
Answers

Section B

Marks

1 (a) Mr Chen/Cupod Ltd

Mr Chen	Pay the individual income tax due.	1
Cupod Ltd	Pay a penalty ranging from 50% to three times the tax not withheld.	<u>1</u>
		<u>2</u>

(b) Biz Ltd

The tax bureau can assess the enterprise income tax due by Biz Ltd based on the deemed profit margin method.	<u>1</u>
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(c) HHold Ltd

Pay the value added tax (VAT) and enterprise income tax (EIT) or provide a guarantee for the tax and late payment surcharge on or before 15 December 2015.	1
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Appeal to the city tax bureau (one senior level above the district tax bureau) within 60 days after payment of the tax and late payment surcharge.	1
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Appeal to the court if there is disagreement with the decision of the senior tax bureau.	<u>1</u>
	<u>3</u>

(d) Hit-Tech Ltd/Soft Ltd

(i) Hit-Tech Ltd will have to pay back the taxes underpaid plus a late payment surcharge of 0.05% per day.	<u>2</u>
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[Tutorial note: The tax evasion case is over the statute of limitation for penalty of five years, hence, there is no penalty.]

(ii) The statute of limitation of three years (five years for special circumstances) for errors made by the tax authorities has expired. As a result, Soft Ltd does not need to pay the taxes underpaid.	<u>2</u>
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2 (a) Golden Ltd

Option A Vietnam subsidiary

	USD	
Profit before enterprise income tax (EIT)	100,000	
Less: EIT in Vietnam at 15%	(15,000)	0.5
Profit after EIT/dividend to Golden Ltd	85,000	
Less: 10% withholding tax on dividend	(8,500)	0.5
Dividend net of Vietnam taxes	<u>76,500</u>	
Total Vietnam taxes paid	23,500	
Maximum China EIT credit at 25% x USD100,000	25,000	0.5
Additional China EIT payable	1,500	0.5
	RMB	
Dividend net of Vietnam taxes (USD76,500)	459,000	
Less: Additional China EIT payable (USD1,500)	(9,000)	
Net of tax dividend income	<u>450,000</u>	1

Tutorial note: Alternative method of calculation of RMB450,000:

	RMB
Income from investment in Vietnam (USD100,000)	600,000
China EIT payable at 25%	(150,000)
Net of tax dividend income	<u>450,000</u>

		Marks	
Option B	Chengdu subsidiary		
		RMB	
	Profit before EIT	400,000	
	EIT at 15%	<u>(60,000)</u>	0·5
	Dividend from Chengdu subsidiary	<u>340,000</u>	0·5
Option C	Suzhou subsidiary		
		RMB	
	Profit before EIT	500,000	
	EIT at 25%	<u>(125,000)</u>	0·5
	Dividend from Suzhou subsidiary	<u>375,000</u>	0·5
			<u>5</u>

(b) HKT Ltd

- (i) HKT Ltd has appointed an agent to carry out business in China including the appointment of an enterprise or individuals (the staff of BJT Ltd) to sign contracts on its behalf. So BJT Ltd will be considered as the establishment of HKT Ltd.

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Tutorial note: *This definition is under the EIT Regulations. There are further classifications under treaties for a dependent agent and independent agent.*

- (ii) The criteria to be used to decide if HKT Ltd is a China tax resident:
- The senior management responsible for HKT Ltd's daily production/business operations are mainly located in China and the senior management executes its responsibilities mainly from China.
 - Strategic financial and human resources decisions are made or approved by organisations or personnel located in China.
 - Major properties, accounting records, company stamps, board/shareholder's meeting minutes, etc are maintained in China.
 - 50% or more of the board members with voting rights or senior management habitually reside in China.

THREE only required, 1 mark each, maximum

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3 Huanglong Ltd

(a) Land appreciation tax (LAT) on sales

	RMB million	RMB million	
Plaza 111			
Selling price		1,200	
Land use right and deed tax	206		0·5
Relocation and construction costs	<u>350</u>		0·5
Development costs	556		
Maximum deduction of interest and administration expenses (10% x 556)	55·6		1
Business tax and surtaxes (1,200 x 5·6%)	67·2		0·5
Additional deduction for property developers (556 x 20%)	<u>111·2</u>		0·5
Total deductions for LAT		<u>(790)</u>	
Land appreciation value		<u>410</u>	
% of land appreciation (410/790)		52%	0·5
LAT (410 x 40% – 790 x 5%)		124·5	0·5

	RMB million	RMB million	Marks
Plaza 77			
Selling price of Plaza 77		1,050	
Acquisition cost	<u>800</u>		0·5
No. of years of acquisition (3 years)			
Deductible valuation (800 x (1 + (5% x 3 years)))	920		0·5
Business tax and surtaxes ((1,050 – 800) x 5·6%)	<u>14</u>		1
Total deductions for LAT		<u>(934)</u>	
Land appreciation value		<u>116</u>	
% of land appreciation (116/934)		12·4%	0·5
LAT (116 x 30%)		34·8	<u>0·5</u>
			<u>7</u>
 (b) Profit before enterprise income tax			
	RMB million	RMB million	
Plaza 111			
Selling price		1,200	
Cost of development including interest (206 + 350 + 228)	784		0·5
Business tax and surtaxes	67·2		0·5
LAT	<u>124·5</u>		0·5
		<u>(975·7)</u>	
Profit before tax on Plaza 111		<u>224·3</u>	
 Plaza 77			
Selling price		1,050	
Acquisition cost and interest (800 + 125)	925		0·5
Business tax and surtaxes	14		0·5
LAT	<u>34·8</u>		0·5
		<u>(973·8)</u>	
Profit before tax on Plaza 111		<u>76·2</u>	
			<u>3</u>
			<u>10</u>

4 (a) Wat Ltd

(i) Import of Watch-LX

	RMB	
Customs duty: USD3,000,000 x 6 x 5%	900,000	0·5
Base for calculating consumption tax (USD3,000,000 x 6 + 900,000) ÷ (1 – 20%)	23,625,000	0·5
Import consumption tax = 23,625,000 x 20%	4,725,000	0·5
Import VAT = 23,625,000 x 17%	4,016,250	0·5
		<u>2</u>

(ii) Taxes on sale of watches

	RMB	
Output VAT		
Watch-LX: $900 \times 50,000 \times 17\%$	7,650,000	0.5
Watch-LX deemed sales: $2 \times 50,000 \times 17\%$	17,000	0.5
Watch-Nor: $40,000 \times 3,000 \times 17\%$	20,400,000	0.5
Watch-XT: $5,500 \times 18,000 \times 17\%$	16,830,000	0.5
	<u>44,897,000</u>	
 Consumption tax		
Watch-XT: $3,500 \times 18,000 \times 20\%$	12,600,000	1
		<u>3</u>

(b) Kool Ltd

(i) Cost of purchasing 1,000 ball-pens

Supplier			
A	$10,000 \div 1.17$	8,547	1
B	$9,800 \div 1.03$	9,515	1
C		9,300	0.5
D		9,000	0.5
			<u>3</u>

(ii) Input VAT claimable

Supplier			
A	$10,000 \div 1.17 \times 17\%$	1,453	0.5
B	$9,800 \div 1.03 \times 3\%$	285	0.5
C		nil	0.5
D	$9,000 \times 17\%$	1,530	0.5
			<u>2</u>
			<u>10</u>

5 (a) Ms Liu – Individual income tax (IIT) on share incentive

	RMB	
Grant date		
Exercise date	Not taxable	0.5
Taxable income = $40,000 \times (1.4 \times 6 - 1.5) = \text{RMB}276,000$		0.5
Find tax rate $276,000 \div 12 = 23,000 \rightarrow 25\%$		0.5
IIT = $((276,000 \div 12) \times 25\% - 1,005) \times 12$	56,940	1.5
Disposal of stock $(\text{USD}4.7 - \text{USD}1.4) \times 6 \times 30,000 \times 20\%$	118,800	1
		<u>4</u>

(b) Mr Jiang – Individual income tax (IIT) for 2015

	RMB	
Monthly taxable salary of Mr Jiang		
Basic salary	30,000	
Hardship allowance	10,000	0.5
Less: Employee's contribution to China social insurances	(2,800)	0.5
Taxable salary each month	37,200	
Less: Personal allowance	(4,800)	1
	<u>32,400</u>	

Tutorial note: Mr Jiang is entitled to the additional allowance of RMB1,300 (hence, a total of RMB4,800) since he is seconded overseas.

	RMB	Marks
Monthly IIT = $32,400 \times 25\% - 1,005$	7,095	0.5
Total IIT for 2015 ($7,095 \times 12$)	85,140	
Less: African tax paid	<u>(60,500)</u>	0.5
IIT payable for 2015	<u>24,640</u>	<u>3</u>
(c) Mr Waki – Residence status		
2008: He is not a China tax resident since the number of days he spent outside China is more than 30 days one-off in the year.		0.5
2012: He is a China tax resident since the number of days he spent outside China is not more than 30 days one-off in the year.		0.5
2014: He is a China tax resident since the number of days he spent outside China is not more than 90 days cumulative in the year.		<u>1</u>
		<u>2</u>
(d) (i) Mr Wu – Individual income tax (IIT) for 2015		
	RMB	
Monthly income taxable as salary = $20,000 + 20,000$	40,000	1
Less: Personal allowance	<u>(3,500)</u>	0.5
	36,500	
Tutorial note: <i>Since Mr Wu is general manager of WK Ltd, the director's fee is taxed as salary.</i>		
Monthly IIT on salary = $36,500 \times 30\% - 2,755$	8,195	0.5
IIT on salary for 2015: $8,195 \times 12$	98,340	
Tax rate on bonus: $100,000 \div 12 = 8,333 \rightarrow 20\%$		0.5
IIT on bonus $100,000 \times 20\% - 555$	19,445	0.5
IIT on deemed dividend: $500,000 \times 20\%$	100,000	1
Tutorial note: <i>An individual shareholder who borrows from a company for over one year without repayment is deemed to receive dividend income equivalent to the amount of the loan.</i>		
Total IIT of Mr Wu for 2015	<u>217,785</u>	<u>4</u>
(ii) Ms Xie – Individual income tax (IIT) for 2015		
	RMB	
Monthly IIT on director's fee: $30,000 \times (1 - 20\%) \times 30\% - 2,000$	5,200	1
IIT on director's fee for 2015: $5,200 \times 12$	62,400	
IIT on invention (taxed as royalties): $100,000 \times (1 - 20\%) \times 20\%$	<u>16,000</u>	1
Total IIT of Ms Xie for 2015	<u>78,400</u>	<u>2</u>
		<u>15</u>

6 Beautiful Ltd

(a) Enterprise income tax (EIT) for 2015

	RMB	
Profit per the statement of profit or loss	278,417	
(1) Inventory thrown away	0	0.5
(2) Depreciation of factory building	0	1
[Tutorial note: According to the State Administration of Taxation Announcement 2014 No. 29, if the accounting depreciation period used is longer than the minimum tax depreciation period, the accounting depreciation should be used for tax purposes.]		
(3) Electricity charges accrued	0	0.5
(4) Interest for loan to pay supplier	0	0.5
(4) Interest for loan to construct factory premises (to be capitalised)	1,234,000	0.5
(5) Deemed sales	300,000	0.5
(5) Entertainment expenses		
Total including deemed sales: 230,200 + 300,000 = RMB530,200		
Deduction of entertainment expenses: the lower of		
– 60% x 530,200 = RMB318,120 and		
– 0.5% x (112,541,600 + 300,000) = RMB564,208		
Adjustment = 530,200 – 318,120	212,080	2
[Tutorial note: Deemed sales and deemed expenses of RMB300,000 should be made at the same time.]		
(6) Promotion expenses	0	1
Maximum deduction (112,541,600 + 300,000) x 15% = RMB16,926,240, no adjustment is required		
(6) Announcement in newspaper (not classified as promotion and advertising expenses)	0	0.5
(7) Salaries accrued	0	1
[Tutorial note: State Administration of Taxation Announcement 2015 No. 34 allowed the deduction of salaries accrued and paid before the annual EIT filing date from year 2014 EIT filing onwards.]		
(7) Bonus accrued but not paid	200,000	0.5
(8) Staff union expenses		
Deductible (14,100,200 – 200,000) x 2% = RMB278,004		
Adjustment = 399,200 – 278,004	121,196	1
(9) Accounting depreciation of chairs: 150 x 600 x 6 months/2 years	22,500	1
Tax depreciation allowable: 150 x 600	(90,000)	1
(10) Unrealised exchange loss	0	0.5
(10) Loss on disposal of A-shares	0	0.5
Total adjusted taxable income of 2015	2,278,193	
Tax loss brought forward (tax loss of 2009 was expired by 2014)	(21,800)	1
	<u>2,256,393</u>	
EIT at 25%	564,098	0.5
		<u>14</u>

(b) The adjustment is valid because the statute of limitation for transfer pricing adjustments is ten years.

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