Specimen Exam

Exam Name: Taxation (E1 CHN)
Time Allowed: 3 hours
Pass Mark: 50%

This exam contains 3 sections:

Section A:
15 questions, each worth 2 marks
30 marks in total

Section B:
4 questions, each worth 10 marks
2 questions, each worth 15 marks
70 marks in total

Note: This specimen examination has been prepared based on legislation passed by 30 September 2025 (to be updated).

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Section A

Question 1

Alpha Ltd (AL) was incorporated on 1 August 2026. AL applied for the tax incentive of a high and new technology enterprise for 2026.

Which TWO of the following statements in relation to Alpha Ltd's deadline for tax registration and the time period for retaining the record of the tax application are correct?

A Deadline for tax registration is 31 August 2026
B Deadline for tax registration is 16 August 2026
C Deadline for tax registration is 31 May 2027
D Period for retaining the record is ten years
E Period for retaining the record is five years
F Period for retaining the record is unlimited

Question 2

Betty downloaded and logged into a shopping application (app) and got a coupon for RMB100 and a cash reward of RMB20. She immediately transferred the cash reward of RMB20 to her bank account. She used the coupon and paid RMB150 to buy a jacket with a selling price of RMB250. After the purchase, she received another coupon for RMB80 for future spending.

Per the terms and conditions of the app, all the individual income tax (IIT) would be borne by the shopping app company.

Calculate the amount of IIT withheld and paid by the shopping app company.

RMB ☐

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Question 3

Flower Ltd (FL) borrowed RMB20,000,000 at an interest rate of 9% per annum from a US bank on 1 January 2025. Per the agreement, the US bank will bear all the China taxes, including value added tax (VAT) and enterprise income tax (EIT).

The US bank does not have any establishment in China.

The VAT rate is 6%.

What is the amount of EIT on the interest income of the US bank for 2025?

Note: Ignore any tax incentives under the tax treaty.

A RMB180,000
B RMB200,000
C RMB169,811
D RMB190,800

Question 4

Which THREE of the following transactions are NOT subject to, or are exempt from, land appreciation tax?

A A local government transferring a repossessed land use right at a land appreciation ratio of 250%
B A property developer selling a standard residential property at a land appreciation ratio of 15%
C An individual selling a residential apartment at a land appreciation ratio of 300%
D An individual selling a commercial property at a land appreciation ratio of 18%
E A property developer selling a commercial property at a land appreciation ratio of 16%
F A factory using the factory premises as capital contribution to set up a new property development subsidiary at a land appreciation ratio of 19%

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Question 5

Victoria Life Restaurant (VLR) is a value added tax (VAT) small-scale taxpayer. In December 2026:

- VLR received a total amount of RMB820,000 from customers; and
- VLR paid a total of RMB480,000 for purchases and expenses with a total input VAT stated in the VAT special invoices of RMB39,500.

What is the amount of VAT payable by Victoria Life Restaurant for December 2026?

A RMB8,200
B RMB8,119
C RMB6,915
D RMB3,400

Question 6

Which of the following options classifying the taxes as a direct tax or an indirect tax is correct?

Option	Direct tax	Indirect tax
1	Individual income tax	Enterprise income tax
2	Customs duty	Consumption tax
3	Value added tax (VAT)	Individual income tax
4	Enterprise income tax	Customs duty

A Option 1
B Option 2
C Option 3
D Option 4

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Question 7

Accurate Time Ltd (ATL) imports luxury watches from Switzerland for sale in China. In November 2026, ATL had the following transactions:

- Imported luxury watches at a dutiable value of RMB520,000.
- Sold all of these luxury watches for RMB849,000, exclusive of value added tax (VAT).

The customs duty rate is 30% and the consumption tax (CT) rate is 20%.

Calculate the total amount of CT payable by Accurate Time Ltd on the importation and sale of the luxury watches.

RMB ☐

Question 8

Lan and Huang are the equal partners of a partnership, Creative World Company (CWC). In 2025, the profits from business operations of CWC were RMB678,000, which was before taking into account the interest and dividend income below:

- Interest income of RMB40,000 from lending to a limited company, AB Ltd
- Dividend income of RMB220,000 from an investment in AB Ltd

Each of the partners withdrew RMB300,000 from CWC.

There was no tax adjustment.

In addition to the partnership, Lan also has other comprehensive income.

What is the amount of individual income tax withheld by Creative World Company for Lan?

A RMB87,200
B RMB100,200
C RMB49,500
D RMB89,200

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Question 9

Jiu Software Ltd (JSL) qualified as both a high and new technology enterprise and a software enterprise. As a software enterprise, JSL is entitled to the tax incentive of a two-year exemption and three-year 50% reduction in enterprise income tax (EIT) from its first profit-making year.

The amounts of profits or losses before tax and after-tax adjustments from 2018 to 2025 are summarised below:

Year	2018	2019	2020	2021	2022	2023	2024	2025
Profit / (Loss) in RMB million	(50)	40	(10)	62	(24)	38	28	40

Which of the following options show the amounts of EIT payable for Jiu Software Ltd for the years 2021 and 2025?

Option	EIT of 2021	EIT of 2025
1	RMB5,250,000	RMB6,000,000
2	RMB3,150,000	RMB6,000,000
3	RMB0	RMB5,000,000
4	RMB0	RMB3,000,000

A Option 1
B Option 2
C Option 3
D Option 4

Question 10

Which THREE of the following disposals of inventory by a food producing company would be treated as deemed sales for the purposes of output value added tax (VAT)?

A Dairy products which were thrown away after the expiry date
B The staff canteen took some of the food products for consumption by the employees
C A customer using the bonus points of the loyalty programme in exchange for two packs of sausages
D Chocolates donated to a school
E A customer bought two packs of sausages and got one pack free
F Some cheesecakes have gone bad and been thrown away due to a power failure

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Question 11

Quality Work Ltd (QWL) had to prepare the contemporaneous transfer pricing documentation (TPD) local file for 2025.

The tax bureau required QWL to submit the TPD local file on 16 August 2026.

Which of the following options show the deadlines for preparing the TPD local file by Quality Work Ltd for 2025 and submitting the TPD local file to the tax bureau?

Option	Deadline for preparing the TPD local file	Deadline for submitting the TPD local file to the tax bureau
1	31 May 2026	15 October 2026
2	30 June 2026	15 September 2026
3	30 June 2026	15 October 2026
4	31 May 2026	15 September 2026

A Option 1
B Option 2
C Option 3
D Option 4

Question 12

Xinmai's normal salary was RMB10,000 per month. In September 2026, he received the following benefits from his employer:

- Free meals in the staff canteen at a market price of RMB800.
- Reimbursement of business trip expenses incurred of RMB560.
- A moon-cake coupon at a market price of RMB180.
- A mobile phone won in the lucky draw of the Moon Festival staff dinner. The market price of the mobile phone was RMB899.

Which TWO of the following in relation to Xinmai's total taxable salary and his occasional income for September 2026 are correct?

A Taxable salary is RMB10,980
B Taxable salary is RMB11,079
C Taxable salary is RMB11,360
D Occasional income is RMB899
E Occasional income is RMB0
F Occasional income is RMB1,079

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Question 13

Weiwei Co Ltd (WCL) is registered in the British Virgin Islands. Management expects that WCL will receive dividend income of RMB50 million from its Shanghai subsidiary in 2027. The Shanghai subsidiary pays enterprise income tax (EIT) at 25%.

Calculate the amount of Chinese EIT payable by Weiwei Co Ltd (WCL) on the dividend income, on the assumption that WCL is NOT a China tax resident enterprise.

Note: Ignore the tax treaty incentive and assume that there is no tax adjustment.

RMB ☐

Question 14

Whatever Design Ltd (WDL) provides design services to overseas customers. WDL is a value added tax (VAT) general taxpayer. In October 2026, 70% of its turnover was zero-rated and the remaining 30% was VAT exempt. The input VAT status stated in the VAT special invoices received in October 2026 was as follows:

- Acquired office furniture with VAT of RMB2,600
- Paid office rent with VAT of RMB8,000
- Paid electricity with VAT of RMB6,600
- Paid a software service fee with VAT of RMB2,000 for its customers who are VAT exempt

What is the amount of irrecoverable input VAT in October 2026?

A RMB7,160
B RMB12,040
C RMB2,000
D RMB3,980

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Question 15

Good Bag Ltd (GBL) imports famous branded handbags from France for sale in China. In January 2026, GBL imported handbags at a total cost of RMB800,000 at the terms of free on board (FOB).

In addition, GBL paid the following expenses:

- China Customs clearing expenses of RMB7,000
- International freight and insurance of RMB45,500
- Warehousing charges of RMB19,500

GBL sold all the handbags in 2026. Per the sale and purchase agreement, GBL had to pay a royalty fee to the French supplier on the sales of the handbags. GBL paid a royalty fee of RMB150,000 to the French supplier.

The customs duty rate is 12%.

What is the amount of import customs duty payable by Good Bag Ltd relating to the importation of the handbags?

A RMB119,460
B RMB101,460
C RMB104,640
D RMB120,300

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Section B

Question 16

The following scenario relates to three requirements.

Yanyan is a famous live streamer who markets consumer goods on e-commerce platforms. She set up a sole proprietorship, Global Workshop Co (GWC), to run her live streaming business. In order to reduce the taxable income, she has booked her family expenses in GWC. The accounting books of GWC of 2025 are summarised below:

	RMB
Amounts received from live streaming	12,345,000
Less: Costs and expenses	(7,890,000)
Taxable income	**4,455,000**

Yanyan filed and paid her individual income tax (IIT) for GWC for 2025, with the tax incentive of a 50% reduction on the first RMB2,000,000 of taxable income.

In addition to live streaming, Yanyan licensed her image to a cosmetic company and received a royalty of RMB200,000 in 2025. Yanyan filed and paid her annual IIT before the deadlines.

Except for the above, Yanyan did not have other comprehensive income. Yanyan did not have any specific deductions and specific additional deductions in 2025.

In July 2026, the tax bureau informed Yanyan that the live streaming income should be classified under “service income” and could not be taxed under the sole proprietorship.

Yanyan re-calculated and filed her revised IIT return for 2025 and paid the additional tax in September 2026.

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Requirements:

(a) Calculate the individual income tax (IIT) initially paid by Yanyan under the sole proprietorship, and the IIT on the royalty income.

(4 marks)

(b) Calculate the total amount of IIT Yanyan has to pay on the revised IIT filing as required by the tax bureau on the income from live streaming and the royalty income.

(3 marks)

(c) Summarise the specific deductions and specific additional deductions which a China tax resident can claim from their comprehensive income for IIT purposes, giving TWO examples of each.

(3 marks)

(10 marks)

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Question 17

The following scenario relates to two requirements.

Forest Moon Ltd (FML) is a UK company. FML registered a representative office (RO) in Shanghai. The Shanghai tax bureau agreed to assess the enterprise income tax (EIT) of the RO by using the cost-plus method at a deemed profit margin of 15%. The RO is a value added tax (VAT) general taxpayer.

Except for EIT, the receipts and payments of the RO in 2025 are summarised below:

	RMB
Receipts	
1. Bank interest income	5,000
2. Amount received from FML	7,300,000
Total receipts	**7,305,000**
Payments	
3. New furniture and equipment	480,000
4. Staff wages and salaries	3,366,000
5. Office rent	1,400,000
6. Business entertainment	111,000
7. Bank interest expenses	23,000
8. Donation to an approved charity	100,000
9. Other office overheads	1,000,000
10. Tax penalty on late filing of tax returns	2,000
11. Customs duty paid on importation	45,000
12. VAT paid	411,000
Total payments except for EIT	**6,938,000**

13. The total depreciation of fixed assets of the RO for 2025, including the new furniture and equipment mentioned at point 3 above, amounted to RMB832,000.

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Requirements:

(a) Calculate the enterprise income tax (EIT) of the representative office of Forest Moon Ltd for 2025.

Note: You should list all items referred to in 1 to 13, indicating by the use of zero (0) any item which does not have EIT implications.

(8 marks)

(b) Analyse why the Shanghai Tax Bureau may have assessed the enterprise income tax of the representative office by using the deemed profit basis.

(2 marks)

(10 marks)

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Question 18

The following scenario relates to three requirements.

Chengli is a famous film star. In 2025, Chengli had the following two transactions, which were both discovered by the tax bureau:

Transaction 1
Chengli signed a contract with Khazu Film Co Ltd (KFCL) for the filming of a movie. Chengli's actual remuneration was RMB12,000,000, although it was stated in the contract as RMB5,000,000. KFCL withheld individual income tax (IIT) for Chengli based on the contract amount.

Transaction 2
Zhejiang Entertainment Ltd (ZEL) invited Chengli to perform at a singing contest. The service fee was RMB100,000. Chengli informed ZEL that he would pay the IIT himself, hence, ZEL has not withheld any IIT for Chengli. Chengli has not paid the IIT on the income from ZEL.

Requirements:

(a) Assess whether transaction 1 is an act of tax evasion or an act of tax avoidance.

(2 marks)

(b) Analyse the tax consequences for Chengli, Khazu Film Co Ltd and Zhejiang Entertainment Ltd, concerning each of the transactions.

(5 marks)

(c) Summarise which government authorities issue the Value Added Tax (VAT) Law, the Regulations on VAT Law and the Public Notice on Amendment of VAT Returns.

(3 marks)

(10 marks)

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Question 19

The following scenario relates to two requirements.

Great Battery Ltd (GBL) produces batteries. GBL is a value added tax (VAT) general taxpayer. In January 2026, GBL had the following transactions:

1. Acquired new machinery with input VAT of RMB820,000. The economic life of the machinery is five years with no residual value.
2. Purchased raw materials with input VAT of RMB2,468,000.
3. Paid overheads with input VAT of RMB350,000.
4. Domestic sales in China amounted to RMB11,223,000, of which the sales to Energy Trading Ltd (ETL) were for RMB3,000,000. Exported sales to overseas customers amounted to RMB17,654,000.

ETL is an export trading company. In February 2026, ETL exported 80% of the batteries purchased from GBL for RMB2,700,000. GBL paid transportation and warehousing expenses with input VAT of RMB8,000 for the export of the batteries.

Except where otherwise stated, amounts are exclusive of VAT. All the input VAT detailed above were supported by VAT special invoices.

The VAT rate and export refund rate for batteries are 13% and 9% respectively.

Requirements:

(a) Calculate the irrecoverable input value added tax (VAT), the VAT refund due and the cap on export VAT refund on the exports of batteries by Great Battery Ltd for January 2026.

(7 marks)

(b) Calculate the VAT refund due on the export of batteries by Energy Trading Ltd for February 2026.

(3 marks)

(10 marks)

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Question 20

The following scenario relates to two requirements.

George is a UK citizen who teaches English literature. Shanghai International School (SIS) hired George for the academic year of 2024/2025. He stayed in China from 1 August 2024 to 31 July 2025 and returned to the UK on 31 July 2025.

His payroll information for the 12 months when he stayed in China was as follows:

	RMB
Salary per month	40,000
Employer's contribution to social insurances each month	5,800
Employee's contribution to social insurances each month	3,200
A one-off performance bonus paid in July 2025	92,000

The amount of specific additional deductions for George was RMB2,000 per month.

SIS withheld individual income tax for George as a China tax resident.

In addition to the employment with SIS, George had the following income from China:

	Received in	**RMB**
1. Insurance compensation for a traffic accident	September 2024	8,000
2. Profit on the sale of A-shares in November 2024	November 2024	6,140
3. Interest income from lending to a Chinese company	December 2024	3,650
4. Fee for lecturing in another school	December 2024	5,700
5. Fee for training on an English learning course	February 2025	6,300
6. Authorship income from writing and publishing a book in China	December 2025	30,000

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Requirements:

(a) Calculate the individual income tax (IIT) for George for each of the years 2024 and 2025 on the income sourced from China, indicating by the use of zero (0) any item referred to in 1 to 6 which is tax exempt or not taxable.

Note: You should assume that George opted to calculate IIT on the bonus by using the special formula.

(12 marks)

(b) Calculate the total IIT withheld by Shanghai International School (SIS) for the year 2025 assuming that SIS combined the annual bonus with the salary on the withholding of the IIT.

Note: Ignore any tax incentives under the tax treaty.

(3 marks)

(15 marks)

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Question 21

The following scenario relates to one requirement.

Big Wheat Ltd (BWL) is a garment manufacturing company. The turnover of BWL for the year 2025 was RMB988,000,000. Its accounting profit before tax during 2025 was RMB19,300,000.

Except where stated otherwise, the following items had all been accounted for when computing the amount of accounting profit before tax:

1. Irrecoverable input value added tax (VAT) of RMB40,100 on the abnormal loss of inventory.

2. Acquired a new factory building at a cost of RMB45,000,000 in June 2024. According to the tax law, the shortest depreciation period for a factory building is 20 years. BWL depreciated the factory building over 30 years with no residual value.

3. Acquired machinery at RMB2,200,000 in June 2025 which was put into use immediately. The estimated useful life of the machinery was 10 years with a residual value of 5%. BWL opted to fully deduct the machinery on acquisition for tax purposes.

4. Fixed assets with an accounting net book value of RMB13,570 were scrapped. The assets were deducted in full for tax purposes in 2023.

5. Incurred qualifying research and development expenses of RMB2,831,000.

6. Acquired qualifying energy and water saving equipment costing RMB6,120,000.

7. Paid employer's contribution to social insurances of RMB4,021,000.

8. Paid general commercial medical insurance for employees of RMB767,000.

9. An increase in the provision for doubtful debts of RMB954,000.

10. Received a specific government subsidy of RMB7,210,000 for Project Sun in 2025. The costs and expenses incurred in 2025 amounted to RMB1,090,000.

11. Received a specific government subsidy of RMB5,048,000 for Project Star in March 2020. Project Star was completed in 2025. The total costs and expenses which were incurred before 2025 for Project Star amounted to RMB4,970,000.

12. Received a refund of VAT on exports of RMB4,876,000.

13. Received interest on government bonds of RMB490,000.

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14. Received a dividend from the Hainan subsidiary of RMB3,035,000. The Hainan subsidiary paid enterprise income tax (EIT) at a rate of 15%.

15. Received a dividend of RMB2,650,000 from a subsidiary in the Hong Kong Special Administrative Region (HKSAR). The HKSAR subsidiary paid EIT (Profits Tax) at a rate of 16.5%. There is no EIT (withholding tax) on dividends remitted from HKSAR to BWL.

16. Incurred business entertainment expenses of RMB6,890,000.

17. Incurred business promotion and advertising expenses of RMB10,250,000. The amount in excess of the deduction threshold in 2024 was RMB1,260,000.

18. Paid a penalty of RMB150,000 to the State Administration for Market Regulations due to a false description in the company's advertisements.

19. Paid a penalty of RMB1,230,000 to a customer for a breach of contract.

BWL has made all relevant applications and/or reports to the tax authorities.

BWL does NOT qualify for the small-profit enterprise tax incentive.

Requirement:

Prepare a computation of the enterprise income tax (EIT) payable by Big Wheat Ltd (BWL) for the year 2025 by separately showing the EIT on China-sourced income and foreign-sourced income, after claiming the foreign tax credit.

Notes:

1. Your computation should start with the accounting profit before tax amount of RMB19,300,000 and should list all items referred to in 1 to 19, indicating by the use of zero (0) any item which does not require adjustment.

2. You are not required to make adjustments for any of the above items for accounting purposes.

3. Ignore value added tax (VAT) and surtaxes on deemed sales.

(15 marks)

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