

## AIA Professional Qualification

Candidates should also refer to the Professional Qualification (PQ) Programme. The Hong Kong Taxation version forms part of the PQ Programme.

### Taxation (Hong Kong)

The professional accountant frequently encounters issues which require an understanding of taxation not only in order to provide specific taxation related services but to evaluate the taxation implications of an alternative course of action. A professional accountant must therefore appreciate the liability of individuals and companies to the main HK taxes and the impact those taxes on their situations and decisions. This paper provides a grounding in a variety of HK taxes for a newly-qualified accountant, with a focus on practical scenarios.

The paper is structured to assess the learning outcomes consistent with the International Education Standards (IESs), IES2 Intermediate standard for Taxation and relevant aspects of IES4 (refer to the PQ Programme for the full list of standards).

#### Aims

The aim of this paper is to develop and examine the candidate's:

1. Understanding of the responsibilities of an accountant working in taxation
2. Knowledge of tax legislation across a breadth of taxation topics
3. Ability to apply their knowledge of various Hong Kong taxes in practical situations and their recognition of the cash and other practical implications thereof
4. Understanding of ethics and professional responsibilities relating to taxation across a range of scenarios, including interactions with clients and with the Inland Revenue

#### Learning Outcomes

In order to successfully complete this paper, candidates will demonstrate that they are able to:

1. Use specified tax tables, including selecting the information which applies to a particular entity for given dates
2. Prepare, or critically assess, direct and indirect tax computations for natural persons, unincorporated entities and artificial legal persons
3. Advise on the practical aspects of tax, both commercially (tax as a cost and a cash outflow) and regarding dealing with the relevant authorities (reporting, payment, and consequences of non-compliance)
4. Recognise the ethical and regulatory issues facing an accountant working in taxation

### Structure of the paper

Assessment is by a three-hour 15-minute examination (including 15 minutes reading time) consisting of between three and six compulsory questions, some divided into sub-requirements. All questions compulsory.

Specified tax tables may be used during the exam. Candidates should use the specified tax tables at the end of the syllabus, which will also form part of the exam

All questions are in an unstructured written format, based on case study/scenarios. The allocation of marks to parts of questions will be disclosed in the examination paper.

The emphasis will be on competence, compliance and practical dealings with the Inland Revenue, rather than planning or speculation.

## Syllabus

### 1. The Hong Kong taxation system and tax administration (Learning Outcomes 2, 3, 4)

Topic Weighting 5-10%

- Basic structure of the Hong Kong taxation system
- Sources of Hong Kong tax law, including statutes, case law, Board of Review decisions, departmental interpretation and practice notes
- Basic structure, powers and functions of the Inland Revenue Department, Board of Review and Board of Inland Revenue
- Rights and obligations of taxpayers and employers
- Returns and information
- Assessments and provisional tax
- Objection and appeal procedures, error or omission claim
- Payment, recovery, hold-over and refund of tax
- Offences and penalties

### 2. Property Tax (Learning Outcomes 1, 2, 3, 4)

Topic Weighting 5-10%

- Scope of charge
- Ascertainment of assessable value and net assessable value, including the treatments of premium and irrecoverable rent
- Computation of property tax liability
- Exemption and relief provisions

### 3. Salaries Tax (Learning Outcomes 1, 2, 3, 4)

Topic Weighting 20%

- Scope of charge
- Source of income from office, employment and pension
- Exemptions
- Time-basis assessments
- Taxability of income and benefits-in-kind
- Expenses and deductions
- Personal allowances
- Treatment of lump-sum receipt and losses

- Ascertainment of assessable income, net assessable income and net chargeable income
- Computation of salaries tax liability, including special employees such as seamen and aircrew
- Taxation of married persons

#### 4. Profits Tax (Learning Outcomes 1, 2, 3, 4)

Topic Weighting 30-40%

- Scope of charge
- Badges of trade
- Source of profits
- Deemed trading receipts
- Distinction between capital and revenue receipts and expenditures
- Taxability of receipts
- Deductibility of expenses
- Treatment of losses
- Ascertainment of assessable profits
- Computation of profits tax liability
- Partnership, including computation and allocation of profits/losses
- Depreciation allowances for plant and machinery
- Industrial building allowance
- Commercial building allowance
- Exemptions and reliefs
- Determination of basis period, including commencement and cessation of business and change of accounting date
- Special classes of business: insurance business, shipping business, clubs and trade associations, financial institutions, aircraft business

#### 5 Personal Assessment (Learning Outcomes 1, 2, 3, 4)

Topic Weighting 5-10%

- Election for personal assessment
- Ascertainment of total income
- Deductions and allowances
- Treatment of losses
- Computation of tax under personal assessment

#### 6 Stamp Duty (Learning Outcomes 1, 2, 3, 4)

Topic Weighting 10-15%

- Scope of charge
- Conveyance on sale and agreement for sale of immovable property
- Lease of immovable property
- Hong Kong stock

- Hong Kong bearer instrument, duplicate and counterpart
- Voluntary disposition
- Exemptions and reliefs
- Adjudication, assessment and administration

7 Ethics, Tax Planning, Anti-Avoidance and Overseas Activities (Learning Outcomes 1, 2, 3, 4)

Topic Weighting 5-10%

- Fundamental ethics principles
- Ethical and legal considerations in relation to tax compliance engagements and tax planning
- Tax planning for individuals and corporations
- Anti-avoidance provisions
- Double taxation relief

**Specified Tax Tables**

You should use the Tax Tables below as part of your studies.

These tables will also be part of the online exam and appear onscreen as an Exhibit for you to view.

**HONG KONG TAX RATES AND ALLOWANCES**

**PERSONAL ALLOWANCES**

	<u>2019/20</u>	<u>2020/21</u>
	HK\$	HK\$
Basic allowance	132,000	132,000
Married person's allowance	264,000	264,000
Dependent parent/grandparent allowance (each)		
Basic	50,000	50,000
- If aged 55 or above but below 60	25,000	25,000
Additional	50,000	50,000
- If aged 55 or above but below 60	25,000	25,000

Child allowance		
First to ninth (each)	120,000	120,000
For year of birth only	120,000	120,000
Single parent allowance	132,000	132,000
Personal disability allowance	75,000	75,000
Disabled dependant allowance (each)	75,000	75,000
Dependent brother/sister allowance (each)	37,500	37,500

**DEDUCTIONS (Maximum limits)**

	<u>2019/20</u>	<u>2020/21</u>
	HK\$	HK\$
Self-education expenses	100,000	100,000
Elderly residential care expenses	100,000	100,000
Home loan interest	100,000	100,000
Contributions to recognised retirement schemes	18,000	18,000

Qualifying premiums under VHIS policy (for each insured person)	8,000	8,000
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Qualifying annuity premiums and tax deductible MPF voluntary contributions	60,000	60,000
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#### SALARIES TAX RATES

	<u>2019/20</u>	<u>2020/21</u>
Standard rate	15%	15%
Progressive rates		
Upon the first HK\$50,000	2%	2%
Upon the next HK\$50,000	6%	6%
Upon the next HK\$50,000	10%	10%
Upon the next HK\$50,000	14%	14%
Upon the remainder	17%	17%

#### PROFITS TAX RATES

	<u>2019/20</u>	<u>2020/21</u>
Corporation		
First HK\$2,000,000 <sup>^</sup>	8.25%	8.25%
Remainder	16.5%	16.5%

Unincorporated business

First HK\$2,000,000 <sup>^</sup>	7.5%	7.5%
Remainder	15%	15%

<sup>^</sup> If the two-tiered profits tax rates apply

#### PROPERTY TAX RATES

	<u>2019/20</u>	<u>2020/21</u>
Standard rate	15%	15%

#### STAMP DUTY RATES

Share transfers 0.2%

Leases (as percentage of average yearly rent)

Term undefined	0.25%
Not exceeding 1 year	0.25%
Not exceeding 3 years	0.5%
Exceeding 3 years	1%

Ad valorem stamp duty (from 5 November 2016 to 25 November 2020)

	Scale 1		Scale 2
	Part 1	Part 2	
Not exceeding HK\$2,000,000		1.5%	HK\$100
HK\$2,000,001 – HK\$3,000,000		3%	1.5%

HK\$3,000,001 – HK\$4,000,000	15%	4.5%	2.25%
HK\$4,000,001 – HK\$6,000,000		6%	3%
HK\$6,000,001 – HK\$20,000,000		7.5%	3.75%
Exceeding HK\$20,000,000		8.5%	4.25%

\* Before taking marginal relief into consideration

Buyer's stamp duty	15%
Special stamp duty (for acquisition on/after 27 October 2012)	
Holding period of 6 months or less	20%
Holding period of more than 6 months but 12 months or less	15%
Holding period of more than 12 months but 36 months or less	10%

### Relationship to Qualification Structure

This is a stand-alone tax paper, required because a professional accountant must appreciate the liability of and impact on individuals and companies to the main taxes in Hong Kong.

Candidates will be required to demonstrate their ability to integrate tax knowledge, technical competence and other skills effectively in responding to the complex situations represented in the multi-disciplinary case study examination.

### Ethics

Ethical and related regulatory issues arising in taxation work may be examined in every paper, making up around 5% of the examination. The subject of ethics will be examined as part of any one of the tax-technical question scenarios, with its own requirement within this.

Possible scenarios to include the challenges faced when an accountant's duty to a client conflicts with the duty to the Inland Revenue and/or the public interest. Candidates will be expected to provide answers in accordance with the IESBA International Code of Ethics for Professional Accountants in relation to taxation.



## Recommended Reading Lists

### **AIA Magazine – International Accountant**

ISSN: 1465-5144

### **Taxation in Hong Kong: A Practical Guide (2020/21 Edition)**

Authors: Wong, Percy, and Wong, Jody

Publisher: Wolters Kluwer Hong Kong Limited

ISBN: 978-988-78405-9-6

### **Hong Kong Taxation and Tax Planning 19<sup>th</sup> Edition**

Author: Ho, Patrick, and Mak, Kelvin

Publisher: Pilot Publishing Company Ltd

ISBN: 978-988-8652-13-6

### **Inland Revenue Ordinance (Chapter 112) and Inland Revenue Rules Stamp Duty Ordinance (Chapter 117)**

Website: [www.elegislation.gov.hk](http://www.elegislation.gov.hk)

### **Departmental Interpretation and Practice Notes**

Publisher: Inland Revenue Department / Stamp Office

Website: [www.ird.gov.hk](http://www.ird.gov.hk)

## Additional reference reading

### **Hong Kong Taxation: Law and Practice (2018-19 Edition)**

Author: Macpherson, A., and Olesnick, M.

Publisher: The Chinese University Press

ISBN: 978-988-237-107-1

### **Hong Kong Tax Law: Cases and Materials (6<sup>th</sup> Edition)**

Author: Halkyard, A., VanderWolk, J. and Chow, W.

Publisher: LexisNexis Hong Kong

ISBN: 978-988-8231416

### **Hong Kong Board of Review Decisions**

Website: [www.info.gov.hk/bor/en/published-decisions.htm](http://www.info.gov.hk/bor/en/published-decisions.htm)

### **Hong Kong Tax Cases**

Website: <http://legalref.judiciary.gov.hk>

### **Hong Kong Tax Alert**

Publisher: KPMG

Website: <https://home.kpmg/cn/en/home/insights/2021/01/hk-tax-alert.html>

### **Hong Kong Tax News Flash**

Publisher: PricewaterhouseCoopers

Website: [www.pwchk.com/home/eng/taxlibrary\\_hktax.html](http://www.pwchk.com/home/eng/taxlibrary_hktax.html)