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# Answers

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Section B

Marks

1 (a) Belle Ltd – Value added tax (VAT) and enterprise income tax (EIT) for 2016

	RMB	RMB	
Total costs	6,000,000		
Deemed revenue (6,000,000 ÷ (1 – 15%))	7,058,824		1
VAT at 6%		<u>423,529</u>	0.5
Deemed profit (7,058,824 x 15%)	1,058,824		1
EIT at 25%		<u>264,706</u>	0.5
			<u>3</u>

(b) Cathie Ltd – Value added tax (VAT) for 2016

	RMB	RMB	
Output VAT (3,000,000 x 6%)		180,000	0.5
Input VAT			
Identifiable input VAT (25,000 + 35,000)	60,000		1
Commonly shared input VAT	45,000		0.5
Irrecoverable input VAT for VAT-exempt services (45,000 x 2,000,000/9,000,000)	(10,000)		1
Input VAT on fixed assets	60,000		1
		<u>(155,000)</u>	
VAT payable		<u>25,000</u>	<u>4</u>

(c) Dodi Canteen – Value added tax (VAT) for December 2016

	RMB	RMB	
(i) As a small scale taxpayer			
VAT payable (180,000 ÷ 1.03 x 3%)		<u>5,243</u>	1
(ii) As a general taxpayer			
Output VAT (180,000 ÷ 1.06 x 6%)	10,189		1
Input VAT (200,000 x 17%)	<u>(34,000)</u>		1
Input VAT carried forward		<u>23,811</u>	<u>3</u>
			<u>10</u>

## 2 (a) OBOR Ltd– Enterprise income tax (EIT) for 2016

	USD	RMB	
(1) Singaporean income tax paid (USD950,000 – 150,000) x 10%	80,000		0·5
EIT on foreign income (80,000 x 6 x 25%)		1,200,000	0·5
Foreign tax credit (80,000 x 6)		(480,000)	0·5
EIT payable on the sale of SG Ltd		<u>720,000</u>	
(2) Profit of INA Ltd	120,000		
Indonesian corporate income tax at 18%	(21,600)		0·5
After tax profit	<u>98,400</u>		
Underlying corporate income tax on dividend (21,600 x 80,000/98,400) or (80,000 ÷ (1 – 18%) x 18%)	17,561		1
Dividend withholding tax (80,000 x 5%)	4,000		0·5
	<u>21,561</u>		
EIT on foreign income (80,000 ÷ (1 – 18%) x 6) x 25%		146,341	1
Total foreign tax credit (21,561 x 6)		(129,366)	0·5
EIT payable on dividend from INA Ltd		<u>16,975</u>	
(3) Taxable profit from South African branch	740,000		
South African corporate income tax at 33%	244,200	1,465,200	0·5
EIT on South African branch income (740,000 x 6 x 25%)		1,110,000	0·5
Maximum foreign tax credit		(1,110,000)	0·5
EIT payable on profit from South African branch		<u>0</u>	
Foreign tax credit carried forward		355,200	0·5
		<u>7</u>	

## (b) Forry Ltd – Enterprise income tax (EIT) for 2016

	RMB	
(1) EIT on service fee (200,000 x 30% x 25%)	15,000	1
(2) EIT on interest (1,000,000 x 6% x 10%)	6,000	1
(3) EIT on the disposal of equity in Guangzhou subsidiary (5,000,000 x 10%)	500,000	1
		<u>3</u>
		<u>10</u>

## 3 Elema Group

- (a) Tax avoidance refers to acts carried out by a taxpayer to obtain a tax benefit (reduction, exemption or postponing the payment of tax) by using approaches which are legal but without reasonable commercial purposes [Article 47 of EIT Law and State Administration of Taxation Decree 2014 No. 32]. 2
- (b) Tax scheme (1) is tax avoidance. 1
- (c) Scheme (1)
- BJ Co will have to pay additional enterprise income tax (EIT) on the portion of interest expense (i.e. 29% per annum) over the arm's length interest rate of 7%; and 1
- pay interest on the EIT calculated from 1 June 2009 at the rate of the People's Bank of China plus an additional five percentage points. 1
- Scheme (2)
- BJ Co will have to pay additional EIT on the overstated expenses; 1
- a late payment surcharge at 0·05% per day from 1 June 2009; and 1
- a penalty ranging from 50% to 500%. 1
- 5

		<b>Marks</b>
(d)	There is no statute of limitation for collecting the tax due as a result of tax evasion.	1
	The statute of limitation for collecting tax due as a result of tax avoidance is ten years.	1
		<u>2</u>
		<b>10</b>

**4 (a) Batty Ltd – Consumption tax (CT) and value added tax (VAT) for June 2016**

	<b>RMB</b>	<b>RMB</b>	
CT payable (2,000,000 x 4%)		<u>80,000</u>	1
<b>VAT</b>			
Output VAT (2,000,000 x 17%)		340,000	0.5
Input VAT	455,000		0.5
Irrecoverable input VAT (1,500,000 x (17% – 13%))	<u>(60,000)</u>		1
Creditable VAT		<u>(395,000)</u>	
VAT refundable		<u>(55,000)</u>	
			<u>3</u>

**Tutorial note:** *The refundable VAT is capped at RMB195,000 (1,500,000 x 13%).*

**(b) Cosi Ltd**

**(i) Customs duty in July 2016**

		<b>RMB</b>	
<b>Lotion:</b>			
Customs value (200,000 + 5,000)		205,000	0.5
Customs duty at 7%		14,350	0.5
<b>Eyeliners:</b>			
Customs value		150,000	0.5
Customs duty at 12%		18,000	0.5
			<u>2</u>

**(ii) Consumption tax (CT) on eyeliners**

CT payable (150,000 + 18,000) ÷ (1 – 30%) x 30%		RMB72,000	1
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**(iii)** The loss of eyeliners due to a thunderstorm is not an abnormal loss for the purposes of value added tax (VAT). 1

**(iv) Value added tax (VAT) for July 2016**

	<b>RMB</b>	<b>RMB</b>	
<b>Output VAT</b>			
Lotion (1,500 + 500) x 250 ÷ 1.17 x 17%	72,650		1
Eyeliners (500 x 380 ÷ 1.17 x 17%)	<u>27,607</u>		0.5
		100,257	
<b>Input/import VAT</b>			
Importation of lotion (205,000 + 14,350) x 17%	37,290		0.5
Importation of eyeliners (150,000 + 18,000 + 72,000) x 17%	<u>40,800</u>		1
		<u>(78,090)</u>	
VAT payable		<u>22,167</u>	
			<u>3</u>
			<b>10</b>

## 5 (a) Wang – Individual income tax (IIT)

	RMB	RMB	
<b>(i) Partnership</b>			
Taxable profit (2,000,000 – 1,400,000)	600,000		
Wang's IIT as a partner (calculated same as an entrepreneur) (((600,000 x 80%) – (3,500 x 12)) x 35%) – 14,750)		<u>138,550</u>	1
<b>(ii) Company</b>			
Wang's IIT as an employee (((40,000 – 3,500) x 30%) – 2,755) x 12)		<u>98,340</u>	<u>1</u>
			<u>2</u>

## (b) Ms Xi – Individual income tax (IIT) for December 2016

	RMB	RMB	
Basic salary	80,000		0·5
Meal allowances	35,000		0·5
Reimbursement of car maintenance costs	1,000		0·5
Reimbursement of children's education allowance for studying in China	0		0·5
Reimbursement of air-ticket on home leave	0		0·5
Reimbursement of medical expenses	3,000		0·5
Reimbursement of rent for service apartment	0		0·5
Employer's contribution to social insurance	0		0·5
Employee's contribution to social insurance	(5,500)		0·5
Taxable salary for December 2016	<u>113,500</u>		
IIT on salary (((113,500 – 4,800) x 45%) – 13,505)		35,410	0·5
IIT rate on bonus: 400,000 ÷ 12 = 33,333 → IIT rate 25%			0·5
IIT on bonus ((400,000 x 25%) – 1,005)		<u>98,995</u>	0·5
Total IIT		<u>134,405</u>	<u>6</u>

## (c) Ms Wu – Individual income tax (IIT) for 2016

	RMB	
Salary from employments (((((2,000 + 3,800) – 3,500) x 10%) – 105) x 12)	1,500	1·5
Consultancy fee ((5,000 x (1 – 20%) x 20%) x 12)	9,600	1
Interest income on bank deposit (exempt)	0	0·5
Interest income on lending to Beta Ltd (9,000 x 20%)	1,800	0·5
Dividend from overseas listed company (7,500 x 20%)	1,500	0·5
Dividend from A-share company (exempt)	0	0·5
Profit on disposal of A-shares (exempt)	0	0·5
Income from publishing and republishing in the China Daily News ((3,000 + 1,500) x (1 – 20%) x 70% x 20%)	504	1
Smartphone prize (8,000 x 20%)	1,600	0·5
Compensation from insurance company (exempt)	0	0·5
	<u>16,504</u>	<u>7</u>
		<u>15</u>

## 6 Alitech Ltd – Enterprise income tax (EIT) for 2016

	RMB	RMB	RMB	
Profit for the year as per accounts			4,860,000	
(1) Donation to the China Red Cross (600,000 – (4,860,000 x 12%))		16,800		1
(2) Interest expense on LoanShark Ltd loan (deductible)		0		0.5
(3) Compensation to copyright owner (deductible)		0		0.5
(3) Penalty to State Administration for Industry and Commerce		500,000		0.5
(4) Loss due to rainstorm (no adjustment)		0		0.5
(5) Out-of-fashion tablets scrapped (no adjustment)		0		0.5
(6) Research and development– additional deduction (460,000 x 50%)		(230,000)		0.5
(7) Bad debt written off (no adjustment)		0		0.5
(7) Provision for doubtful debt (not deductible)		100,000		0.5
(8) Depreciation on equipment:				
Accounting depreciation (6,000,000 ÷ 5)	1,200,000			
Tax depreciation:				
Sum-of-digits: (5 + 4 + 3 + 2 + 1) = 15				
Year 2016 deduction (6,000,000 x 4/15)	(1,600,000)			
Additional tax deduction in 2016		(400,000)		1.5
(9) Royalty income from Shanghai distributors (taxable)		0		0.5
(9) Grossed up royalties from Singaporean distributors (180,000 ÷ (1 – 10%) x 10%)		20,000		1
(10) Salaries of qualified disabled employees – additional deduction (425,000 x 100%)		(425,000)		0.5
(11) Donation of computers to school – not deductible		50,000		0.5
(12) Tablets taken by shareholders:				
Deemed sales (4,000 x 10)	40,000			
Deductible cost (1,000 x 10)	(10,000)	30,000		1
(13) Accrued expenses with invoices obtained (no adjustment)		0		0.5
(14) Interest income on government treasury bond (tax exempt)		(80,000)		0.5
(14) Interest income from bank deposit (taxable)		0		0.5
(15) Specific purpose government subsidy for project Adda (214,000 – 123,000)		(91,000)		1
(16) Commercial insurance for employees (not deductible)		128,000		0.5
(16) Employer's social insurance contribution (no adjustment)		0		0.5
(17) Goodwill amortised (5,340,000 x 10%) (not deductible)		534,000		0.5
			<u>152,800</u>	
Taxable profit			<u>5,012,800</u>	
EIT at 15%			751,920	0.5
(9) Foreign tax credit on royalties from Singaporean distributors (capped at RMB30,000 (200,000 x 15%))			<u>(20,000)</u>	0.5
EIT payable			<u>731,920</u>	

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