Answers

Section A

1 The correct answer is home leave does not qualify as a specific additional deduction.

Home leave is one of the tax exempt allowances of foreigners during the transitional period.

2 The correct answer is RMB160,000.

A trading company can claim a value added tax (VAT) refund on the goods exported. The irrecoverable or non-refundable VAT equals RMB2,000,000 x 13% ÷ (13% – 5%)/13%).

3 The correct answer is USD100,000 and February 2020.

Customs duty is due when the goods are imported from the Free Trade Zone (FTZ) to a non-FTZ in China and the dutiable value is the first importation value.

4 The correct answer is RMB111,111.

The tax base is RMB1,000,000 ÷ (1 – 10%) = RMB1,111,111. Withholding tax = RMB1,111,111 x 10% = RMB111,111.

5 The correct answer is consequences 3 and 4 are appropriate.

The comparable uncontrollable price method is one of the methods for making a transfer pricing adjustment. Interest, rather than a late payment surcharge, can be imposed on the additional tax payable on the transfer pricing adjustment.

6 The correct answer is RMB270,000.

Only the sale of self-produced cosmetics is subject to consumption tax. Hence, consumption tax = RMB10,000 x 180 x 15% = RMB270,000.

7 The correct answer is RMB21,600.

VAT is levied on the turnover of quarters 2 and 4, hence, VAT = RMB(320,000 + 400,000) x 3% = RMB21,600.

8 The correct answer is statements 2 and 3 are correct.

Mr Wang has two sources of comprehensive income and the taxable comprehensive income equals RMB80,000 x 2 x 80% = RMB128,000, which is over RMB60,000 under the IIT Regulations and also over the threshold of RMB120,000 per State Council announcement. As such, he must file an annual individual income tax (IIT) return.

9 The correct answer is RMB0.

The contribution of factory premises to a production company as capital is exempt from land appreciation tax.

10 The correct answer is RMB285,882.

The donation to an approved charity is excluded from the calculation of enterprise income tax (EIT), hence, EIT = RMB(6,500,000 – 20,000) ÷ (1 – 15%) x 15% x 25% = RMB285,882.

11 The correct answer is RMB14,450,661.

From 1 April 2019 onwards, input VAT is allowable on train tickets of employees for business trips and VAT on immovable property can be credited in full. Hence, input VAT creditable = RMB(8,000,000 + 50,000 + 8,000 ÷ 1·09 x 9% + 6,400,000) = RMB14,450,661.

Marks

12 The correct answer is YA Ltd cannot claim a refund of the overpaid tax.

The statute of limitation for a taxpayer to apply for a tax refund is three years according to Article 51 of the Tax Administrative and Collection Law.

13 The correct answer is 2 only.

According to Article 7 of the Regulations on Enterprise Income Tax Law, only the interest income from a Chinese company received by a non-resident enterprise is sourced from China.

14 The correct answer is RMB10,000.

A non-domiciled China tax resident is exempt from IIT on income sourced from outside China and not borne by a Chinese entity or a Chinese individual. Hence, only the interest income sourced from China is taxable. IIT = RMB50,000 x 20% = RMB10,000.

15 The correct answer is Y Ltd should submit the local file within 30 days of when it is requested by the tax bureau.

2 marks each **30**

Section B *Marks*

1 (a) Peter and Mary

(i) Peter will have resided in China for 183 days or more in 2020. He will be a China tax resident in 2020.

Mary will have resided in China for 60 days which is not more than 183 days. She will be a non-China tax resident. 2

(ii) Since Peter will have resided in China over 90 days (or over 183 days of presence under the tax treaty), even if his salary was paid outside China, he is subject to China individual income tax (IIT) on his salary sourced from China (i.e. for the days he is working in China).

Mary will have resided in China for less than 90 days and she will have received her salary in China. The salary she will have received in China is subject to China IIT. 2

4

(b) Robert

	RMB	
Option 1		
Salary	1,200,000	0·5
Less: Annual allowance	(60,000)	0·5
Taxable income	1,140,000	
Individual income tax (IIT) ((1,140,000 x 45%) – 181,920)	331,080	1
Option 2		
Salary	600,000	0·5
Less: Annual allowance	(60,000)	
Taxable income	540,000	
IIT on salaries (540,000 x 30% – 52,920)	109,080	0·5
Annual bonus 600,000		
IIT rate on bonus: 600,000 ÷ 12 = 50,000 ➔ 30%		0·5
IIT on bonus (600,000 x 30% – 4,410)	175,590	1
Total IIT under option 2	284,670	
Option 3		
Taxable income on consultancy fee (1,200,000 x 80%)	960,000	0·5
Less: Annual allowance	(60,000)	
	900,000	
IIT (900,000 x 35% – 85,920)	229,080	1
		6
		10

2 (a) Alpha Ltd

	RMB	
Small-scale taxpayer		
VAT payable (4,800,000 ÷ 1·03 x 3%)	139,806	1
Sales, net of VAT (4,800,000 ÷ 1·03)	4,660,194	0·5
Rental and other costs and expenses (3,500,000 + 105,000)	(3,605,000)	0·5
Depreciation of kitchen utensils (1,000,000 + 130,000) ÷ 5	(226,000)	0·5
Net profit before tax	829,194	

	RMB	*Marks*
VAT general taxpayer		
Output VAT (4,800,000 ÷ 1·06 x 6%)	271,698	1
Input VAT (105,000 + 130,000)	(235,000)	0·5
Additional 15% input VAT credit	(35,250)	0·5
VAT payable	1,448	
Sales, net of VAT (4,800,000 ÷ 1·06)	4,528,302	0·5
Other income – additional input VAT credit	35,250	1
Rental and other costs and expenses (3,500,000)	(3,500,000)	0·5
Depreciation of kitchen utensils (1,000,000 ÷ 5)	(200,000)	0·5
Net profit before tax	863,552	
		7

(b) **H Chain Store**

	RMB	
Customs duty payable		
Free on board price of watches (500 x 9,000)	4,500,000	0·5
Freight and insurance	80,000	0·5
Dutiable value	4,580,000	
Customs duty at 20%	916,000	0·5
VAT payable		
Output VAT (301 x RMB20,000 ÷ 1·13 x 13%)	692,566	1
Input VAT (4,580,000 + 916,000) x 13%	(714,480)	0·5
Input VAT credit carried forward	(21,914)	
		3
		10

3 **(a)** **GG Ltd**

(i) **Value added tax (VAT) and enterprise income tax (EIT) underpaid**

	RMB	
VAT (5,000,000 ÷ 1·16 x 16%)	689,655	0·5
EIT (5,000,000 ÷ 1·16 x 25%)	1,077,586	0·5
	1,767,241	
		1

(ii) VAT would have been due on 15 January 2019. 0·5

Annual EIT would have been due on 31 May 2019. 0·5

1

(iii) Actions such as tax non-payment or under-payment made by the taxpayer by forging, altering, concealing or destroying without authorisation, relevant accounting books and vouchers or by overstating expenses or omitting or understating income in the accounts books, or by refusing to declare tax or making false tax declaration upon the receipt of a notice of tax declaration from the tax authority are referred to as 'tax evasion'. 2

(iv) The penalty ranges from 50% to five times the amount of taxes underpaid (i.e. RMB883,621 to RMB8,836,205). 1

(v) After paying the taxes and late payment surcharge, GG Ltd should appeal within 60 days (i.e. on or before 31 July 2020) to the Shanghai Municipal Tax Service, State Taxation Administration, which is one level tax bureau more senior than the Pudong District Office. 2

(b) Accounting books and records should be kept for ten years by a resident enterprise. 1

Marks

(c) The Tax Collection and Administrative Law is enacted by the Standing Committee of the National People's Congress.

The Implementation Rules on the Provisional Regulations of Land Appreciation Tax are enacted by the Ministry of Finance. 2

10

4 (a) Super Ltd

(i) Foreign taxes paid

	RMB	Marks
Grossed up dividend income from India (RMB2,000,000 ÷ (1 – 10%) ÷ (1 – 28%))	3,086,420	1·5
Net of tax dividend income	(2,000,000)	
Indian tax paid	1,086,420	0·5
Grossed up royalty income from Malaysia (1,000,000 ÷ (1 – 10%))	1,111,111	1
Net of tax royalty income	(1,000,000)	
Malaysian tax paid	111,111	1
		4

(ii) Enterprise income tax (EIT) payable/foreign tax credit (FTC) on country-by-country basis

	RMB	Marks
EIT on dividend income from India (3,086,420 x 25%)	771,605	0·5
Indian tax paid	(1,086,420)	0·5
Unused Indian foreign tax credit carried forward	(314,815)	
EIT on royalty income from Malaysia (1,111,111 x 25%)	277,778	0·5
Malaysian tax paid	(111,111)	0·5
EIT payable	166,667	
		2

(iii) EIT payable/FTC on a combined basis

	RMB	Marks
Total foreign income (3,086,420 + 1,111,111)	4,197,531	0·5
EIT at 25%	1,049,383	0·5
Total foreign taxes paid (1,086,420 + 111,111)	(1,197,531)	
Unused foreign tax credit carried forward	(148,148)	
		1

Alternative method:

	RMB	
Unused Indian foreign tax credit	*(314,815)*	*0·5*
EIT payable on Malaysian income	*166,667*	*0·5*
Unused foreign tax credit carried forward	*(148,148)*	
		1

(b) Knowledge Ltd

	RMB	
EIT (1,000,000 x 5% + 1,800,000 x 10%)	230,000	2

(c) QT Ltd/Mr Frank/QTF firm

QT Ltd is the taxpayer for EIT. 1

10

Marks

5 (a) RR Ltd/Mr Wu

(i) Individual income tax (IIT) withheld by RR Ltd

	RMB	
Taxable income in November 2019 (35,000 – 5,000 – 6,800)	23,200	1
IIT withheld for November (3%)	696	0·5
Cumulative taxable income in December 2019 (23,200 + 23,200)	46,400	1
Cumulative IIT ((46,400 x 10%) – 2,520))	2,120	0·5
Less: IIT withheld in November	(696)	0·5
IIT withheld for December	1,424	0·5
		4

(ii) Total IIT payable by Mr Wu

	RMB	
Total employment income (520,000 + 70,000)	590,000	0·5
Less: Annual allowance (5,000 x 12)	(60,000)	0·5
Less: Specific deductions and specific additional deductions (6,800 x 12)	(81,600)	0·5
Taxable income	448,400	
IIT ((448,400 x 30%) – 52,920))	81,600	1
Less: IIT withheld (76,680 + 2,120)	(78,800)	0·5
Additional IIT payable	2,800	
		3

(iii) IIT filing for comprehensive income should be completed during the period from 1 March 2020 to 30 June 2020. 1

(b) Ms Robinson

		RMB	
(1)	Individual income tax (IIT) withheld by the school on salary for each of the four months		
	((50,000 – 5,000) x 30%) – 4,410	9,090	1
	Four months	36,360	0·5
(2)	IIT on bonus for non-resident (80,000 ÷ 6 x 20% – 1,410) x 6	7,540	2
(3)	IIT on smart phone (6,000 x 20%)	1,200	1
(4)	Internet red-pocket money	0	0·5
			5

(c) Mr Stevenson

Mr Stevenson will start paying China individual income tax (IIT) on his worldwide income in 2025 because a non-domiciled China tax resident will need to pay IIT on worldwide income in the seventh year as tax resident after being a China tax resident for a continuous six years without a one-off exit of over 30 days in any taxation year. 2

15

			Marks
6	**Free Ltd**		
		RMB	
	Accounting profit	10,450,000	
(1)	Adjustment of taxable turnover (–2,400,000 + 3,150,000)	750,000	1
(2)	Inventory loss	0	0·5
(3)	Irrecoverable debt written off	0	0·5
(4)	Provision for doubtful debts	708,000	0·5
(5)	Qualified research and development expenses (RMB2,240,000 x 75%)	(1,680,000)	1
(6)	Donation to the relative of an employee who died in an accident	200,000	0·5
(7)	Staff training exceeding 8% (1,400,000 – 14,000,000 x 8%)	280,000	1
(9)	Unrealised exchange loss	0	0·5
(10)	Unrealised loss on an investment in an associated company	183,000	0·5
(11)	Non-deductible loan interest (deductible interest: 30,000,000 x 2 x 10% = 6,000,000)	2,200,000	1·5
(12)	Penalty imposed by the State Administration for Market Regulatory on infringement of copyright	500,000	0·5
(13)	Compensation paid to a customer on breach of contract	0	0·5
(14)	Commercial insurance for employees	120,500	0·5
(15)	Liability insurance for board of directors	0	0·5
(16)	Loss on sale of government bonds	0	0·5
(17)	Interest on government bonds	(42,000)	0·5
(18)	Dividend received from FL's Chengdu subsidiary	(1,000,000)	1
(19)	Profit on investment in a partnership	0	1
(20)	Declaration of dividend to the shareholders	0	0·5
(21)	New shareholder capital contribution and share premium	0	0·5
	Taxable profit	12,669,500	
	EIT at 25%	3,167,375	0·5
(8)	EIT credit on energy and water saving equipment (8,400,000 x 10%)	(840,000)	1
	EIT payable	2,327,375	
			15