

Fundamentals Level – Skills Module

Taxation (China)

Tuesday 12 June 2012



Time allowed

Reading and planning: 15 minutes

Writing: 3 hours

ALL FIVE questions are compulsory and MUST be attempted.
Tax rates and allowances are on pages 2–3.

Do NOT open this paper until instructed by the supervisor.

During reading and planning time only the question paper may be annotated. You must NOT write in your answer booklet until instructed by the supervisor.

This question paper must not be removed from the examination hall.

The Association of Chartered Certified Accountants

Paper F6 (CHN)

ACCA

SUPPLEMENTARY INSTRUCTIONS

1. Calculations and workings need only be made to the nearest RMB.
2. All apportionments should be made to the nearest month.
3. All workings should be shown.

TAX RATES AND ALLOWANCES

The following tax rates and allowances are to be used in answering the questions.

Enterprise income tax

Income tax for domestic and foreign enterprises	Rate 25%
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Individual income tax

Entrepreneurs who receive production or operation income derived from private industrial or commercial enterprises

Level	Annual taxable income (RMB)	Rate	Quick deduction factor (RMB)
1	15,000 or below	5%	0
2	15,001– 30,000	10%	750
3	30,001 – 60,000	20%	3,750
4	60,001 – 100,000	30%	9,750
5	Over 100,000	35%	14,750

Employment income

Grade	Taxable income on which employee bears the tax/employer bears the tax (RMB)	Rate %	Quick deduction factor (RMB)
1	1,500/1,455 or below	3	0
2	1,501 – 4,500/1,456 – 4,155	10	105
3	4,501 – 9,000/4,156 – 7,755	20	555
4	9,001 – 35,000/7,756 – 27,255	25	1,005
5	35,001 – 55,000/27,256 – 41,255	30	2,755
6	55,001 – 80,000/41,256 – 57,505	35	5,505
7	Over 80,000/57,505	45	13,505

For other income

each time below RMB 800	Rate 0%
each time from RMB 801 to RMB 4,000	20%
each time above RMB 4,000 (with 20% allowance)	20%

Individual service income

Net of tax income (RMB)	Before tax income (RMB)	Rate %	Quick deduction factor (RMB)
1 – 16,000	1 – 20,000	20	0
16,001 – 37,000	20,001 – 50,000	30	2,000
37,001 and above	50,001 or above	40	7,000

Business tax

		Rate
Group A	transportation, construction, communication, culture and sports	3%
Group B	hotels, restaurants, tourism, warehousing, advertising, transfer of intangible property, sale of real estate	5%
Group C	finance	5%
Group D	recreation	5~20%

Land appreciation tax

	The ratio of increased value against the value of deductible items	Rate
For the part	50% or below	30%
For the part	above 50% to 100%	40%
For the part	above 100% to 200%	50%
For the part	above 200%	60%

Value added tax (VAT)

		Rate
For small-scale taxpayers		3%
For ordinary taxpayers	for the sale or import of itemised goods, processing, and repairing	17%
	for the sale or import of itemised goods	13%
	for transportation charges	7%

Allowances

Funds for enterprises

Trade union fund	2% of total basic wages
Employee welfare fund	14% of total basic wages
Employee training fund	2.5% of total basic wages

Donations

Enterprises	up to 12% of the accounting profits
Individuals	up to 30% of the taxable income
	100% if donation made to certain funds approved by the government

Entertainment expenses

For domestic and foreign enterprises	60% of the amount subject to a maximum of 0.5% of the sales/business income of the year.
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ALL FIVE questions are compulsory and MUST be attempted

1 (a) Company L is a manufacturing joint venture enterprise which was established and started operations on 1 January 2010. The statement of enterprise income tax (EIT) payable prepared by the accountant of Company L for the year 2011 is as follows:

	RMB	RMB
Turnover		75,000,000
Cost of goods sold		(50,000,000)
Gross profit		<u>25,000,000</u>
Management expenses		(18,750,000)
The following amounts were included within the management expenses:		
Salaries and bonuses paid to staff	2,500,000	
* Refurnishing expenses of the office	125,000	
* Business tax (RMB 375,000) and late payment penalty (RMB 3,750)	378,750	
* Entertaining expense	500,000	
* Advertising expense	7,500,000	
* Donation to an unrelated scientific research centre	37,500	
* Staff and workers benefits	1,250,000	
* Staff and workers union expenses	250,000	
* Staff and workers education expenses	125,000	
Investment income		
* Loss on disposal of listed shares		(67,500)
* Interest income on national debenture (gross)		30,000
* Gain on disposal of national debenture (net)		100,000
Financial expenses		
* Interest expense for a loan borrowed by the investor for fulfillment of its capital contribution obligation		(500,000)
Other loss:		
* Storeroom destroyed in a fire – written down value		(300,000)
Other income:		
* Compensation from an insurance company for the storeroom destroyed in the fire		200,000
* Write off of a liability due to a creditor who was liquidated three years ago		<u>500,000</u>
Taxable profits		<u>6,212,500</u>
Tax rate		25%
Tax payable		1,553,125

Required:

- (i) **Briefly comment on the correctness of the accountant’s treatment of the 15 items marked with an asterisk (*);** (15 marks)
 - (ii) **Calculate the correct amount of enterprise income tax (EIT) payable by Company L for the year 2011.** (8 marks)
- (b) State under what circumstances a company intending to launch a sales promotion involving the giving of gifts to its individual customers is/is not required to withhold the individual income tax (IIT).** (7 marks)

(c) Company L is considering the following two alternatives for launching a sales promotion.

- (i) An individual customer will get a gift with a market value equal to RMB100 (cost of purchase RMB80) for free if he/she has accumulated purchases within any single business day of RMB1,000 during the sales promotion period.
- (ii) An individual customer will get a gift with a market value equal to RMB200 (cost of purchase RMB100) for free if he/she wins the lottery. A customer will be able to join the lottery for one time when he/she has accumulated purchases within any single business day of RMB1,000 during the sales promotion period.

Required:

Calculate the enterprise income tax (EIT) and individual income tax (IIT), if any, payable for each of the alternatives, assuming that Company L will bear any IIT due.

The following mark allocation is provided as guidance for this requirement:

- (i) 2 marks
- (ii) 3 marks

(5 marks)

(35 marks)

- 2 (a)** Mr Huang, a Chinese national, is the technical officer of Company J. He had the following receipts in the year 2011:
- (1) In April, he provided technical services to an enterprise and received RMB 30,000. The related individual income tax was borne by the enterprise.
 - (2) Mr Huang together with three other people jointly started a partnership with equal shares on 1 October 2011. The profits of the partnership were RMB 300,000 in 2011.
 - (3) A net gain of RMB 18,000 from trading in the A-shares market.
 - (4) Euro 10,000 of income received in Country G for the transfer of a patent. Individual income tax equivalent to RMB 15,000 was paid in Country G.
 - (5) During his visit to Country K, he was invited to give a lecture in a university and was paid income of USD 1,500. Individual income tax equivalent to RMB 1,800 was paid in Country K.
 - (6) Received RMB 17,000 as insurance compensation.
 - (7) He won a lottery prize of RMB 30,000, but donated half of this amount to an approved charity.

Required:

Calculate the individual income tax (IIT) payable on each of the items (1) to (7) received by Mr Huang for the year 2011. Clearly state if any of the items of income are exempt from IIT.

Note: the following exchange rates are to be used:

Euro: RMB – 1:9.5

USD: RMB – 1:7

(10 marks)

- (b) (i) Briefly explain the individual income tax (IIT) treatment of an annual one-off bonus where the IIT payable is partly borne by the employer as:**
- (1) a fixed amount; and** (1 mark)
 - (2) a percentage of the IIT payable.** (3 marks)
- (ii)** Company B is considering awarding an annual one-off bonus of RMB 100,000 to its general manager with the IIT being partly borne by the company. The general manager's normal monthly salary exceeds the monthly deduction.

Required:

Calculate the individual income tax (IIT) payable and the amount to be borne by the general manager (as employee) if:

- (1) Company B bears the fixed amount of RMB 20,000 of the total IIT payable by the general manager; and**
- (2) Company B bears 20% of the total IIT payable by the general manager.** (6 marks)

(20 marks)

- 3 (a)** Company M, a coal company, had the following transactions in the month of March 2011:
- (1) Bought an excavator for RMB 720,000 plus value added tax (VAT) of RMB 122,400 and paid the related transportation fee of RMB 48,000 (invoice value).
 - (2) Bought low-value consumption goods for RMB 96,000 plus VAT of RMB 6,720.
 - (3) Sold 10,000 tons of coal by instalment to a customer for RMB 600 per ton (excluding VAT). One quarter of the payment was due in the month, but only RMB 1,000,000 (excluding VAT) was received. Separately RMB 72,000 was paid for transportation relating to the delivery.
 - (4) 250 tons of coal was used to provide heating for the staff dormitory and 600 tons of coal was given to customers as gifts.
 - (5) Sold 150 thousand cubic metres of natural gas acquired while mining for RMB 300,000 (excluding VAT).

Required:

Calculate the value added tax (VAT) liability of Company M for the month of March 2011. (6 marks)

- (b) Define 'Small-scale taxpayer' for value added tax (VAT) purposes and state how their VAT liability is calculated and the type of VAT invoices they should use.** (4 marks)

- (c)** Company N, a construction company, had the following transactions in the month of March 2011:

- (1) Signed a contract with a metal company to build a factory. Partial payment of RMB 9,600,000 was received when the contract was signed. 15% of the building was constructed at the end of the month.
- (2) Signed a contract with a country club for laying cables. The contract sum was RMB 1,200,000 which included the value of the cables provided by the country club of RMB 200,000. The job was finished and the money was received before the end of the month.
- (3) Signed a contract with a metro company to provide mud engineering services and received RMB 2,000,000.
- (4) Signed a contract with a supermarket for decoration services, including labour costs of RMB 450,000, management fees of RMB 50,000 and material costs of RMB 200,000. The supermarket provided an additional RMB 150,000 of materials.
- (5) Sold a self-constructed house to a member of staff for RMB 1,500,000, plus a gas pipe installation fee of RMB 10,000 and building repair funds of RMB 150,000. The cost of the building construction was RMB 600,000. The profit ratio for the construction as set by the local tax bureau is 20%.

Required:

Calculate the business tax payable by Company N for each of the transactions (1) to (5) relating to the month of March 2011. (6 marks)

- (d) State how the tax bureau may assess business tax on service income if it considers the income declared to be too low and without proper justification and list the methods that may be used.** (4 marks)

(20 marks)

- 4 (a) A trading company, Company S, imported some cosmetic goods costing USD 1,680,000. The additional costs of importing these goods were freight and insurance charges of USD 252,000, customs handling fees of USD 140,000 and a service fee to an overseas agent of USD 28,000.

Company S repacked the cosmetic goods into 10,000 sets for sale in China. 9,000 sets were sold to a wholesaler for USD 6,000,000 and 1,000 sets were sold by retail for USD 900,000. Both these sales figures include value added tax (VAT).

Required:

- (i) Calculate the consumption tax, customs duty and value added tax (VAT) payable on the importation of the cosmetic goods; (5 marks)
- (ii) Calculate the consumption tax and VAT payable on the sale of the cosmetic goods. (5 marks)

Notes:

- (1) The customs tariff rate is 40%
- (2) The consumption tax rate for cosmetic goods is 30%
- (3) The USD:RMB exchange rate is 1:7.5

- (b) List the methods by which Customs may assess the dutiable value of an import if it considers the value declared to be too low and without proper justification. (5 marks)

(15 marks)

- 5 Company C and its overseas branch, Branch D, both started business in 2010. Company C had a taxable loss of RMB 1,000,000 for the year 2010 and income of RMB 3,000,000 for the year 2011, while Branch D had taxable income of RMB 1,000,000 and paid foreign tax of RMB 300,000 for each of the years, 2010 and 2011. Both Company C and Branch D are subject to an income tax rate of 25%.

Required:

- (a) In relation to foreign tax paid by a Chinese taxpayer, state the general tax treatment and the limitations on the amount of credit available. (3 marks)
- (b) Calculate the enterprise income tax (EIT) payable by Company C for each of the years 2010 and 2011, clearly identifying the foreign tax credit used in each year and the unused tax credit carried forward, if any. (5 marks)
- (c) Briefly explain the EIT provisional and annual filing requirements for a domestic registered enterprise with branches registered in different regions in China. (2 marks)

(10 marks)

End of Question Paper