

Fundamentals Level – Skills Module

Taxation (China)

Monday 6 June 2011

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 square.

SUPPLEMENTARY INSTRUCTIONS

1. Calculations and workings need only be made to the nearest RMB.
2. 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 F is a manufacturing joint venture enterprise, which was established and started operations on 1 January 2010.

Company F's statement of enterprise income tax (EIT) payable for the year 2010, as prepared by the company's accountant is summarised below:

	Note	RMB
Turnover		180,000,000
Cost of goods sold		(120,000,000)
Gross profit		60,000,000
Management expenses	1	(21,000,000)
Investment income	2	285,000
Other loss: fixed assets written off	3	(180,000)
Taxable profits		39,105,000
Tax rate		25%
Tax payable		9,776,250

Notes:

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

	RMB
Salaries and bonuses paid to staff (including RMB 120,000 paid to qualified disabled employees)	6,000,000
Entertaining expense	900,000
Advertising expense	1,800,000
Donation to Red Cross for the Sichuan earthquake	150,000
Research and development expense	480,000
Staff and workers benefits	300,000
Staff and workers education expenses	60,000
Sponsorship of a singing contest	60,000
Penalty for late payment of 2009 EIT	20,000

- (2) The investment income included the following:

	RMB
Gain on disposal of listed B-shares	162,000
Interest income on national debenture (gross)	12,000
Gain on disposal of national debenture (net)	60,000

- (3) The original cost of the fixed assets written off was RMB 600,000, the accumulated depreciation was RMB 420,000, and the accumulated tax allowances claimed were RMB 480,000.

Required:

- (i) **Briefly explain the treatment of each of the 13 items referred to in notes 1 to 3 for the purposes of enterprise income tax (EIT);** (13 marks)
- (ii) **Calculate the correct amount of enterprise income tax (EIT) payable by Company F for the year 2010.**

Note: you should start your computation with the taxable profit calculated by the accountant of RMB 39,105,000 and indicating by the use of '0' any items for which no adjustment is required.

(7 marks)

- (b) **For the purposes of enterprise income tax (EIT) define the term 'non-resident enterprise' and explain the scope of such an enterprises EIT assessment.** (4 marks)

- (c) An overseas underground train building company, Company H is a non-resident enterprise for enterprise income tax (EIT) purposes. Company H signed a sales contract for RMB 100,000,000 for the supply of ten underground trains with a PRC company, Company K. The amount also included after-sales services (such as, installation, technical training, etc) but the service fee is not separately specified in the sales contract. The training will last two years and will be provided in China by Company H personnel from overseas.

Required:

Explain the enterprise income tax (EIT) and business tax (BT) implications in China for Company H and Company K if the tax bureau applies the lowest deemed income and profit rates that are specified in the relevant EIT laws and regulations. (7 marks)

- (d) **State the withholding tax rate for enterprise income tax (EIT) applicable to the following items paid to a non-resident enterprise:**

(i) **Dividends paid out of both pre-2008 and post-2008 retained earnings;** (2 marks)

(ii) **Interest;** (1 mark)

(iii) **Royalties on the licensing of trademarks, copyright, etc.** (1 mark)

(35 marks)

2 (a) Mr Wu, a Chinese citizen, is a photographer for a newspaper. He had the following income for the month of September 2010:

- (1) Monthly employment income of RMB 15,000 and a bonus for the year 2009 of RMB 20,000.
- (2) Income of USD 5,000 (gross) from which tax of USD 750 was withheld from publishing an album overseas.
- (3) Income of RMB 5,000 for publishing five of his photos as a postcard.
- (4) A net gain of RMB 15,000 from trading in the A-shares market.
- (5) Received RMB 200,000 from the sale of a property (50 square metres) that he had lived in for four years, which he had acquired for RMB 160,000.
- (6) Gross interest income of RMB 6,000 from a bank deposit.
- (7) Received RMB 11,000 as insurance compensation.
- (8) Received RMB 50,000 as net proceeds from the sale of an antique, which he had originally acquired in 2004 for RMB 20,000.
- (9) Income of Euro 300 for giving a lecture at a university during his visit to France. Individual income tax equivalent to RMB 400 was paid in France on this income.

Required:

Calculate the individual income tax (IIT) payable by Mr Wu on each of items (1) to (9) for the month of September 2010, clearly identifying any amounts which are tax exempt and briefly explaining any reliefs available.

Note: the following exchange rates are to be used:

1 1 USD = 7 RMB

2 1 Euro = 9.5 RMB

(12 marks)

(b) Explain the treatment for individual income tax (IIT) of directorship fees.

(3 marks)

(c) Explain the criteria used to determine whether an individual is a resident taxpayer in the PRC.

(5 marks)

(20 marks)

- 3 (a)** During the month of November 2010, Company Z, a food producer company, carried out the following transactions:
- (1) Acquired five tons of wheat for RMB 50,000 (excluding value added tax (VAT)) from a farmer and paid RMB 1,200 (including VAT) to a manufacturing company, Company A, for flouring services.
 - (2) Purchased production tools for RMB 5,000 (including VAT) from a small-scale tools company.
 - (3) Produced eight tons of corn flour; sold seven tons of the corn flour for RMB 140,000 (excluding VAT), and distributed the remaining one ton to its own staff.
 - (4) Sold biscuits to several commercial entities by issuing general invoices and received RMB 80,000 (excluding VAT).
 - (5) Some wheat acquired in the previous month rotted due to improper keeping. The stock loss cost (excluding VAT) was RMB 6,000 including gross freight charges of RMB 800.
 - (6) Sold a used machine for RMB 7,000 (including VAT), which had been bought in June 2009 for RMB 9,000.

Required:

Calculate the input and output value added tax (VAT) in respect of each of the above transactions and the VAT payable by Company Z for the month of November 2010. (12 marks)

- (b)** Company B had the following events during December 2010:

- (i) stock costing RMB 12,000 (including transportation of RMB 6,000) was damaged in Warehouse A due to an earthquake; and
- (ii) stock costing RMB 32,000 (including transportation of RMB 2,000) was damaged in Warehouse A due to mismanagement.

All figures are stated excluding any applicable value added tax (VAT)

Required:

Explain the treatment for value added tax (VAT) and enterprise income tax (EIT) of each of these stock losses, and calculate any deductible/non-deductible amounts. (5 marks)

- (c) State the time limits (deadlines) for the reporting and payment of value added tax (VAT) for a taxpayer with:**

- (i) an assessable period of one month; and** (1 mark)
- (ii) an assessable period of less than one month.** (2 marks)

(20 marks)

4 A representative office, Office X has agreed with the tax bureau to use the cost-plus basis for its enterprise income tax (EIT). The accountant of Office X prepared the following EIT calculation for the year 2010, the first year of Office X's operation:

	Note	RMB
Salaries		100,000
Office rental		50,000
Depreciation of office machinery	1	30,000
Depreciation of office car	2	20,000
Amortisation of office decorations	3	10,000
Cash donation to an approved charity in China		5,000
Penalty for the late filing for EIT		1,000
Interest income from a bank saving deposit		(500)
Total expenses		215,500
Deemed tax rate		10%
EIT payable		21,550

Notes:

- 1 The original cost of the office machinery was RMB 300,000 with a ten year economic life and no residual value.
- 2 The original cost of the office car was RMB 100,000 with a five year economic life and no residual value.
- 3 The original cost of the office decorations was RMB 30,000 with a three year economic life and no residual value.

Additional information:

The following payments, not included by the accountant when preparing the calculation above, were made in the year 2010:

RMB 100,000 for the purchase of goods from Office X's head office, located overseas;

RMB 6,000 for samples of goods from Office X's head office overseas; and

RMB 4,000 for the hire of a translator for the visit of head office staff to China.

Required:

Calculate the enterprise income tax (EIT) payable by Office X if the correct deemed profit rate is 15%, giving brief explanations of any items which were incorrectly treated by the accountant.

(15 marks)

5 (a) A property developer, Company R, had the following transactions in 2010:

- (1) Sold a land use right for RMB 56 million, which had cost it RMB 42 million and with related legal costs of RMB 1 million.
- (2) Sold a factory building for RMB 180 million, which had the following associated costs:

	RMB
Land use right	30 million
Development cost	60 million
Interest expenses	6 million
Related government fee	1 million
Selling expenses	20 million
Other development expenses	5 million

Required:

Calculate the land appreciation tax (LAT) payable on the above transactions by Company R. (6 marks)

(b) List the preferential enterprise income tax (EIT) treatment that applies to each of the following types of project:

- (i) income derived from an agricultural/forestry/animal husbandry project;**
- (ii) income derived from a cultivation of flower/tea/sea farming project;**
- (iii) income derived from an approved infrastructure project; and**
- (iv) income derived from an approved environmental protection/energy/water conservation project.**

(4 marks)

(10 marks)

End of Question Paper