

Fundamentals Level – Skills Module

# Taxation (China)

Monday 6 December 2010

**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)

The ACCA logo consists of the letters 'ACCA' in a bold, white, sans-serif font, centered within a solid black rectangular background.

**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%
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	5,000 or below	5%	0
2	5,001– 10,000	10%	250
3	10,001 – 30,000	20%	1,250
4	30,001 – 50,000	30%	4,250
5	Over 50,000	35%	6,750

**Individual income tax**

**Employment income**

Grade	Taxable income on which employee bears the tax/employer bears the tax (RMB)	Rate %	Quick deduction factor (RMB)
1	500/475 or below	5	0
2	501 – 2,000/476 – 1,825	10	25
3	2,001 – 5,000/1,826 – 4,375	15	125
4	5,001 – 20,000/4,376 – 16,375	20	375
5	20,001 – 40,000/16,376 – 31,375	25	1,375
6	40,001 – 60,000/31,376 – 45,375	30	3,375
7	60,001 – 80,000/45,376 – 58,375	35	6,375
8	80,001 – 100,000/58,376 – 70,375	40	10,375
9	Over 100,000/70,376	45	15,375

**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%

**Income from services provided**

for the part RMB 20,000 to RMB 50,000	30%
for the part above RMB 50,000	40%

**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 A is a manufacturing joint venture enterprise, which was established and started operations on 1 January 2009.

The company's statement of enterprise income tax (EIT) payable for the year 2009, as prepared by the accountant of Company A is summarised below:

	Note	RMB
Turnover		200,000,000
Cost of goods sold		(120,000,000)
Gross profit		<u>80,000,000</u>
Management and finance expenses	(1)	(35,000,000)
Investment income	(2)	330,000
Other loss: fixed assets written off	(3)	<u>(200,000)</u>
Taxable profits		<u>45,130,000</u>
Tax rate		25%
Tax payable		11,282,500

**Notes:**

- (1) The management and finance expenses included the following:

	RMB
Salaries and bonuses paid to staff (including RMB 100,000 as a long service award for the general manager)	10,000,000
Entertaining expenses	1,500,000
Distribution of samples for promotion purposes	600,000
Donation to a qualified charity	200,000
Staff and workers benefits	200,000
Amortisation of approved intangible assets from self-developed research	60,000
Penalty for late filing of Company A's tax statement	100,000
Stock loss provision	400,000

- (2) The investment income comprises:

	RMB
Gain on disposal of listed B-shares	200,000
Interest income on national debenture (gross)	30,000
Gain on disposal of national debenture (net)	100,000

- (3) The original cost of the fixed assets written off was RMB 1,000,000, the accumulated depreciation was RMB 800,000 and the accumulated tax allowances claimed RMB 850,000.

**Additional information:**

In January 2009 Company A received the donation of a machine. The value added tax (VAT) invoice for the machine showed that it had cost RMB 150,000 plus VAT of RMB 20,000. No entry in respect of the donation of this machine has been recorded in the accounting system of Company A.

**Required:**

- (i) **Briefly explain the enterprise income tax (EIT) treatment of:**

- **the donated machine; and**
- **each of the items listed in Notes 1 to 3.** (15 marks)

- (ii) **Calculate the correct amount of taxable profits and the enterprise income tax (EIT) payable by Company A for the year 2009.** (7 marks)

- (b) Company B is a resident enterprise, which was incorporated in the year 1990. The table below shows the taxable profits of Company B, as agreed by the tax bureau, for the years 2002 to 2009 inclusive.

Year	2002	2003	2004	2005	2006	2007	2008	2009
Taxable profits (in RMB)	(900,000)	100,000	(300,000)	100,000	100,000	200,000	(100,000)	850,000

**Required:**

- (i) Briefly explain the tax treatment of losses, including the period for the offset of losses; (2 marks)
- (ii) State, giving reasons, how much enterprise income tax (EIT) will be payable by Company B for each of the years 2008 and 2009. (4 marks)
- (c) Define the term 'resident enterprise' for the purposes of enterprise income tax (EIT) and state the differences in the scope of the assessment of EIT for resident and non-resident enterprises. (7 marks)

**(35 marks)**

2 (a) Mr Zhang, a Chinese citizen, is a University professor. He had the following income for the month of January 2009:

- (1) Monthly employment income of RMB 18,000 and a bonus for the year 2008 of RMB 12,000.
- (2) Income of RMB 18,000 for publishing a book on 6 January 2009. One of the chapters of the book was published in a magazine as a four-day series commencing on 19 January 2009 for which Mr Zhang received income of RMB 1,000 per day.
- (3) A net gain of RMB 12,000 from trading in the A-shares market.
- (4) Income of RMB 4,800 for giving four separate seminars for Enterprise X.
- (5) A translation fee of RMB 5,200 from a media publisher.
- (6) Received RMB 300,000 from the sale of the property (50 square metres) that he had lived in for six years. Mr Zhang had acquired the property for RMB 180,000.
- (7) Gross interest income of RMB 6,000 from a bank deposit.
- (8) Received RMB 11,000 as insurance compensation.

**Required:**

**Calculate the individual income tax (IIT) payable (if any) by Mr Zhang on each of his items of income for the month of January 2009, clearly identifying any item which is tax exempt.** (10 marks)

(b) Mr Smith, who is a UK national, is employed by a UK construction company to work in Shanghai on a project that will last for a period of 18 consecutive months.

**Required:**

- (i) **State, giving reasons, whether Mr Smith will be a resident taxpayer or a non-resident taxpayer in the PRC and the scope of his individual income tax (IIT) assessment;** (2 marks)
- (ii) **List any THREE fringe benefits that can be provided to Mr Smith that will not be subject to individual income tax (IIT) in China;** (3 marks)
- (iii) **Briefly explain the requirements for the reporting and payment of the individual income tax (IIT) due for Mr Smith if he is paid RMB 30,000 per month.** (5 marks)

**(20 marks)**

**3 (a)** During the month of February 2009, Company C, a motor vehicle manufacturing company, carried out the following transactions:

- (1) Imported engines for production purposes for the equivalent of RMB 2,000,000 (including freight and insurance to the Chinese port). Company C paid a further RMB 10,000 (including value added tax (VAT)) to transport the engines from the port to its warehouse.
- (2) Purchased raw materials for RMB 800,000 (excluding VAT) and received a discount of 2% from the supplier for early payment. Company C paid transportation costs of RMB 8,000 (excluding VAT) and an insurance fee of RMB 5,000 in relation to the delivery of the raw materials to its warehouse.
- (3) Sold 200 of Model A motor vehicles at RMB 150,000 each (including VAT).
- (4) Sold ten Model A motor vehicles to its own staff at their cost of RMB95,000 (excluding VAT) each.
- (5) Company C is testing the performance of a new design of motor vehicle (Model B). Five Model B motor vehicles were taken for self-use. The cost per unit of Model B motor vehicles is RMB 130,000 (excluding VAT); no market price has yet been set for these vehicles.

**Required:**

**Calculate the consumption tax (CT) and value added tax (VAT) payable by Company C for each of the transactions (1) to (5) in the month of February 2009, clearly identifying where no tax is payable.**

Note: you should assume that:

- (1) The tariff for all kinds of imported goods is 25%.
- (2) Consumption tax (CT) is 10% for all types of motor vehicle.
- (3) The deemed profit rate for the Model B motor vehicles is 8%. (11 marks)

**(b) (i) State the value added tax (VAT) treatment of the disposal of self-used fixed assets. Your answer should deal with assets which were bought both before and after 1 January 2009;** (2 marks)

**(ii) State the value added tax (VAT) treatment of the disposal of used articles (other than those used as fixed assets) and used cars;** (2 marks)

**(iii)** The following transactions all occurred in the month of August 2009. All figures are stated including value added tax (VAT).

- (1) Company D sold a used machine for RMB 250,000, which had been bought in January 2008 for RMB 200,000.
- (2) Company E (a small-scale VAT taxpayer) sold a used machine for RMB 180,000, which had been bought in October 2005 for RMB 200,000.
- (3) Company F sold a used machine for RMB 150,000, which had been bought in January 2009 for RMB 120,000.
- (4) Company G (a small-scale VAT taxpayer) sold a used machine for RMB 150,000, which had been bought in January 2009 for RMB 120,000.
- (5) Company H sold a used car for RMB 150,000, which had been bought in January 2009 for RMB 120,000.

**Required:**

**In the case of each of the sales (1) to (5), calculate the value added tax (VAT) payable.**

Note: unless otherwise stated all the companies are general VAT taxpayers. (5 marks)

**(20 marks)**

4 (a) **State what is meant by a 'mixed sale' and briefly explain the business tax (BT) and/or value added tax (VAT) treatment of mixed sales activities.** (5 marks)

(b) Company J, an advertising company, had the following transactions in the month of October 2009:

- (1) Earned RMB 3,000,000 from a cosmetic company. The artists in the advertisement were paid RMB 1,000,000 and the television centre broadcast fee was RMB 800,000.
- (2) Earned RMB 870,000 from a pharmaceutical company. The cost of the advertisement was RMB 800,000, the television centre broadcast fee was RMB 200,000 and the newspaper offices publishing fee was RMB 150,000. The income assessed was considered to be too low and without proper justification by the tax bureau, which determined the taxable income should be re-calculated at a deemed profit rate of 18% on the reported earnings.
- (3) Received RMB 1,200,000 from a wine shop for making an advertising banner outside a building. Company J purchased materials for RMB 700,000 for which a general sales invoice was obtained. The banner was sewn in Company J's sample room at a labour cost of RMB 20,000 and installed by its property management department for a cost of RMB 30,000.
- (4) Invested RMB 1,500,000 in immovable property and assigned intangible assets worth RMB 300,000 to a certain enterprise as a capital contribution.
- (5) Earned RMB 200,000 by holding a fashion show.
- (6) Received RMB 500,000 from the transfer of the patent on a certain advertisement design.

**Required:**

**Briefly explain and calculate the business tax (BT) payable by Company J for the month of October 2009.** (8 marks)

(c) **State (1) by when a business tax (BT) return must be filed and the tax paid and (2) the consequences of late payment.** (2 marks)

**(15 marks)**

5 (a) **Briefly explain the circumstances in which a charitable donation, including a donation in kind, is allowable as a deduction for enterprise income tax (EIT) and state the administrative requirements for such donations.** (5 marks)

(b) **Briefly explain the circumstances in which a charitable donation is allowable as a deduction for individual income tax (IIT) and state the administrative requirements for such donations.** (4 marks)

(c) **State the enterprise income tax (EIT) treatment of a monetary charitable donation made by a representative office (RO) that is subject to EIT on a cost-plus basis.** (1 mark)

**(10 marks)**

**End of Question Paper**