

Fundamentals Level – Skills Module

Taxation (China)

Tuesday 4 June 2013



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)

ACCA

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 resident (domestic) and non-resident (foreign) enterprises	Rate 25%
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Individual income tax

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	15,000 or below	5%	0
2	15,001– 30,000	10%	750
3	30,001 – 60,000	20%	3,750
4	60,001 – 100,000	30%	9,750
5	Over 100,000	35%	14,750

Employment income

Grade	Taxable income on which employee bears the tax/employer bears the tax (RMB)	Rate %	Quick deduction factor (RMB)
1	1,500/1,455 or below	3	0
2	1,501 – 4,500/1,456 – 4,155	10	105
3	4,501 – 9,000/4,156 – 7,755	20	555
4	9,001 – 35,000/7,756 – 27,255	25	1,005
5	35,001 – 55,000/27,256 – 41,255	30	2,755
6	55,001 – 80,000/41,256 – 57,505	35	5,505
7	Over 80,000/57,505	45	13,505

Monthly personal allowance for a China local is RMB 3,500.

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 and above	40	7,000

Allowance each time:

RMB 4,000 and below	RMB 800
Over RMB 4,000	20%

Tax rates for income from:

Royalty, interest, dividend, rental of property, transfer of property, incidental income and other income	20%
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Business tax

		Rate
Group A	transportation, construction, communication, culture and sports	3%
Group B	hotels, restaurants, tourism, warehousing, advertising, transfers of intangible property, sales 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%

Note: VAT reforms in certain cities in China need not be considered.

Deduction limits on certain expenses

Funds for enterprises

Trade union expenses	2% of total wages
Employee welfare expenses	14% of total wages
Employee training expenses	2.5% of total wages

Donations

Enterprises	up to 12% of the accounting profits
Individuals	up to 30% of the taxable income
	100% if the donation is 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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Exchange rate

USD1 = RMB 7

ALL FIVE questions are compulsory and MUST be attempted

- 1 (a)** Company C is a wholly foreign-owned manufacturing enterprise, which was established and started operations on 1 January 2012.

The company's statement of enterprise income tax (EIT) payable prepared by the accountant of Company C for the year 2012 is as follows:

	Note	RMB
Turnover		15,000,000
Cost of goods sold		(10,000,000)
Gross profit		5,000,000
Management and finance expenses	1	(3,500,000)
Investment income	2	280,000
Other loss: fixed assets written off	3	(80,000)
Taxable profit		1,700,000
Tax rate		25%
Tax payable		425,000

Notes:

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

	RMB
Salaries and bonuses paid to staff (including bonuses of RMB 150,000 payable in January 2013)	1,000,000
Interest expense (including interest of RMB 20,000 on a loan borrowed to construct a canteen. The construction work will not be completed until March 2014)	20,000
Entertaining expense	150,000
Advertising expense	60,000
Qualified research and development expense	20,000
Staff and workers' benefits	200,000
Staff and workers' education expenses	100,000
Direct donation to a school (in cash)	100,000
Non-business related sponsorship of a car race	60,000
Penalty for late payment of 2011 enterprise income tax	20,000

- (2) The investment income comprises:

	RMB
Interest income on national debenture (gross)	30,000
Gain on the disposal of an office	250,000
	280,000

- (3) The original cost of the fixed assets was RMB 200,000, the accumulated depreciation was RMB 120,000 and the accumulated tax allowances claimed were RMB 140,000.

Required:

- (i) **State, giving reasons, whether or not the accountant's treatment of each of the 13 items referred to in notes 1 to 3 is correct.** (13 marks)
- (ii) **Calculate the correct amount of enterprise income tax (EIT) payable by Company C for the year 2012.** (7 marks)

(b) Company K is considering paying a share of the administrative costs incurred by its Chinese investor.

Required:

Outline the general tax rule regarding the sharing of costs and state the conditions which Company K must satisfy in order to be eligible for a tax deduction for the shared costs. (5 marks)

(c) **Briefly explain the timing of recognition of sales revenue under the relevant tax rules for the following methods for the sale of goods:**

- (i) paid by instalments;
- (ii) paid in advance;
- (iii) consignment sales;
- (iv) collection and acceptance (i.e. the seller assigns the bank to collect the payment); and
- (v) the sale includes the installation services.

Note: The total marks will be split equally between each part. (5 marks)

(d) **Briefly explain the qualifying criteria for a small scale enterprise under enterprise income tax (EIT) and the related preferential tax treatment.** (5 marks)

(35 marks)

2 (a) Mr Chan, a Chinese citizen, is a writer and one of the investors of a limited company, Company H. He had the following income in 2012:

- (1) Company H bought a car which cost RMB 250,000 for Mr Chan's personal use. Mr Chan is the registered owner of the car.
- (2) Sold the copyright of one of his manuscripts for RMB 45,000
- (3) Sold a notable artist's scrolls painting for RMB 300,000, which he had originally acquired for RMB 200,000.
- (4) Received RMB 24,000 for the delivery of a three-day training course.
- (5) Received RMB 48,000 for writing a novel and due to the publication of a new edition, the publishing firm also later paid him a further RMB 12,000.
- (6) Mr Chan, together with a friend, has jointly invested in a partnership; the profit of the partnership was RMB 80,000 in 2012.
- (7) Realised a net gain of RMB 12,000 from trading in the A-shares market.
- (8) Published an investment article in Country P and received USD 600 for writing the article. Individual income tax equivalent to RMB 300 was paid by Mr Chan in Country P, based on the tax regulations there.
- (9) Sold the property (50 square metres) in which he had lived for two years for RMB 800,000. He had acquired the property for RMB 500,000. (Local surtax and land appreciation tax need NOT be considered)
- (10) Received RMB 9,000 as insurance compensation.
- (11) Won a lottery prize of RMB 20,000, but donated half of it to an approved (non-100% deduction) charity.

Required:

Calculate the individual income tax (IIT) payable by Mr Chan on each of his items of income for the year 2012, clearly identifying any amounts which are tax exempt. (12 marks)

(b) Mr Christopher, who is a US national, is employed by a US networking company to work in Shanghai on a project which will last for a period of 20 consecutive months.

Required:

- (i) List any THREE fringe benefits which can be provided to Mr Christopher which will not be subject to individual income tax (IIT) in China.** (3 marks)
- (ii) Briefly explain the requirements for the reporting and payment of the individual income tax (IIT) due for Mr Christopher if he is paid RMB 30,000 per month.** (5 marks)

(20 marks)

- 3 (a)** Company T, a company which manufactures mobile phones, had the following transactions in the month of April 2012:
- (1) Input VAT on the purchase of raw materials of RMB 1,300,000.
 - (2) Sales of mobiles for RMB 1,500,000 to the domestic market.
 - (3) Made export sales amounting to USD 1,000,000; the applicable refund rate is 13%.

Required:

Calculate the value added tax (VAT) refund amount for Company T for the month of April 2012 using the 'exempt, set off, refund' method. (4 marks)

- (b)** Company Y, a motor vehicle parts manufacturing company, had the following transactions in the month of May 2012:
- (1) Input VAT for the month of RMB 2,600,000.
 - (2) Sales of parts for RMB 8,000,000 to the domestic market.
 - (3) Made export sales amounting to RMB 4,000,000. The bonded materials used for export were RMB 2,000,000 and the applicable refund rate is 13%.

Required:

Calculate the value added tax (VAT) refund amount for Company Y for the month of May 2012 using the 'exempt, set off, refund' method. (5 marks)

- (c) Briefly explain the requirements for a registered export enterprise to obtain an export refund.** (3 marks)

- (d) Identify the withholding agent for the purposes of business tax, for each of the following business activities:**

- (i) the sub-contracting of building work;**
- (ii) an overseas entity carrying out taxable services in China, which does not have an establishment in China;**
- (iii) an individual's public performance;**
- (iv) reinsurance business; and**
- (v) the personal transfer of a patent, trademark, copyright, etc.**

Note: The total marks will be split equally between each part. (5 marks)

- (e)** Company F runs a hotel and a nursing home for aged people. In January 2012, the income from the nursing home was RMB 25,000 and the income from the hotel was as follows:
- restaurant RMB 120,000;
 - rent RMB 100,000; and
 - from karaoke: RMB 7,000 for song orders, RMB 15,000 for sales of drinks and RMB 40,000 for entrance tickets.

Required:

Calculate the business tax due by Company F for the month of January 2012. (3 marks)

(20 marks)

- 4 (a) Briefly explain the terms: non-resident enterprise; and effectively connected. (4 marks)
- (b) Briefly explain the basis on which a non-resident enterprise with an establishment or place of business in China is subject to tax under the relevant China tax laws and rules. (2 marks)
- (c) In relation to a non-resident enterprise without an establishment or place of business in China:
- (i) Briefly explain the basis on which such an enterprise is subject to tax in China under the relevant China tax laws and rules and the method by which any tax liability will be paid. (3 marks)
- (ii) State the principle which will be used to determine the source of each of the following types of income of such an enterprise in China under the relevant China tax laws and rules:
- (1) dividends;
 - (2) royalties;
 - (3) transfers of immovable property;
 - (4) transfers of movable property;
 - (5) transfers of equity interests; and
 - (6) other types of income.

Note: The total marks will be split equally between each part. (6 marks)

(15 marks)

- 5 (a) Identify and briefly explain the FOUR main sources of tax law and regulations in China, giving an example of each of them. (8 marks)
- (b) State TWO kinds of tax which are collected and administered by each of the following tax bureaus:
- (i) the state tax bureau; and
 - (ii) the local tax bureau.

Note: The total marks will be split equally between each part. (2 marks)

(10 marks)

End of Question Paper