Suggested solution

Section A

1 B and D

The following statements regarding the Hong Kong tax system are true:

- No tax is imposed on dividends from Hong Kong corporations chargeable to profits tax
- A person earning income sourced in Hong Kong may be subject to tax in Hong Kong regardless of their residency

Statement A is incorrect because some offshore profits could be deemed taxable.

Statement C is incorrect because tax imposed on a non-resident could be collected by direct assessment.

2 $3,000

($90,000/15% x 0.5%) = $3,000

Any person who sells any goods in Hong Kong on behalf of a non-resident person shall pay to the Commissioner a sum equal to 1% of such proceeds or such lesser sum as may have been agreed with the Commissioner (in practice, only 0.5% is demanded) (s.20A(3)), on behalf of the non-resident person. Therefore, the profits tax liability of Diamond Ltd is $3,000.

3 B

Option 2:

2024/25 - $305,000 ($1,825,000 x 61/365)
2025/26 - $0

Since Tommy's employer Colour Ltd is not resident in Hong Kong, Tommy is under a foreign employment. He is assessed on a time-basis, based on income derived from services rendered in Hong Kong. For the year of assessment 2025/26, Tommy was exempt from salaries tax as his visits did not exceed 60 days. For the year of assessment 2024/25, Tommy was chargeable to salaries tax on a time-basis as his total visits (including holidays) exceeded 60 days.

© ACCA 2027-2028 All rights reserved.

4 A, B and F

The following three persons are chargeable to property tax:

- Tenant for life
- Mortgagee in possession
- Executor of the estate of an owner of land and/or buildings

5 A and B

The statements which best describe an individual who is a temporary resident in Hong Kong in the year of assessment 2025/26 for personal assessment purposes are:

- Stays in Hong Kong for 190 days during the year ended 31 March 2026
- Stays in Hong Kong for more than 300 days in total during the two years ended 31 March 2026

A temporary resident is an individual who stays in Hong Kong for a period or periods amounting to more than 180 days during the year of assessment in respect of which the election is made; or for a period or periods amounting to more than 300 days in two consecutive years of assessment one of which is the year of assessment in respect of which the election is made: s.41(4).

Statement C is incorrect. To qualify as a temporary resident, an individual must stay in Hong Kong for a sufficient period. Being ordinarily resident in Hong Kong is not sufficient to qualify as a temporary resident.

Statement D is incorrect. To qualify as a temporary resident, an individual must stay in Hong Kong for a sufficient period. Working in Hong Kong under a Hong Kong employment is not sufficient to qualify as a temporary resident.

6 B

Bob only.

Sums withdrawn from a recognised retirement scheme upon retirement are exempt from salaries tax under s.8(2)(cc)(i). Payments in lieu of notice arise from employment and are taxable. The exemption under s.8(1A)(b) is not applicable to Carson as he is a government employee. Therefore, only Bob is exempt from salaries tax.

© ACCA 2027-2028 All rights reserved.

7 C

(($25,000 x 9 + $20,000 – $4,000 x 3) x 80%) = $186,400

Under property tax, only rates paid by the owner and a 20% statutory deduction can be deducted from the assessable value. The cost of repairs borne by the tenant is taxable consideration.

8 $720,000

($60,000 x 12) = $720,000

Only Teddy's salary from Brilliant Ltd is taxable. The honeymoon package tour is a marriage gift, which is not for services rendered and so is not taxable. The related cost of the travel insurance policy is also not taxable.

9 B and D

The following statements are functions of the Board of Review:

- To hear appeals from the taxpayer against the Commissioner's determination.
- To consider the Commissioner's application for a statement of assets and liabilities, income and expenses.

The Board of Review does not specify procedures for lodging appeals or forms under the Inland Revenue Ordinance.

10 $500,000

($5,000,000/5 x 1/2) = $500,000

For contract processing, the Inland Revenue Department (IRD) allows apportionment of profits on a 50:50 basis. The cost of the Hong Kong and Thailand registered trademarks which are used to produce chargeable profits is deductible over five years, i.e. $500,000.

© ACCA 2027-2028 All rights reserved.

11 A

Option 1:

2024/25 - $0
2025/26 - $5,000 profit ($150,000/2 - ($350,000 - $210,000)/2)

When personal assessment (PA) is elected for any year, assessable profit for that year after deducting the loss brought forward from previous years will be transferred to PA; any remaining loss cannot be transferred to PA but will be carried forward under profits tax.

12 A

(($80,000 + $4,000 – $40,000) x 10%) = $4,400

When any tax (including the 5% surcharge added) remains unpaid six months after the date specified in the notice of assessment, the Commissioner may impose a further surcharge of 10% on the unpaid amount.

13 C

(($7,000,000 x 3% x 6/12) – ($7,000,000 x 3% x 3/12 x $3,000,000/$7,000,000)) = $82,500

The interest expense is allowed because:

- Rainbow Ltd is a corporation carrying on an intra-group financing business in Hong Kong; and
- the interest was payable on money borrowed from a non-Hong Kong associated corporation, Sunlight Ltd, in the ordinary course of an intra-group financing business carried on in Hong Kong.

Sunlight Ltd was subject to a similar tax on the interest in Country M at a rate which was not lower than the reference rate; and Sunlight Ltd was the beneficial owner of the loan interest income. However, as Moonlight Ltd was not chargeable to tax on the interest in Country N, the limitation under s.16(2CA) applies.

 © ACCA 2027-2028 All rights reserved.

14 D

(($960,000 + $100,000 - $3,000) x 10%) = $105,700

The rental value (i.e. taxable housing benefit) is based on 10% of income from the employer and its associates, excluding any share option or termination payment but after any deductible expenses (ACCA membership subscription) and depreciation allowance provided for in s.12(1)(a) and (b) (but not self-education expenses which is deductible under s.12(1)(e)).

In this case, Issac's income from his employer includes his annual salary plus the market value, as at the end of the vesting period, of the shares granted to him.

15 D

(($240,600 x 12/18 – $15,120)) = $145,280

The first accounts of 18 months form the basis periods for the two years of assessment ended 31 January 2025 and 31 January 2026. Assessable profits for the year of assessment 2025/26 will be 12/18 of the adjusted profits of $240,600, after deducting the annual allowance of $15,120 (working).

Working - Calculation of depreciation allowance:

		$
Cost		180,000
2024/25	IA at 60%	(108,000)
		72,000
	AA at 30%	(21,600)
		50,400
2025/26	AA at 30%	(15,120)
		35,280

© ACCA 2027-2028 All rights reserved.

Section B

16

Mr Li

(a) Action in respect of the notice of additional assessment

If Mr Li disagrees with the additional assessment, he may lodge an objection against the assessment under s.64 of the Inland Revenue Ordinance (IRO). Conditions for a valid objection are:

(i) The objection must be lodged in writing addressed to the Commissioner.
(ii) The objection must be received by the Commissioner within one month after the date of the notice of additional assessment. In Mr Li's case, the due date for the objection would be 2 July 2026.
(iii) Mr Li must also precisely state the grounds for the objection, such as the reason why he believes that the additional amount charged is not reasonable.

(b) Request for the tax-in-dispute to be held over

Assuming Mr Li lodges an objection together with a request to hold over the payment of tax in dispute, the Inland Revenue Department (IRD) may order the tax payment to be held over in any one of the following ways:

(i) Unconditionally;
(ii) Conditionally on the basis that the taxpayer purchases a tax reserve certificate (TRC); or
(iii) Conditionally on the basis that the taxpayer provides a banker's undertaking.

Unconditional holdover is normally ordered only when an objection is likely to be allowed. However, if the end result turns out to be tax payable, interest will be charged on the amount payable.

For conditional holdover with a TRC, the TRC must be purchased within 14 days from the date of the order or no later than the day specified in the notice, whichever is later. The TRC will be earmarked for settlement of the objection in dispute, and not for any other purpose. The TRC will be interest bearing but interest will only be paid when the tax is finally found not to be payable and the TRC is presented or redeemed for cash.

Instead of purchasing a TRC, the IRD may accept a banker's undertaking for granting a conditional holdover. The undertaking must be prepared in a form acceptable to the Commissioner and expressed to undertake to pay an amount equal to the tax held over, plus interest accrued when tax is finally found to be payable. The undertaking must be submitted within 14 days from the order or no later than the day specified in the notice, whichever is later. The undertaking is irrevocable.

© ACCA 2027-2028 All rights reserved.

With regard to the tax payment, if no reply is received from the Commissioner on the result of the holdover or the holdover is rejected by the Commissioner, Mr Li should pay the tax in dispute on or before the due date as required. If the holdover is agreed by the Commissioner before the due date of 2 July 2026, Mr Li is required to follow the instructions of the holdover notice in relation to the tax payment as required.

© ACCA 2027-2028 All rights reserved.

17

Diagonal Ltd

(a) Extracts of salaries tax computations on housing benefits

	Employee A	Employee B	Employee C	Employee D
	$	$	$	$
Rental value: (10% x $1,000,000)	100,000	100,000	100,000	
Less: contribution: ($2,000 x 12)	(24,000)	(24,000)		
Less: rent suffered: ($10,000 x 12)			(120,000)	
	76,000	**76,000**	**0**	
Housing subsidies:				
($500 x 12)				6,000
($30,000/m rent)		0		
($30,000/$20,000)			0	
Domestic rent deduction				(100,000)

(b) Utilities bill payments

The utilities bill payments made by Diagonal Ltd for consumption by Employee A are subject to Hong Kong salaries tax in the hands of Employee A.

The bill payments represent an income from employment as a discharge of Employee A's personal liability because the utilities accounts are registered in the name of Employee A.

© ACCA 2027-2028 All rights reserved.

18

Season Ltd

Item	Interest income / interest expense	Tax treatment in Season Ltd's profits tax computation for year of assessment 2025/26
1	Interest income: $4,000	This income is not taxable as it is specifically exempt under the 1998 exemption order.
2	Interest income: $13,000	This interest is not taxable as it is non-Hong Kong sourced. The credit (the loan) is provided outside Hong Kong.
3	Interest income: $5,000	Source of interest follows source of sales, thus taxable.
4	Interest expense: $25,500	The loan is applied for the production of assessable profits (S.16(1), s16(1)(a)) and the lender is a bank in Hong Kong (s16(2)(d)). It is fully deductible as it is not restricted by the secured loan test or the interest flow-back test (s16(2A/B)).
5	Interest expense: $18,200	This loan is applied for the production of assessable profits (S.16(1), s16(1)(a)), and lender is a bank in Hong Kong (s16(2)(d)), but deduction is restricted by the secured loan test (s16(2A)), therefore only $5,000 is deductible ($18,200 - $13,200).
6	Interest expense: $16,000	This interest is fully deductible because the loan is applied for the production of assessable profits (S.16(1), s16(1)(a)) and the lender being a non-bank carrying on business in Hong Kong, is assumed to be taxed on the same interest in Hong Kong (S.16(2)(c)).

© ACCA 2027-2028 All rights reserved.

19

Stephen

Personal assessment computation – year of assessment 2025/26

	$
Net assessable income ($900,000 – $50,000)	850,000
Loan interest saved	0
Net assessable value:	
- Property A (($32,000 x 12) + ($48,000 x 12/24) – $12,000) x 80%	316,800
- Property B ($10,000 x 12 x 80%)	96,000
- Rental deposit	0
Share of net profits from partnership business ($240,000 – $60,000)	180,000
Total income	**1,442,800**
Less deductions:	
Mortgage loan interest	
- Property A	(170,000)
Approved charitable donations	
- Cash	(30,000)
- Bibles	0
Elderly residential care expenses (maximum)	(100,000)
Home loan interest (Property C)	(80,000)
Contributions to mandatory provident fund (maximum)	(18,000)
Management fee for Property A	0
Monthly payments to mother	0
Reduced total income	**1,044,800**
Less Part 5 allowance:	
Basic allowance	(132,000)
Disabled dependent allowance	(75,000)
Net chargeable income	**837,800**

© ACCA 2027-2028 All rights reserved.

20

Raymond

(a) Director's fees from Merry Ltd

Salaries tax is charged on income from an employment, office and pension arising in, or derived from Hong Kong (s.8(1)). In the case of income from an office, the source is the place where the office legally exists. In *McMillan v Guest (24 TC 190)*, it was held that the office of a director is located at the place where the management and control of the corporation is exercised.

In the case of Merry Ltd, although the directors' meetings are conducted in Hong Kong, all business decisions are made by Star Inc and the directors of Merry Ltd in the US.

Hence, Merry Ltd is managed and controlled outside Hong Kong; and the director's fees received by Raymond from Merry Ltd are sourced outside Hong Kong and therefore not taxable under s.8(1).

(b) Salaries tax computation for the year of assessment 2025/26

	$
Salary	1,800,000
Bonus	300,000
Director's fee	0
Gain on exercise of Sun Inc share options ((50,000 x $3.60) - $120,000)	60,000
Cost of car	0
Driver's wages	0
Reimbursement of petrol and car maintenance ($66,000 x 15%)	9,900
Reimbursement of club membership fee ($8,000/2)	4,000
Annual medical insurance premium	0
Hospital bills reimbursed by Star Inc	40,000
Other Asian countries' income tax borne by Star Inc	0
	2,213,900
Time apportionment: Hong Kong: 210 + (15 x 210/(365 – 15)) = 219 days Taxable: $2,213,900 x 219/365	1,328,340
Hong Kong salaries tax borne by Star Inc	78,000
Assessable income	**1,406,340**
Less:	
- Club membership fee	0

 © ACCA 2027-2028 All rights reserved.

- Hotel charges	0
Less Part 4A concessionary deductions:	
- Donation	0
- Domestic rent	0
	1,406,340
Less Part 5 allowances:	
- Married person's allowance	(264,000)
- Child allowance	(260,000)
Net chargeable income	**882,340**
Tax at progressive rates (($882,340 – $200,000) x 17% + $16,000)	**131,997**

Tax at standard rate ($1,406,340 x 15% = $210,951) is not applicable.

© ACCA 2027-2028 All rights reserved.

21

Brown Ltd

Hong Kong profits tax computation for the year of assessment 2025/26

Basis period: year ended 31 July 2025

	$	$
Profit for the year per accounts		3,227,000
Add:		
Depreciation	62,000	
Loss on China securities trading	12,000	
Salaries and other staff costs	0	
Fee to director	0	
Hong Kong tax payment on behalf of director	0	
Salary of director's domestic worker	0	
Rent and maintenance for warehouse	0	
Furniture written off	19,000	
		93,000
		3,320,000
Less:		
Depreciation allowance (working)	7,100	
Two laptop computers (prescribed fixed asset)	29,900	
Electric vehicle	710,000	
Rental income from warehouse sub-let	0	
Dividend on Hong Kong listed shares	14,000	
Gain from foreign currency trading	0	
		(761,000)
Assessable profits		**2,559,000**
Profits tax payable:		
- First $2,000,000 @ 8.25%	165,000	
- Balance $559,000 @ 16.5%	92,235	
Profits tax payable		**257,235**

© ACCA 2027-2028 All rights reserved.

Working – Depreciation allowance schedule for 2025/26

Plant and machinery pool	**20%**	**30%**	**Total allowance**
	$	**$**	**$**
Written down value (WDV) b/f	10,000	50,000	
Less: motor vehicle trade-in		(33,000)	
Less: furniture damaged and written off	(0)		
	10,000	17,000	
Less: annual allowance	(2,000)	(5,100)	7,100
WDV c/f	**8,000**	**11,900**	
Total allowance			**7,100**

© ACCA 2027-2028 All rights reserved.

Mark scheme

Section A

Questions 1 – 15 (all questions worth two marks)

Maximum 30 marks

Section B

Question 16

a	Conditions for a valid objection	3
Maximum 3 marks		
b	Ways IRD may order the tax payment to be held over: - Unconditionally - Conditionally with a tax reserve certificate - Conditionally with banker's undertaking Obligations of Mr Li	 1 3 2 1
Maximum 7 marks		
Total 10 marks		

Question 17

a	Extract of salaries tax computations on housing benefits: - Rental value (0.5 for each Employee A, B and C) - Contribution Employee A - Contribution Employee B - Rent suffered Employee C - Housing subsidies (1 for each Employee, B, C and D) - Domestic rent deduction Employee D	 1.5 1 0.5 1 3 1
Maximum 8 marks		
b	Utilities payments subject to salaries tax Registered in the name of Employee A	1 1
Maximum 2 marks		
Total 10 marks		

© ACCA 2027-2028 All rights reserved.

Question 18

	Tax treatment in Season Ltd's profits tax computation year of assessment 2025/26:	1
	- Item 1	2
	- Item 2	1
	- Item 3	2
	- Item 4	2
	- Item 5	2
	- Item 6	
Maximum 10 marks		
Total 10 marks		

Question 19

	Stephen: Personal assessment computation year of assessment 2025/26	
	- Net assessable income	1
	- Loan interest saved	0.5
	- Net assessable value Property A	1
	- Net assessable value Property B	1
	- Rental deposit	0.5
	- Share of net profits from partnership business	1
	- Mortgage loan interest	0.5
	- Approved charitable donations (0.5 each)	1
	- Elderly residential care expenses	0.5
	- Home loan interest	0.5
	- Contributions to mandatory provident fund	0.5
	- Management fee for Property A	0.5
	- Monthly payments to mother	0.5
	- Part 5 allowances (0.5 each)	1
Maximum 10 marks		
Total 10 marks		

© ACCA 2027-2028 All rights reserved.

Question 20

a	General rule Application to Raymond	1 2
Maximum 3 marks		
b	Raymond: salaries tax computation for year of assessment 2025/26:	
	- Salary	0.5
	- Bonus	0.5
	- Director's fee	0.5
	- Gain on exercise of Sun Inc share options	0.5
	- Cost of car	0.5
	- Driver's wages	0.5
	- Reimbursement of petrol and car maintenance	0.5
	- Reimbursement of club membership fee	0.5
	- Annual medical insurance premium	0.5
	- Hospital bills	0.5
	- Other Asian countries' income tax	0.5
	- Time apportionment	2
	- Hong Kong salaries tax borne by Star Inc	0.5
	- Less club membership fee	0.5
	- Less hotel charges	0.5
	- Part 4A concessionary deductions (0.5 each)	1
	- Part 5 allowances (0.5 each)	1
	- Tax calculation at standard and progressive rates	1
Maximum 12 marks		
Total 15 marks		

© ACCA 2027-2028 All rights reserved.

Question 21

	Brown Ltd: profits tax computation for the year of assessment 2025/26:	
	- Basis period	0.5
	- Profit for the year	0.5
	- Depreciation	0.5
	- Loss on China securities trading	0.5
	- Salaries and other staff costs	0.5
	- Fee to director	0.5
	- Hong Kong tax payment on behalf of director	1
	- Salary of director's domestic worker	1
	- Rent and maintenance for warehouse	0.5
	- Furniture written off	1
	- Depreciation allowance	0.5
	- Laptop computers	1
	- Electric vehicle	1
	- Rental income from warehouse	0.5
	- Dividend on Hong Kong listed shares	1
	- Gains from foreign currency trading	0.5
	- Profits tax payable	1
	Depreciation working:	
	- Written down value b/f	0.5
	- Motor vehicle trade in	1
	- Furniture damaged and written off	0.5
	- Annual allowance (0.5 each)	1
Total 15 marks		

© ACCA 2027-2028 All rights reserved.