

PART A PRO FORMA PROFITS TAX COMPUTATION

Business Name: _____ File No.: _____

Year of Assessment : _____ / _____

<u>Item</u>	HK\$	HK\$
(1) Net Profit/(Loss) per the financial statements attached from _____ to _____		_____ (A)

ADDITIONS: Non-deductible expenses charged in the financial statements:—
(see Section G of Notes and Instructions—Form BIR52)

(2) Salaries/drawings paid to proprietor (or spouse)/partner (or spouse)	_____	
(3) Share of motor car, entertainment, residential and utility expenses for private or domestic use	_____	
(4) Cost of local/overseas travelling which is private in nature	_____	
(5) Messing/meals and other benefits for proprietor (or spouse)/partner (or spouse)	_____	
(6) Interest on capital or loan account paid to proprietor (or spouse)/partner (or spouse)	_____	
(7) Rent paid to proprietor	_____	
(8) Contributions to Mandatory Provident Fund Scheme (MPFS) for the proprietor or any partner in excess of the amount allowable under the Inland Revenue Ordinance, and any contributions to MPFS for the spouse of the proprietor or any partner (see note B-1 in Part B)	_____	
(9) Commissions without details of recipients	_____	
(10) Penalties and fines	_____	
(11) Donations not made to approved charitable organizations	_____	
(12) Interest not incurred in the production of chargeable profits	_____	
(13) Cost of purchase of machinery or plant, furniture and fixtures	_____	
(14) Depreciation not calculated in accordance with the Inland Revenue Ordinance	_____	
(15) Profits Tax, Property Tax paid/payable	_____	
(16) Loss on disposal of machinery or plant, decoration, furniture and other fixed assets	_____	
(17) Balancing charge (if the disposal proceeds in a Depreciation Allowance Pool exceed the <u>sum</u> of (i) reducing value b/f and (ii) the total new assets after deducting initial allowances)	_____	
(18) Other expenses or losses not allowable for tax purposes (please specify)	_____	
Sub-total of (2) to (18)		_____ (B)
Sub-total of (A) and (B)		_____ (C)

DEDUCTIONS : Allowable expenses or non-assessable income:—
(see Section G of Notes and Instructions—Form BIR52)

(19) Net interest income exempted from payment of Profits Tax	_____
(20) Purchase cost of prescribed machinery / plant used for manufacturing purposes, e.g. type and blocks, bleaching, electronics / plastic / silk / textile manufacturing, weaving, spinning, knitting and sewing machineries	_____

<u>Item</u>	HK\$	HK\$
(21) Purchase cost of computer hardware and software	_____	
(22) Gain on disposal / sale of fixed assets	_____	
(23) Dividend and other non-assessable profits (please specify) _____	_____	
(24) Mandatory contributions under the Mandatory Provident Fund Schemes Ordinance made in respect of the proprietor or any partner not charged in the financial statements (see note B-1 in Part B)	_____	
(25) Capital expenditure on environmental protection facilities (applicable from year of assessment 2008/09 onwards)	_____	
(26) Depreciation allowance calculation (see example B-2 in Part B) :-	_____	

	<u>10% Pool</u>	<u>20% Pool</u>	<u>30% Pool</u>	<u>Total Allowance</u>
Reducing value b/f				
Add : total new assets	_____	_____	_____	
Less : initial allowance	_____	_____	_____	(D1)
Less : disposal proceeds (restricted to cost)	_____	_____	_____	
Less : annual allowance	_____	_____	_____	(D2)
Reducing value c/f	_____	_____	_____	
Less : portion for private use	_____	_____	_____	(D3)

Total depreciation allowances on machinery or plant (D1)+(D2)-(D3) =	_____	(D)
(27) Industrial building allowance (see example B-3 in Part B)	_____	
(28) Commercial building allowance (see example B-4 in Part B)	_____	
Sub-total of (19) to (28)	_____	(E)
Assessable Profits (C) - (E)	=====	
Adjusted Loss (C) - (E)	=====	

(29) Allocation of Assessable Profits or Adjusted Loss among partners (For completion of Item 6.2 of BIR52) (see example B-5 in Part B)

<u>Name of Partners</u>	<u>Emoluments and interest on capital</u> HK\$	<u>Profit/Loss Sharing Ratio</u> %	<u>Balance</u> HK\$	<u>Share of Assessable Profits or Adjusted Loss</u> HK\$
(1) _____	_____	_____	_____	_____
(2) _____	_____	_____	_____	_____
(3) _____	_____	_____	_____	_____
(4) _____	_____	_____	_____	_____
(5) _____	_____	_____	_____	_____
TOTAL	=====	100	=====	=====

PART B NOTES AND EXAMPLES

B-1 Contributions to Mandatory Provident Fund Scheme (items 8 and 24 of pro forma computation)

Maximum allowable amount for the deduction:—

		<i>Year of Assessment</i>				
<u>2008/09 to 2011/12</u>		<u>2012/13</u>	<u>2013/14</u>	<u>2014/15</u>	<u>2015/16 onwards</u>	
\$		\$	\$	\$	\$	
12,000		14,500	15,000	17,500	18,000	

B-2 Depreciation Allowance (item 26 of pro forma computation)

1. Machinery or plant ranking for depreciation allowances can be classified into 3 groups:—

<i>Qualifies for</i>	<i>Common examples of machinery or plant in each group</i>
10% annual allowance	• Air-conditioning plant excluding room air-conditioning units
20% annual allowance	• Furniture (excluding soft furnishings which are allowable on replacement basis) • Room air-conditioning units
30% annual allowance	• Motor vehicles, lorries, tractors and bicycles • Concrete pipe moulds

2. Example of Depreciation Allowance Calculation

	20% pool	30% pool	Motor car partly for private use 30%	Total Allowance
\$	\$	\$	\$	\$
Reducing value b/f ⁽¹⁾	6,800	3,300	1,800	
Add : total new assets	2,000			
Less : initial allowance 60%	<u>1,200</u> ⁽²⁾	<u>0</u>	<u>0</u>	<u>1,200</u>
	7,600	3,300	1,800	
Less : total disposal proceeds (restricted to cost)	<u>4,600</u>	<u>0</u>	<u>0</u>	
	3,000	3,300	1,800	
Less : annual allowance	<u>600</u> ⁽³⁾	<u>990</u> ⁽⁴⁾	<u>540</u>	<u>2,130</u>
Reducing value c/f	<u>2,400</u>	<u>2,310</u>	<u>1,260</u>	
				3,330
Less: portion representing private use of motor car ($\frac{1}{3}$)				<u>180</u> ⁽⁵⁾
				<u>3,150</u>

- N.B. (1) For new business, reducing value b/f is zero.
 (2) Cost of total new assets x 60% (rate of initial allowance), i.e. \$2,000 x 60% = \$1,200
 (3) Reducing value x 20% (rate of annual allowance), i.e. \$3,000 x 20% = \$600
 (4) Reducing value x 30% (rate of annual allowance), i.e. \$3,300 x 30% = \$990
 (5) [Initial allowance and annual allowance of the relevant asset] x portion of private use, i.e. (\$0 + \$540) x $\frac{1}{3}$ = \$180

B-3 Industrial Building Allowance (item 27 of pro forma computation)

Example of Industrial Building Allowance Calculation

Location of property _____	\$	\$	Total Allowance \$
Reducing value b/f		—	
Add : Addition of cost of construction	100,000		
Less : initial allowance 20%	<u>20,000</u> ⁽¹⁾	<u>80,000</u>	20,000
		80,000	
Less : annual allowance 4%		<u>4,000</u> ⁽²⁾	<u>4,000</u>
Reducing value c/f		<u>76,000</u>	<u>24,000</u>

- N.B. (1) Cost of construction x 20% (rate of initial allowance), i.e. \$100,000 x 20% = \$20,000
 (2) Cost of construction x 4% (rate of annual allowance), i.e. \$100,000 x 4% = \$4,000

B-4 Commercial Building Allowance (item 28 of pro forma computation)

Example of Commercial Building Allowance Calculation

Location of property _____		Total Allowance
	\$	\$
Cost of construction ⁽¹⁾	50,000	
Less : annual allowance 4%	2,000 ⁽²⁾	2,000
Reducing value c/f	48,000	

N.B. (1) For years of assessment 1998/99 onwards, the deemed cost of construction of a building acquired prior to 1998/99 is the capital expenditure incurred on construction less the aggregate of rebuilding allowances previously granted in all prior years.

(2) Cost of construction x 4% (rate of annual allowance is 2% for years of assessment 1997/98 and before), i.e. \$50,000 x 4% = \$2,000

B-5 Allocation of Assessable Profits or Adjusted Loss (item 29 of pro forma computation)

1. General

- Assessable Profits (or Adjusted Loss) will be allocated to each partner according to his/her profit and loss sharing ratio if none of the partners have drawn emoluments or interest on capital.
- If partners have drawn emoluments or interest on capital, these amounts will be taken into account in the allocation before the residue is shared among the partners.
- If a partnership business has an Assessable Profits, all partners will be allocated a share of profits. In no case will some of the partners be allocated a profit and others a loss. If a partner is allocated a loss in the first allocation as in (E) in the example below, his share of the loss will be re-allocated to the other partners as in (F) in the example below. Similarly, if a partnership business has an Adjusted Loss, all partners will be allocated a share of the loss.

2. Example of Allocation of Assessable profits (or Adjusted loss) among partners

Mr Chan, Mr Choi and Ms Li are partners of a business and they shared the profits or loss equally. The loss per financial statements of the business was \$360,000. The partners, Mr Chan, Mr Choi and Ms Li drew salaries of \$320,000, \$200,000 and \$50,000 respectively. As the partners' salaries are not deductible expenses, the Assessable Profits of the business after the adjustment will be \$210,000.

(A)	(B)	(C)	(D)	(E)	(F)	(G)
Partners	Emoluments and interest on capital	Profit/Loss Sharing Ratio	Share of Balance	Sub-total	Re-allocation	Share of Assessable Profits or Adjusted Loss
Mr CHAN ⁽¹⁾	\$ 320,000 ⁽¹⁾	1/3 ⁽¹⁾	– 120,000 ⁽⁴⁾	200,000 ⁽⁵⁾	– 50,000 ⁽⁷⁾	150,000 ⁽⁸⁾
Mr CHOI ⁽¹⁾	200,000 ⁽¹⁾	1/3 ⁽¹⁾	– 120,000 ⁽⁴⁾	80,000 ⁽⁵⁾	– 20,000 ⁽⁷⁾	60,000 ⁽⁸⁾
Ms LI ⁽¹⁾	50,000 ⁽¹⁾	1/3 ⁽¹⁾	– 120,000 ⁽⁴⁾	– 70,000 ⁽⁵⁾	+70,000 ⁽⁷⁾	NIL ⁽⁸⁾
Total	570,000⁽¹⁾		– 360,000⁽³⁾	210,000⁽⁵⁾		210,000⁽²⁾

(The numbers in brackets demonstrate the sequence of the steps in working through the calculations.)

- Step (1) Fill in the names, emoluments/interest on capital drawn and profit/loss sharing ratios in the respective columns and add up the total in column (B).
- Step (2) Fill in Assessable Profits \$210,000 at the total position of column (G).
- Step (3) Compute the total of column (D) by subtracting the total of column (B) from the total of column (G). The resultant amount may be positive or negative. In this example, it is negative.
 $\$210,000 - \$570,000 = -\$360,000$
- Step (4) Apportion the total balance in accordance with each partner's profit/loss sharing ratio and fill in column (D).
 $-\$360,000 \times 1/3 = -\$120,000$ for each partner.
- Step (5) Add up the emolument/interest on capital (B) and the share of balance (D) for each partner and fill in his/her respective share of Assessable Profits/Adjusted Loss at column (E).
 Mr Chan : $\$320,000 - \$120,000 = \$200,000$
 Mr Choi : $\$200,000 - \$120,000 = \$80,000$
 Ms Li : $\$50,000 - \$120,000 = -\$70,000$
- Step (6) If all the amounts in column (E) are positive for a partnership having an overall assessable profit, or all the amounts are negative for a partnership incurring an overall adjusted loss, the allocation is complete. Each partner's share of assessable profits or adjusted loss is shown in column (E).
- Step (7) However, a reallocation is necessary if there are both positive and negative amounts in column (E), as in this example. The negative amounts (in an overall assessable profit case) or the positive amounts (in an overall adjusted loss case), are to be reallocated to the other partners in proportion to their amounts in column (E). Insert the reallocated amounts in column (F). In this example, Ms Li's negative amount of \$70,000 is reallocated in the ratio of 20 : 8 to Mr Chan and Mr Choi.
 Mr Chan : $\$70,000 \times 200,000 / (\$200,000 + \$80,000) = \$50,000$
 Mr Choi : $\$70,000 \times 80,000 / (\$200,000 + \$80,000) = \$20,000$
- Step (8) After the reallocation, add up the amounts in columns (E) and (F) to arrive at the amounts shared by each partner in column (G). Check whether all the rows and columns can be reconciled. If so, the allocation is complete.