

Fundamentals Level – Skills Module

Taxation (China)

Specimen questions for June 2015

This is not a full specimen paper, it is a selection of specimen questions to give an indication of the style of the questions. It includes three multiple choice questions and one long question.

The full exam will consist of the following:

Section A – 15 multiple choice questions for 2 marks each

Section B – Four 10 mark questions and two 15 mark questions

All questions are compulsory.

To see an example of the full specimen exam, please refer to the F6 (UK) Specimen Paper.

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 in Section B.

TAX RATES AND ALLOWANCES

The following tax rates and allowances are to be used in answering the questions.

Enterprise income tax

	Rate
Income tax for resident enterprises and non-resident enterprises with an establishment in China	25%
Income tax for specific China sourced income of non-resident enterprises	10%

Deduction limits on certain expenses

Employment welfare expenses	14% of total wages
Labour union expenses	2% of total wages
Employee training expenses	2.5% of total wages*
Donations	12% of the accounting profits
Entertainment expenses	60% of the amount subject to a maximum of 0.5% of the sales/business income of the year.
Advertising and promotion expenses	15% of the sales/business income of the year*

*except for certain special industries

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	Up to and including 15,000	5%	0
2	Over 15,000 to 30,000	10%	750
3	Over 30,000 to 60,000	20%	3,750
4	Over 60,000 to 100,000	30%	9,750
5	Over 100,000	35%	14,750

Employment income

Level	Taxable income on which employee bears the tax/employer bears the tax (RMB)	Rate	Quick deduction factor (RMB)
1	Up to and including 1,500/1,455	3%	0
2	Over 1,500 to 4,500/1,455 to 4,155	10%	105
3	Over 4,500 to 9,000/4,155 to 7,755	20%	555
4	Over 9,000 to 35,000/7,755 to 27,255	25%	1,005
5	Over 35,000 to 55,000/27,255 to 41,255	30%	2,755
6	Over 55,000 to 80,000/41,255 to 57,505	35%	5,505
7	Over 80,000/57,505	45%	13,505

Monthly personal allowance for a China local	RMB3,500
Additional allowance for expatriate employees	RMB1,300

Individual service income

Before tax income (RMB)	Rate	Quick deduction factor (RMB)
Up to and including 20,000	20%	0
Over 20,000 to 50,000	30%	2,000
Over 50,000	40%	7,000

Allowance each time for individual service income, income from manuscripts, royalties and rental of property

RMB4,000 and below	RMB800
Over RMB4,000	20%

Income from manuscripts, royalties, interest, dividends, rental of property, transfer of property, incidental income and other income 20%

Donations of individuals

Limited to: 30% of the taxable income; or
100% if the donation is made to certain funds approved by the government

Value added tax (VAT)

	Rate
For importation of goods depending on the itemised goods	17%/13%
For small-scale taxpayers and simplified method	3%
For general taxpayers for the sale of itemised goods, processing, and repairing	17%
for the sale or import of itemised goods	13%
input tax credit for agricultural products	13%

VAT pilot programme

Industries	Rate
Transportation, postal and certain telecom services	11%
R&D and technical services, IT services, cultural and innovation services, logistics auxiliary services, attestation and consulting services, and broadcasting, film and television, certain telecom services	6%
Tangible movable property leasing services	17%

Note: The above rates are based on the pilot rules published by 30 September 2014. The new rules effective from 1 October 2014 are not examinable in the 2015 exams.

Business tax

Industries	Rate
Construction, culture and sports	3%
Finance and insurance, services, transfer of intangible property, sale of immovable property	5%
Entertainment	5%~20%

Land appreciation tax

Level	The ratio of increased value against the value of deductible items	Rate	Quick deduction ratio
1	No more than 50%	30%	0
2	Over 50% to 100%	40%	5%
3	Over 100% to 200%	50%	15%
4	Over 200%	60%	35%

Exchange rate

USD1 = RMB 6

Section A – ALL 15 questions are compulsory and MUST be attempted

Note: Only three specimen questions provided. For full specimen exam, see F6 (UK) Specimen paper

Please use the grid provided on page two of the Candidate Answer Booklet to record your answers to each multiple choice question. Do not write out the answers to the MCQs on the lined pages of the answer booklet. Each question is worth 2 marks.

- 1 Company H is a Hong Kong company which has set up a representative office (RO) in China. The RO provides liaison services in China for Company H. The China tax authorities have assessed the tax position of the RO and concluded that the RO should pay tax on a cost-plus basis at a deemed profit rate of 15%. In 2014, the taxable costs of the RO are RMB160,000.

What is the amount of Enterprise Income Tax (EIT) of the RO for the year 2014?

- A RMB6,000
- B RMB7,059
- C RMB7,500
- D RMB24,000

- 2 Company S sells cosmetics; its transactions in October 2014 were as follows:

- (1) Sold 200 sets of the imported cosmetics packs at RMB1,500 per set without further processing
- (2) Sold 600 pieces of lipstick at RMB50 per piece without further processing
- (3) Sold 450 sets of self-produced cosmetics packs at RMB1,000 per set

Which of the above items are NOT subject to consumption tax?

- A All of the above
- B 1 and 2 only
- C 2 and 3 only
- D 1 and 3 only

- 3 Shop R is a retail shop, and is registered for value added tax (VAT). Shop R sells an air-conditioner to a customer for RMB2,000; at the same time Shop R charges an installation fee of RMB100.

Which of the following is the correct tax treatment for the installation fee?

- A Shop R should pay VAT on both the sale of air-conditioner and the installation fee
- B Shop R should pay VAT on the sale of air-conditioner and pay business tax on the installation fee
- C Shop R should pay business tax on both the sale of air-conditioner and the installation fee
- D Shop R should pay business tax on the sale of air-conditioner and pay VAT on the installation fee

Section B – ALL SIX questions are compulsory and MUST be attempted

Note: Only one specimen question provided. For full specimen exam, see F6 (UK) Specimen paper

Please write your answers to all parts of these questions on the lined pages within the Candidate Answer Booklet.

1 Ms Chen, a Chinese national, received the following income in 2014.

Income from her employment as a manager with Company X:

- (1) A salary of RMB10,000 per month for each of the 12 months of 2014. In addition, she was entitled to the following subsidies and allowances in 2014:
 - (a) A meal allowance of RMB500 per month.
 - (b) Overtime income of RMB1,000 per month.
 - (c) Reimbursement of business trip expenses in January 2014. The amount incurred was RMB1,200 and the whole amount was supported with invoices.
 - (d) Employer's mandatory contribution to social security of RMB1,200.
- (2) A year-end bonus of RMB40,000 in December 2014.

Other income:

- (3) She had an article published in a magazine in June and republished in July. The authorship fee was RMB3,000 for each publication.
- (4) In June, a private limited company paid her a dividend from which it withheld individual income tax (IIT). The net-of-tax dividend she received was RMB40,000.
- (5) In April 2013, she invested RMB20,000 in A-shares and sold them for RMB35,000 in August 2014.
- (6) She has provided consultancy services to a Canadian company and received a gross service fee of USD20,000. Canadian tax of USD2,000 was withheld and deducted at source from this fee.

Required:

- (a) Calculate the individual income tax (IIT) payable by Ms Chen in respect of each of the items (1) to (6), clearly identifying any item(s) which are tax exempt.**

Note: You should ignore the effect of business tax and surtaxes on business tax in respect of item (6).

(11 marks)

- (b) (i) State the penalty which will be levied on the publisher for not withholding IIT from the payment made to Ms Chen (item (3)).**

(1 mark)

(ii) Explain Ms Chen's responsibilities for filing and paying the IIT on this fee.

(3 marks)

(15 marks)

Answers

Section A

1 C $\text{RMB}160,000 \div (1 - 5\% - 15\%) \times 15\% \times 25\% = \text{RMB}7,500$

2 B

3 A This is a mixed sale.

Section B

Marks

1 Ms Chen

(a) Individual income tax (IIT)

- | | |
|---|-----------|
| (1) The business trip expenses reimbursed and the employer's mandatory contribution to social security are exempt from IIT. | 1 |
| Therefore, the monthly taxable salary is RMB11,500 (10,000 + 500 + 1,000). | 1 |
| Monthly IIT = (11,500 – 3,500) x 20% – 555 = RMB1,045 | 1 |
| (2) The applicable tax rate for the bonus is 10% (40,000 ÷ 12 = 3,333). | 1 |
| IIT on the bonus = 40,000 x 10% – 105 = RMB3,895 | 0.5 |
| (3) An article published twice is taxed as a single item. | |
| IIT = 20% x (6,000 – 20% x 6,000) x (1 – 30%) = RMB672 | 1.5 |
| (4) The gross amount of dividend is RMB50,000 (40,000 ÷ (1 – 20%)). | 0.5 |
| IIT on dividend = 50,000 x 20% = RMB10,000 | 0.5 |
| (5) A gain on investing in A-shares is tax exempt. | 1 |
| (6) Consultancy fee of USD20,000 x 6 = RMB120,000 | |
| IIT = (120,000 – 20% x 120,000) x 40% – 7,000 = RMB31,400 | 1 |
| IIT after crediting foreign tax = 31,400 – (2,000 x 6) = RMB19,400 | 1 |
| | <u>11</u> |

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|--|-------|
| (b) (i) A withholding agent who does not properly withhold individual income tax (IIT) is subject to a penalty of from 50% to 300% of the IIT. | 1 |
| (ii) Where a withholding agent fails to withhold the required tax, the taxpayer still remains liable for the tax due and must file a return with the relevant tax authority. | 1 |
| Ms Chen can file the IIT either in the next month after she received the income or during the annual self-assessment. | 1 + 1 |

3
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