# Taxation – Hong Kong (HKG)(F6) June & December 2011

This syllabus and study guide is designed to help with planning study and to provide detailed information on what could be assessed in any examination session.

## THE STRUCTURE OF THE SYLLABUS AND STUDY GUIDE

### Relational diagram of paper with other papers

This diagram shows where any direct and indirect links between this paper and other papers preceding or following it. Some papers are directly underpinned by other papers such as Advanced Performance Management by Performance Management. These links are shown as solid line arrows. Other papers only have indirect relationships with each other, such as links existing between the accounting and auditing papers. The links between these are shown as dotted line arrows. This diagram indicates where you are expected to have underpinning knowledge and where it would be useful to review previous learning before undertaking study.

### Overall aim of the syllabus

This explains briefly the overall objective of the paper and indicates in the broadest sense the capabilities to be developed within the paper.

### Main capabilities

This paper's aim is broken down into several main capabilities which divide the syllabus and study guide into discrete sections.

### Relational diagram of the main capabilities

This diagram illustrates the flows and links between the main capabilities (sections) of the syllabus and should be used as an aid to planning teaching and learning in a structured way.

### Syllabus rationale

This is a narrative explaining how the syllabus is structured and how the main capabilities are linked. The rationale also explains in further detail what the examination intends to assess and why.

### Detailed syllabus

This shows the breakdown of the main capabilities (sections) of the syllabus into subject areas. This is the blueprint for the detailed study guide.

### Approach to examining the syllabus

This section briefly explains the structure of the examination and how it is assessed.

### Study Guide

This is the main document that students, tuition providers and publishers should use as the basis of their studies, instruction and materials. Examinations will be based on the detail of the study guide which comprehensively identifies what could be assessed in any examination session. The study guide is a precise reflection and breakdown of the syllabus. It is divided into sections based on the main capabilities identified in the syllabus. These sections are divided into subject areas which relate to the sub-capabilities included in the detailed syllabus. Subject areas are broken down into sub-headings which describe the detailed outcomes that could be assessed in examinations. These outcomes are described using verbs indicating what exams may require students to demonstrate and the broad intellectual level at which these may need to be demonstrated (*See intellectual levels below).

### Reading lists

ACCA has one Approved Learning Partner – Content (Platinum) which is BPP Learning Media. In addition there are ALP–c (Gold) who also publish text books for ACCA examinations.

BPP and the Gold ALP-c base their study texts on the detailed contents of the study guides as published by ACCA. All approved study content providers will be subject to extensive quality assurance by ACCA, but the highest level of approval - Platinum - will benefit from an exclusive examiner review of content. There will be only one

Platinum approved study content provider over a three-year period, and BPP Learning Media are ACCA's inaugural Platinum study content provider.

In addition ACCA examiners may also suggest other text books where appropriate, which students can refer to when widening their reading beyond the approved study texts. These are listed at the end of this study guide.

A learning content provider for study and/or revision material and/or extra reading can be found by searching for your paper within the following link.

http://www.accaglobal.com/learningproviders/alpc/content_provider_directory/search/

Relevant articles will also be published in *student accountant.*

## INTELLECTUAL LEVELS

The syllabus is designed to progressively broaden and deepen the knowledge, skills and professional values demonstrated by the student on their way through the qualification. The specific capabilities within the detailed syllabuses and study guides are assessed at one of three intellectual or cognitive levels:

Level 1: Knowledge and comprehension
Level 2: Application and analysis
Level 3: Synthesis and evaluation

Very broadly, these intellectual levels relate to the three cognitive levels at which the Knowledge module, the Skills module and the Professional level are assessed.

Each subject area in the detailed study guide included in this document is given a 1, 2, or 3 superscript, denoting intellectual level, marked at the end of each relevant line. This gives an indication of the intellectual depth at which an area could be assessed within the examination. However, while level 1 broadly equates with the Knowledge module, level 2 equates to the Skills module and level 3 to the Professional level, some lower level skills can continue to be assessed as the student progresses through each module and level. This reflects that at each stage of study there will be a requirement to broaden as well as deepen capabilities. It is also possible that occasionally some higher level capabilities may be assessed at lower levels.

## LEARNING HOURS

The ACCA qualification does not prescribe or recommend any particular number of learning hours because increasingly study and learning patterns and styles vary greatly between people and organisations and in different personal, professional and educational circumstances.

Each syllabus contains between 23 and 35 main subject area headings depending on the nature of the subject and how these areas have been broken down in those particular papers.

## GUIDE TO EXAM STRUCTURE

The structure of examinations varies within and between modules and levels.

The Fundamentals level examinations contain 100% compulsory questions to encourage candidates to study across the breadth of each syllabus.

The Knowledge module is assessed by equivalent two-hour paper based and computer based examinations.

The Skills module examinations are all paper based three-hour papers. The structure of papers varies from ten questions in the *Corporate and Business Law* (F4) paper to four 25 mark questions in *Financial Management* (F9). Individual questions within all Skills module papers will attract between 10 and 30 marks.

The Professional level papers are all three-hour paper based examinations, all containing two sections. Section A is compulsory, but there will be some choice offered in Section B.

For all three hour examination papers, ACCA has introduced 15 minutes reading and planning time.

This additional time is allowed at the beginning of each three-hour examination to allow candidates to read the questions and to begin planning their answers before they start writing in their answer books. This time should be used to ensure that all

the information and exam requirements are properly read and understood.

During reading and planning time candidates may only annotate their question paper. They may not write anything in their answer booklets until told to do so by the invigilator.

The Essentials module papers all have a Section A containing a major case study question with all requirements totalling 50 marks relating to this case. Section B gives students a choice of two from three 25 mark questions.

Section A of each of the Options papers contains 50-70 compulsory marks from two questions, each attracting between 25 and 40 marks. Section B will offer a choice of two from three questions totalling 30-50 marks, with each question attracting between 15 and 25 marks.
The pass mark for all ACCA Qualification examination papers is 50%.

**GUIDE TO EXAMINATION ASSESSMENT**

ACCA reserves the right to examine anything contained within the study guide at any examination session. This includes knowledge, techniques, principles, theories, and concepts as specified.

For the financial accounting, audit and assurance, law and tax papers except where indicated otherwise, ACCA will publish *examinable documents* once a year to indicate exactly what regulations and legislation could potentially be assessed within identified examination sessions..

For paper based examinations regulation ***issued*** or legislation ***passed*** on or before 30th September annually, will be assessed from June 1st of the following year to May 31st of the year after. Please refer to the examinable documents for the paper for more information.

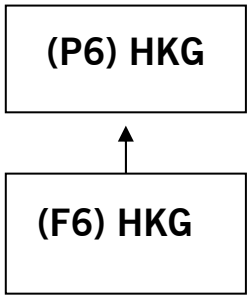
Regulation issued or legislation passed in accordance with the above dates may be examinable even if the ***effective*** date is in the future.

The term issued or passed relates to when regulation or legislation has been formally approved.

The term effective relates to when regulation or legislation must be applied to an entity transactions and business practices.

The study guide offers more detailed guidance on the depth and level at which the examinable documents will be examined. The study guide should therefore be read in conjunction with the examinable documents list.

# Syllabus




**AIM**

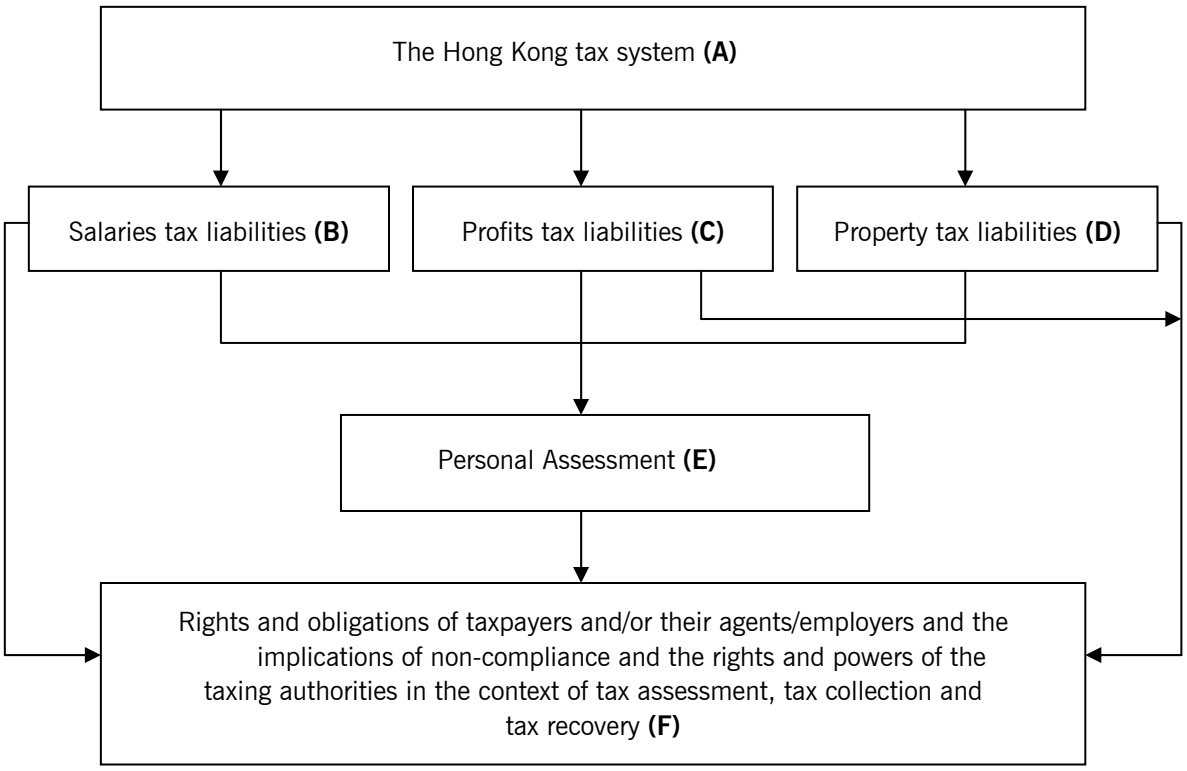
To develop knowledge and skills relating to the tax system as applicable to individuals and companies.

**MAIN CAPABILITIES**

After completing this examination paper students should be able to:

**A** Explain the operation, scope and functions of the Hong Kong tax system.
**B** Explain and compute the salaries tax liabilities of individuals, including employees, office holders and pension-earners.
**C** Explain and compute the profits tax liabilities of incorporated and unincorporated businesses, either resident or non-resident.
**D** Explain and compute the property tax liabilities of property income earners.
**E** Explain and compute the tax liabilities under personal assessment.
**F** Identify and explain the rights and obligations of taxpayers and/or their agents and the implications of non-compliance and the rights and powers of the taxing authorities in the context of tax assessment, tax collection and tax recovery.

**RELATIONAL DIAGRAM OF MAIN CAPABILITIES**



## RATIONALE

This syllabus introduces candidates to the subject of taxation and provides the core knowledge of the underlying principles and major technical areas of taxation, as they affect the activities of individuals and businesses.

In this syllabus, candidates are introduced to the rationale behind and the functions of the tax system. The syllabus then considers the separate taxes that an accountant would need to have a detailed knowledge of, such as the salaries tax liabilities of individuals; the profits tax liabilities of incorporated and unincorporated businesses; the property tax liabilities of property income earners and the tax liabilities under personal assessment.

Having covered the core areas of the basic taxes, the candidate should be able to compute tax liabilities, explain the basis of their calculations, apply tax planning techniques for individuals and companies and identify the compliance issues for each major tax through a variety of business and personal scenarios and situations.

## DETAILED SYLLABUS

### A The HK tax system

1. The overall function and purpose of taxation in a modern economy
2. Different types of taxes
3. Principal sources of tax law and practice
4. Tax avoidance and tax evasion

### B Salaries tax liabilities

1. The scope of the salaries tax charge
2. Basic understanding of the source principle
3. Income from employment, office and pension
4. The comprehensive computation of net chargeable income and salaries tax liability
5. The use of exemptions and reliefs in deferring and minimising salaries tax liabilities

### C Profits tax liabilities

1. The scope of the profits tax charge
2. Basic understanding of the source principle
3. Profits and deemed receipts chargeable to profits tax
4. The comprehensive computation of assessable profits and profits tax liabilities
5. Basis period for profits tax assessments
6. The use of exemptions and reliefs in deferring and minimising profits tax liabilities
7. Transactions with closely connected non-residents

### D Property tax liabilities

1. The scope of the property tax charge
2. Income chargeable to property tax
3. The comprehensive computation of net assessable value and property tax liabilities
4. The use of exemptions and reliefs in deferring and minimising property tax liabilities

### E Personal assessment

1. The election for personal assessment
2. The comprehensive computation of total income under personal assessment and tax liabilities

### F Rights and obligations of taxpayers and/or their agents/employers; and the implications of non compliance and the rights and powers of taxing authorities in the context of tax assessment, collection and recovery

1. Duties and liabilities of taxpayers and/or their agents/employers
2. Powers of the taxing authorities to issue tax assessments, collect taxes and/or recover taxes

3. Rights of taxpayers of objection, correction of errors, appeal and holdover

4. Offences, penalties and other consequences of non-compliance

**APPROACH TO EXAMINING THE SYLLABUS**

The paper will be mainly computational and will have five questions, all of which will be compulsory.

- Questions one and two will be for a total of 55 marks with one of the questions being for 30 marks and the other for 25 marks. One of these two questions will focus on salaries tax and the other question will focus on profits tax.

- Question three will be for 20 marks, and will focus on property tax, personal assessment and/or partnership.

- Questions four and five will be on any other area of the syllabus and will be for 15 marks and 10 marks respectively.

Property tax, partnership and personal assessment, to the extent not examined in Question three, may be included as part of the other questions.

There will always be some marks on each paper relating to assessment of tax and tax administration. These marks might be included as part of one or more questions and/or as a separate single question.

Any of the five questions might include the consideration of issues relating to the minimisation or deferral of tax liabilities.

Tax rates, statutory allowances and reliefs/deductions will always be given in the examination paper, regardless of whether or not they are relevant to the questions set.

# Study Guide

## A THE HONG KONG TAX SYSTEM

### 1. The overall function and purpose of taxation in a modern economy

a) Describe the purpose (economic, social etc) of taxation in a modern economy.[2]

b) Describe the characteristics of the HK tax system.[2]

### 2. Different types of taxes

a) Identify the different types of tax.[1]

b) Explain the difference between direct and indirect taxation.[2]

### 3. Principal sources of tax law and practice

a) Describe the overall structure of the HK tax system.[1]

b) State the different sources of tax law and practice.[1]

c) Appreciate the interaction of the HK tax system with that of other tax jurisdictions.[2]

### 4. Tax avoidance and tax evasion

a) Explain the difference between tax avoidance and tax evasion.[1]

b) Explain the need for an ethical and professional approach.[2]

**Excluded topics**

- *Anti avoidance legislation under s.9A, s.20AE, s.22B, s.39E, s.61, s.61A and s.61B*
- *Service companies.*

## B SALARIES TAX LIABILITIES

### 1. The scope of the salaries tax charge

a) Explain the basic charge and extended charge to salaries tax.[2]

b) Define the terms 'office', 'employment' and 'pension'.[2]

c) Recognise the factors that determine whether an engagement is treated as employment or self-employment and the implications thereof.[2]

d) Explain the circumstances under which a resident or non-resident individual is chargeable to Hong Kong salaries tax.[2]

e) Explain the 60-day rule and the meaning of 'visit'.[2]

f) Understand and explain assessment on a time basis.[2]

**Excluded topics**

- *Double taxation relief except unilateral reliefs.*
- *Service companies.*
- *Income from trusts and settlements.*

### 2. Basic understanding of the source principle

a) Explain the meaning of 'income arising in or derived from Hong Kong'.[1]

b) Explain and apply the basic principles for determining the source of income from employment, office and pension.[2]

### 3. Income from employment, office and pension

a) Understand and explain the general principles of taxing receipts and benefits.[2]

b) Understand and explain the specific taxable and non-taxable receipts and benefits.[2]

c) Understand and explain the tax treatments for lump sum receipts and losses.[2]

d) Understand and explain the general principles for deductions and exemptions.[2]

e) Understand and explain the specific deductible and non-deductible items.[2]

f) Explain the tax treatment of depreciation allowance and balancing adjustments.[2]

g) Explain the tax treatment of losses.[2]

**4. The comprehensive computation of net chargeable income and salaries tax liability**

a) Compute the assessable receipts and benefits.[2]

b) Recognise and compute the allowable deductions and exemptions.[2]

c) Calculate the depreciation allowances and balancing adjustments.[2]

d) Understand the conditions for granting personal allowances and the tax treatment of concessionary deductions.[2]

e) Compute the amount of net chargeable income.[2]

f) Compute the salaries tax payable, including provisional salaries tax.[2]

g) Compute the salaries tax payable for a husband and wife, under separate taxation and joint assessment.[2]

**5. The use of exemptions and reliefs in deferring and minimising salaries tax liabilities**

a) Understand and explain the available statutory exemptions and reliefs or deductions.[2]

b) Understand and explain the different tax treatments available to certain remuneration items.[2]

c) Comment and suggest how different elements of a remuneration package can be structured in a income tax efficient way.[2]

## C PROFITS TAX LIABILITIES

**1. The scope of the profits tax charge**

a) Define the terms 'year of assessment', 'basis period' and 'financial year'.[1]

b) Explain the basic charge to profits tax under the 'two-limb' concept.[2]

c) Define the terms 'trade', 'profession' and 'business'.[1]

d) Describe and apply the badges of trade.[2]

e) Distinguish between 'carrying on business in Hong Kong' and 'carrying on business with Hong Kong'.[1]

f) Define 'partnership', 'club' and 'trade association' for tax purposes.[1]

g) Explain the special tax rules applicable to partnership, club and trade association.[1]

**Excluded topics**

- *Companies in receivership or liquidation.*
- *Reorganisations, mergers and acquisitions.*
- *Service companies.*

**2. Basic understanding of the source principle**

a) Explain the meaning of 'profits arising in or derived from Hong Kong'.[1]

b) Explain and apply the basic principles for determining the source of profits.[2]

**Excluded topics**

- *Double tax relief except unilateral reliefs.*

**3. Profits and deemed receipts chargeable to profits tax**

a) Understand and explain the general principles for taxing receipts and income.[2]

b) Understand and explain 'deemed trading receipts'.[1]

c) Explain and apply the general tests to distinguish between capital and revenue receipts and expenditure.[2]

d) Understand and explain the statutory specific taxable receipts and specific non-taxable receipts.[2]

e) Understand and explain the general principles for deductions and exemptions.[2]

f) Understand and explain the statutory specific deductible items and non-deductible items.[2]

g) Depreciation allowances:
   i) Define 'plant and machinery', 'industrial building' and 'commercial building'.[1]
   ii) Understand and explain the depreciation allowance treatments for plant and machinery including that acquired under hire purchase, partly used for business, succeeded from another trade, or put out of use after the cessation of business.[2]
   iii) Understand and explain the depreciation allowance treatments for industrial buildings and commercial buildings.[2]
   iv) Understand and explain the balancing adjustments on the disposal of plant and machinery, industrial buildings and commercial buildings.[2]
   v) Compute depreciation allowances and balancing adjustments for tax purposes.[2]

h) Explain and apply the tax treatments for pre-commencement income/expenditure and post-cessation receipts and/or payments.[2]

i) Understand and explain how a partnership is assessed to tax.[2]

j) Understand and explain the special tax rules and treatments applicable to the profits of clubs and trade associations.[2]

k) Explain the tax implications and treatments of income/expenses arising from transactions with closely connected non-residents under s.20.[2]

l) Understand and explain the relief for overseas tax paid under s.16(1)(c).[2]

**Excluded topics**

- *Specific tax treatments for special industries other than clubs and trade associations.*
- *Service companies.*

**4. The comprehensive computation of assessable profits and profits tax liabilities**

a) Compute assessable profits for profits tax.[2]

b) Explain and apply the relief for trading losses for incorporated and unincorporated businesses including partnership.[2]

c) Compute the profits tax payable, including provisional profits tax.[2]

d) Understand and compute the allocation (and re-allocation) of a partnership profit or loss amongst partners; including corporate partners, unincorporated partners, changes in partners and changes in profit-sharing ratio.[2]

**5. Basis period for profits tax assessments**

a) Ascertain the 'year of commencement', 'basis period' and relevant year of assessment for a commencing business; and calculate the assessable profits for the year of commencement.[2]

b) Ascertain the 'year of cessation', 'basis period' and relevant year of assessment for a ceasing business; and calculate the assessable profits for the year of cessation.[2]

c) Ascertain the 'year of change' of accounting date, 'basis period' and relevant year of assessment for an affected business; and calculate the assessable profits for the year of change and the preceding year.[2]

**6. The use of exemptions and reliefs in deferring and minimising profits tax liabilities. The use of such exemptions and reliefs is implicit within all of the above sections 1 to 5 of part C of the syllabus, concerning profits tax.**

## D PROPERTY TAX LIABILITIES

**1. The scope of the property tax charge**

a) Explain the basic charge to property tax.[2]

b) Define the terms 'owners' and 'land and buildings'.[1]

**2. Income chargeable to property tax**

a) Define 'assessable value'.[2]

b) Explain and recognise the tax treatment of lump sum premiums and irrecoverable rent.[2]

c) Explain and understand the statutory specific deductible items.[2]

**3. The comprehensive computation of net assessable value and property tax liabilities**

a) Ascertain and compute the 'assessable value' for property tax purposes.[2]

b) Ascertain and compute the 'net assessable value' for property tax purposes.[2]

c) Compute the property tax payable, including provisional property tax.[2]

**4. The use of exemptions and reliefs in deferring and minimising property tax liabilities**

a) Recognise and explain the exemptions available to incorporated and unincorporated businesses subject to both profits tax and property tax.[2]

b) Compare the tax position of an incorporated property owner with that of an individual property owner.[2]

## E PERSONAL ASSESSMENT

**1. The election for personal assessment**

a) Explain the advantages of an election for personal assessment.[1]

b) Explain who may elect for personal assessment.[1]

c) Recognise the procedures for electing for personal assessment.[1]

**2. The comprehensive computation of total income under personal assessment and tax liabilities**

a) Calculate the total income under personal assessment.[2]

b) Determine the eligible personal allowances under personal assessment.[2]

c) Calculate the tax liabilities under personal assessment for an individual and a married couple.[2]

d) Recognise and explain the tax treatments of deductions or losses for an individual and a married couple under personal assessment.[2]

## F RIGHTS AND OBLIGATIONS OF TAXPAYERS AND/OR THEIR AGENTS AND THE IMPLICATIONS OF NON-COMPLIANCE AND THE RIGHTS AND POWERS OF TAXING AUTHORITIES IN THE CONTEXT OF TAX ASSESSMENT, COLLECTION AND RECOVERY

**1. Duties and liabilities of taxpayers and/or their agents**

a) Explain the compliance obligations of a taxpayer and/or his agent.[1]

b) Explain the compliance obligations of an employer.[1]

c) Explain the taxpayer's obligations in respect of tax payment.[1]

**2. Powers of the taxing authorities to issue tax assessments, collect taxes and/or recover taxes**

a) Explain the circumstances under which assessments, additional assessments, and provisional assessments are issued, and their respective characteristics.[2]

b) Explain the powers of the taxing authorities for tax collection and recovery.[1]

c) Explain the powers of the taxing authorities for the requisition of information for assessment purposes.[1]

**Excluded topics**

- *Tax investigations and audits.*

**3. Rights of taxpayers of objection, correction of errors, appeal and holdover**

a) Explain the taxpayer's rights to objections and appeal, and the required conditions.[2]

b) Explain the taxpayer's rights to the holdover and refund of tax, and the required conditions.[2]

c) Explain the taxpayer's rights for reopening assessments, correcting errors, and the required conditions.[2]

**4. Offences, penalties and other consequences of non-compliance**

a) Explain the rights of the taxing authorities to take various recovery actions for default in tax payments.[1]

b) Describe the statutory penalties available in relation to different types of non-compliance offences.[1]

c) Explain the term 'reasonable excuse'.[2]

**READING LIST**

This section only contains examiner suggested reading which is in addition to the study texts and/or revision materials and/or other reading listed within the learning content provider directory.

**Additional examiner suggested reading:**

**Inland Revenue Ordinance**

**Inland Revenue Departmental Interpretation and Practice Notes**

Smith & Macpherson
**Hong Kong Taxation: Law & Practice**
The Chinese University Press

**Hong Kong Master Tax Guide**
CCH

Patrick Kin Wai Ho
**Hong Kong Taxation and Tax Planning**
PPC

Dora Lee & Ho Chi Ming
**Advanced Taxation in Hong Kong**
Longman

Samuel Chan & Daniel Cheung
**Hong Kong Taxation Study Text**
APS

**Inland Revenue Department website:**
http://www.ird.gov.hk/eng/welcome.htm

Further details on reading lists and Approved Learning Content can be found in the first few sections of this guide and on the following link.

http://www.accaglobal.com/learningproviders/alpc/content_provider_directory/search/