for more than 300 days in total during the two years ended 31 March 2026
C Ordinarily resides in Hong Kong during the year ended 31 March 2026
D Works in Hong Kong and overseas under a Hong Kong employment during the year ended 31 March 2026

Question 6

Andrew
Andrew worked for a Hong Kong company for three years. He was dismissed immediately by the company and received a lump sum equivalent to three months' salary of $150,000 as payment in lieu of notice on 31 January 2026.

Bob
Bob worked for a Hong Kong company for 12 years. He retired on 31 March 2026 and received $280,000 from the recognised retirement scheme of his employer on that date.

Carson
Carson is a civil servant employed by the Hong Kong Government. He was deployed to work in the Government's representative office in London, UK, throughout the year of assessment 2025/26 and did not perform any services in Hong Kong during the year. He received a total salary of $1.2m.

Which of the following individuals will be exempt from salaries tax in respect of the sums received for the year of assessment 2025/26?

A Andrew only
B Bob only
C Carson only
D Andrew, Bob and Carson

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Question 7

Maple Ltd acquired a property in Hong Kong on 16 June 2025. Since 1 July 2025, the property has been let to its subsidiary company, Autumn Ltd, under a four-year letting agreement. Maple Ltd charges monthly rent of $25,000, which is $10,000 below the monthly market rent. Maple Ltd paid rates of $4,000 per quarter and a monthly management fee of $2,500 to the management company.

In February 2026, a water pipe broke and flooded the property. Autumn Ltd paid the repair costs of $50,000 and was reimbursed $30,000 by Maple Ltd.

What is the net assessable value of the property for Maple Ltd in respect of the year of assessment 2025/26?

A $152,400
B $170,400
C $186,400
D $258,400

Question 8

Teddy works for Brilliant Ltd, a Hong Kong company, for a monthly salary of $60,000. On 1 August 2025, Teddy married Tracy.

Brilliant Ltd paid $30,000 to a travel company for the couple's honeymoon package tour to Japan. The package tour was transferable and could be resold for $24,000. Brilliant Ltd also paid $800 for a family travel insurance policy for Teddy.

Calculate the amount of Teddy's assessable income for the year of assessment 2025/26.

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Question 9

Which TWO of the following statements are functions of the Board of Review?

A To specify procedures for lodging appeals
B To hear appeals from the taxpayer against the Commissioner's determination
C To specify forms under the Inland Revenue Ordinance
D To consider the Commissioner's application for a statement of assets and liabilities, income and expenses

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Question 10

Red Ltd purchased a trademark registered both in Hong Kong and Thailand during the year of assessment 2025/26, at a total cost of $5m. The Hong Kong registered trademark and the Thailand registered trademark were valued at $3m and $2m, respectively.

Under a contract processing agreement, Red Ltd contracted a Thailand manufacturer to produce goods bearing the trademark in Thailand. The goods were all sold by Red Ltd in Hong Kong.

Calculate the allowable deduction Red Ltd can claim for profits tax purposes in respect of the trademark in the year of assessment 2025/26.

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Question 11

Grace and Hana were in a partnership, sharing profits and losses equally. The financial statements of the partnership produced the following results:

Year ended	Assessable profit/(Agreed loss)
31 March 2024	($350,000) loss
31 March 2025	$210,000 profit
31 March 2026	$150,000 profit

Hana elected for personal assessment for the years of assessment 2024/25 and 2025/26, but not for the year of assessment 2023/24.

Which of the following options shows Hana's share of the partnership profit or loss transferred to personal assessment for the years of assessment 2024/25 and 2025/26?

Option	2024/25	2025/26
1	$0	$5,000 profit
2	$0	$10,000 profit
3	($70,000) loss	$75,000 profit
4	$105,000 profit	$75,000 profit

A Option 1
B Option 2
C Option 3
D Option 4

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Question 12

Eddie did not pay property tax of $80,000 which was due on 20 March 2026, as specified in the notice of property tax assessment.

On 30 March 2026, the Commissioner imposed a 5% surcharge of $4,000 on the outstanding tax. Eddie paid $40,000 to the Commissioner on 5 April 2026 but did not pay any sum thereafter.

What amount of further surcharge can be imposed by the Commissioner after 20 September 2026?

A $4,400
B $4,000
C $2,200
D $2,000

Question 13

Rainbow Ltd is resident in Hong Kong and is an associated company of Sunlight Ltd, which is resident in Country M. On 1 October 2025, Rainbow Ltd borrowed $7m from Sunlight Ltd at an interest rate of 3% per annum in the ordinary course of its intra-group financing business activities. On 1 January 2026, $3m of this loan was sub-participated to Moonlight Ltd, another associated company of Sunlight Ltd, which is resident in Country N.

Sunlight Ltd was the beneficial owner of the loan interest income and was chargeable to tax on the interest income at the rate of 20% in Country M. Moonlight Ltd was making a loss and was not chargeable to tax in Country N.

What amount of allowable interest can Rainbow Ltd claim for profits tax purposes for the year ended 31 March 2026?

A $0
B $15,000
C $82,500
D $105,000

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Question 14

Issac is employed by Cheerful Ltd as the company's tax manager. On 1 May 2024, Issac was granted 8,000 shares by Cheerful Ltd subject to a vesting period, which ended on 31 October 2025. The market values of the shares on 1 May 2024 and 31 October 2025 were $80,000 and $100,000, respectively.

During the year ended 31 March 2026, Issac was paid an annual salary of $960,000 and was provided with a flat. Issac paid his ACCA membership subscription of $3,000 and also $5,000 to attend professional seminars organised by ACCA.

What is Issac's taxable housing benefit for the year of assessment 2025/26?

A $95,700
B $103,700
C $105,200
D $105,700

Question 15

Novel Ltd commenced business on 1 August 2024 and prepared its first accounts to 31 January 2026. Novel Ltd's adjusted profits, before depreciation allowances, for the 18-month period from 1 August 2024 to 31 January 2026 were $240,600.

In September 2024, Novel Ltd purchased assets for $180,000 which qualified for an annual depreciation allowance at 30%.

What is the assessable profit of Novel Ltd for the year of assessment 2025/26?

A $74,000
B $111,000
C $95,880
D $145,280

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Section B

Question 16

The following scenario relates to two requirements.

You should assume that today's date is 4 June 2026.

Mr Li is working in Hong Kong under a Hong Kong employment and pays salaries tax based on his entire employment income. Recently, he received a notice of additional assessment for salaries tax in respect of the year of assessment 2024/25.

Details from the notice of additional assessment (dated 2 June 2026) are as follows:

	$
Final tax payable for 2024/25	88,400
Less: tax already charged per 2024/25 assessment dated 4 August 2024	(70,400)
Additional amount of tax payable	**18,000**

The additional amount of tax payable is due on 2 July 2026.

The additional assessment was issued to include a sum of compensation received during the year. Mr Li did not report this sum in his original tax return as he believes that the sum should not be taxable. He therefore disagrees with the additional assessment.

Requirements:

Based on the Inland Revenue Ordinance and prevailing practice of the Inland Revenue Department (IRD):

(a) Recommend an action which may be taken by Mr Li if he disagrees with the additional amount charged in the notice of additional assessment, including any conditions which must be met for this action to be valid.

(3 marks)

(b) Assuming Mr Li makes a request to holdover the tax in dispute, analyse the ways in which the IRD may order the payment of tax in dispute to be held over, including any conditions which must be met by Mr Li and Mr Li's obligations in respect of paying the additional tax due.

(7 marks)

(10 marks)

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Question 17

The following scenario relates to two requirements.

Diagonal Ltd (Diagonal) provides housing benefits to four of its employees (Employees A, B, C and D).

Each employee received a total salary of $1m for the year ended 31 March 2026.

All four employees are single with no children and have lived in their respective flats alone for the whole of the year of assessment 2025/26. All the flats are either owned by Diagonal or leased from a landlord which is unrelated to Diagonal.

Details of the housing benefit arrangements for each employee are as follows:

	Employee A	**Employee B**	**Employee C**	**Employee D**
Flat owned by:	Diagonal	Landlord	Landlord	Landlord
Amount paid by employee:	$2,000 per month to Diagonal as housing contribution	$2,000 per month to Diagonal as housing contribution	$30,000 per month to landlord as rental	$20,000 per month to landlord as rental
Amount paid by Diagonal:	-	$30,000 per month to landlord as rental	$20,000 per month to Employee C as rental reimbursement, upon submission of rental receipts	$500 per month to Employee D as additional allowance without conditions

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Requirements:

(a) Prepare extracts of the salaries tax computations for each of Employees A, B, C and D for the year of assessment 2025/26, which illustrate the tax treatments of the housing benefits provided.

Note: You should include all items referred to in the question, indicating by the use of zero (0) any item which is not relevant or applicable.

(8 marks)

In the case of Employee A, the total bills for utilities (gas, water and electricity) for the year were paid by Diagonal Ltd. The utilities accounts were registered in the name of Employee A.

(b) Assess whether the utilities bill payments are taxable to Employee A.

Note: No calculations are required.

(2 marks)

(10 marks)

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Question 18

The following scenario relates to one requirement.

Season Ltd (Season) is wholly owned by Parent Ltd (Parent), both of which carry on business in Hong Kong. Season's interest income and interest expenses arising from loan transactions and accounted for in its statement of profit or loss for the year ended 31 October 2025 are as follows:

Item	Interest income $	Interest expense $	Source of funds	Deposit with / loan to	Remarks
1	4,000	N/A	Operations	Bank X in Hong Kong	Interest earned from US dollar fixed deposits.
2	13,000	N/A	Operations	Season's director, Mr So, a Hong Kong resident	This loan was remitted to Mr So's bank account in China. Mr So will use the loan to buy a property in China as accommodation.
3	5,000	N/A	Customer	Credit sales made to a Hong Kong customer	The credit sales were not settled by the payment due date, therefore interest was charged as per the sales invoice. The sales were reported by Season as taxable in Hong Kong.
4	N/A	25,500	Loan from Bank X in Hong Kong	N/A	This loan was used by Season to buy a warehouse in Hong Kong for use in its operations. The loan is secured on the warehouse.
5	N/A	18,200	Loan from Bank X in Hong Kong	N/A	This loan was used by Season in its operations in Hong Kong. It is secured by a deposit made by Season's director, Mr Ng, with the same bank, receiving interest of $13,200 during the year. Mr Ng does not pay tax in Hong Kong.

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6	N/A	16,000	Loan from Parent, Season's holding company	N/A	This loan was used by Season to buy inventory for use in its operations in Hong Kong.

Requirement:

Analyse the profits tax treatment for each of items 1 to 6 in Season Ltd's profits tax computation for the year of assessment 2025/26. In your analysis you should indicate, with reasons, whether each item of income is taxable and to what extent each expense is deductible.

(10 marks)

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Question 19

The following scenario relates to one requirement.

Stephen, a Hong Kong resident, works for a Hong Kong employer. He also runs a trading business under a partnership with his sister. Stephen rents out two properties (Property A and Property B).

During the year ended 31 March 2026, he had the following income and expenditure:

	Note	$
Salary		900,000
Share of partnership profit	(1)	240,000
Rent, premium and deposit from Property A	(2)	496,000
Rates for Property A	(2)	12,000
Management fee for Property A	(2)	33,600
Rent from Property B	(3)	120,000
Repayment of mortgage loans	(4)	600,000
Maintenance of mother	(5)	156,000
Contributions to mandatory provident fund (5% of salary)		45,000
Donations	(6)	35,000
Tuition fee for a master's degree which Stephen is studying		50,000

Notes:

1. The partnership business incurred a tax loss of $100,000 in 2024/25, of which Stephen's share is $60,000. Stephen did not elect for personal assessment in 2024/25.

2. Property A was rented to a tenant on 1 April 2025 for a term of two years at a monthly rent of $32,000 payable in advance. A premium of $48,000 and a rental deposit of $64,000 were also received. The rental deposit would be refundable after offsetting any rent in arrears at the end of the lease. Stephen is responsible for rates and management fees.

3. Property B was rented to Stephen's relative on 1 April 2025 at a monthly rent of $10,000. The rateable value of the property for 2025/26 was $240,000. Rates and the management fee were paid by the relative.

4. During the year, Stephen repaid the following bank mortgage loans with interest:

   - Loan to acquire Property A – $360,000 (including $170,000 interest)
   - Loan to acquire Property C – $210,000 (including $80,000 interest)

   There is no mortgage on Property B.

   Property C was acquired by Stephen as his residence during the year. The loan was obtained from Stephen's employer under a staff incentive scheme and the property

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was mortgaged to the employer to secure repayment of the loan. If a market interest rate had been charged, interest paid would have been $120,000.

5. Stephen's mother is aged 58 and has been living in a nursing home in Hong Kong since January 2025, following an accident. She is paid a monthly Government Disability Allowance of $2,070. The total bills from the nursing home, amounting to $132,000 for the year, were paid by Stephen. Stephen also pays his mother $2,000 every month.

6. During the year, Stephen made the following donations to approved charitable institutions in Hong Kong:

   - Po Leung Kuk – cash of $30,000
   - St Joseph's Church – Bibles worth $5,000

Stephen elected for personal assessment for the year of assessment 2025/26 only.

Requirement:

Calculate Stephen's net chargeable income for the year of assessment 2025/26.

Note: You should list all items referred to in the question, indicating by the use of zero (0) any item which is not taxable/deductible in the computation.

(10 marks)

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Question 20

The following scenario relates to two requirements.

Raymond is employed as regional finance director by Star Inc (Star), a company incorporated in the US. His employment contract was discussed and signed in New York and his salary is paid directly into his bank account in New York. Since 2024, Raymond has been based in the Hong Kong office but is required to travel within the region when necessary. During the year ended 31 March 2026, he made the following overseas trips:

China	40 days
Other Asian countries	70 days
US	45 days (including 15 days annual leave)

For the rest of the year, Raymond stayed in Hong Kong and did not take any annual leave in Hong Kong.

The following additional information relates to Raymond for the year ended 31 March 2026 (all amounts are denominated in Hong Kong dollars):

1. Annual salary: $1.8m.

2. Director's fee: $36,000 from Merry Ltd (Merry), the Hong Kong subsidiary of Star. Merry trades with exporters in the South-East Asian countries. Directors' meetings are conducted in Hong Kong to comply with the Companies Ordinance, but all business decisions are made, by Star and the directors of Merry, in the US. Occasionally Raymond acts as an alternative director of Merry.

3. Raymond was granted an option to buy 80,000 shares in Star. On 1 December 2025, Raymond exercised the option to take up 50,000 shares for $120,000. The fair market values of a Star share were as follows:

1 December 2025	$3.60
31 March 2026	$3.80

4. Star provided Raymond with a car and a driver in Hong Kong. The car is worth $450,000 and is registered in the name of Star. The driver was hired by Star at $20,000 per month. Raymond incurred $66,000 for petrol and car maintenance during the year, for which he was fully reimbursed by Star. Raymond estimated that about 15% of the usage of the car was for his personal use.

5. Raymond was requested by Star to join the Chinese Recreation Club for client entertainment purposes. Raymond paid an annual membership fee of $8,000 and was reimbursed half of this amount by Star.

6. Star operates a medical insurance scheme for all of its employees through an

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insurance company and pays an annual premium of $10,000 per employee. In August 2025, Raymond had a car accident on his way to a client meeting in Hong Kong and was hospitalised for two weeks. The total hospital bill of $240,000 was paid by Raymond. He subsequently made a claim to Star to recover these costs. In October 2025, Raymond obtained a full refund from Star, comprising $200,000 reimbursed by Star's insurance company and $40,000 subsidised directly by Star.

7. Raymond received a bonus of $300,000, 30% of which he donated to the US Red Cross.

8. Raymond lives in a hotel room during his stays in Hong Kong and paid total hotel charges of $168,000. Star did not reimburse this amount.

9. During the year, Star received and paid the following tax bills in respect of Raymond:

Hong Kong salaries tax	$78,000
Other Asian countries' income tax	$55,000

10. Raymond is married with two children, aged 24 and 15. The elder child is studying full-time in the US.

Requirements:

(a) Assess whether Raymond is subject to salaries tax in Hong Kong in respect of the director's fee from Merry Ltd.

(3 marks)

(b) Calculate the Hong Kong salaries tax payable by Raymond for the year of assessment 2025/26.

Notes:
1. You should list all items referred to in the question, indicating by the use of zero (0) any item which does not impact the calculation.
2. Ignore Hong Kong provisional tax and tax concession.

(12 marks)

(15 marks)

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Question 21

The following scenario relates to one requirement.

Brown Ltd (Brown), a Hong Kong-incorporated company, carries on a trading business in Hong Kong. All its buying and selling activities are conducted in Hong Kong and all profits earned from trading are returned as taxable in Hong Kong. Brown does not have any group company or associate in Hong Kong.

For the year ended 31 July 2025, Brown had the following income and expenditure:

	Note	$	$
Income:			
Gross profits from trading		4,500,000	
Rental income	1	240,000	
Finance income	2	30,000	**4,770,000**
Expenses:			
Salaries and other staff costs		(220,000)	
Director's remuneration	3	(700,000)	
Depreciation	4	(62,000)	
Audit and tax filing fee		(30,000)	
Rent and maintenance	5	(500,000)	
Miscellaneous	6	(31,000)	**(1,543,000)**
Profit for the year			**3,227,000**

Notes:

1. Brown sub-lets part of its warehouse to an unrelated third party for $20,000 per month. The warehouse was leased by Brown at a monthly rental of $35,000 (see note (5)).

2. Finance income comprises:

	$
Dividend income on securities listed in Hong Kong	14,000
Gain on foreign currency trading	28,000
Loss on trading in securities listed in China	(12,000)
Total per accounts	**30,000**

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3. Director's remuneration comprises:

	$
Fees paid to Brown's director	600,000
Hong Kong tax payment on behalf of Brown's director	40,000
Salary of domestic worker employed by Brown's director	60,000
Total per accounts	**700,000**

4. The depreciation charge was calculated after the following fixed asset movements during the year:

   - Two laptop computers acquired for $29,900 in total for staff use
   - One electric vehicle acquired for use by Brown's director at $710,000 by trading in an old motor vehicle at a value of $33,000.

5. The rent and maintenance expenses of $500,000 represents rent of $420,000 and utilities of $80,000 for the warehouse. Brown sub-let out approximately 50% of the total floor area of the warehouse for rental (see note 1).

6. The miscellaneous expenses of $31,000 include $19,000 being the cost of furniture damaged in a fire and written off. Most of the damaged furniture was tables and chairs which had been included in the 20% plant and machinery pool. The balance represents general consumables used for the office.

7. Brown's tax return for 2024/25 showed that the closing tax written down values for the 20% and 30% pools of plant and machinery were $10,000 and $50,000 respectively. There were no other plant and machinery pools. No building allowance was claimed in previous years.

Requirement:

Prepare Brown Ltd's profits tax computation for the year of assessment 2025/26, showing the basis period, net assessable profits/adjusted loss and profits tax payable.

Notes:

1. You should list all items referred to in the question, indicating by the use of zero (0) any item which does not impact the computation.
2. You should include a depreciation allowance schedule in your answer.
3. Ignore Hong Kong provisional tax and tax concession.

(15 marks)

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