Suggested solution

Section A

1 A and D

The deadline for tax registration is 31 August 2026, and the period for retaining the record is ten years.

The tax registration should be completed within 30 days. The period of record keeping for tax purposes is ten years according to Article 29 of the Implementation Regulations of the Tax Collection and Administration Law.

2 RMB5

(RMB20 ÷ (1 – 20%) x 20%) = RMB5

Coupons which can be used for spending are taxed as discounts. Discounts are not subject to IIT. The cash reward of RMB20 is taxable. Since the payor bears the IIT, the amount should be grossed up.

3 C

The correct answer is RMB169,811, which is calculated as follows:

Gross interest = 20,000,000 x 9% = RMB1,800,000
Tax base = 1,800,000 ÷ (1 + 6%) = RMB1,698,113
EIT (withholding tax) = 1,698,113 x 10% = RMB169,811

Since the US bank will bear all the China taxes, the tax base is less than the gross interest.

4 A, B and C

A local government is not subject to land appreciation tax (LAT).

A property developer selling a standard residential property at a land appreciation ratio of no more than 20% is exempt from LAT.

An individual selling residential property is LAT exempt.

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5 B

(RMB 820,000 ÷ (1 + 1%) x 1%) = RMB8,119

The amount received from customers was value added tax (VAT) inclusive. The VAT rate of a small-scale taxpayer is reduced to 1% by using the simplified method and there is no input VAT credit.

6 D

Option 4, i.e. enterprise income tax is a direct tax and customs duty is an indirect tax.

For direct taxes, the taxpayer is the bearer of the tax. For indirect taxes, the tax burden can be shifted to the customers and hence, the taxpayer is not the tax bearer.

7 RMB169,000

Import consumption tax (CT) = RMB520,000 x (1 + 30%) ÷ (1 – 20%) x 20% = RMB169,000

CT on luxury watches is paid on production and sale, and on importation. The retail of luxury watches is not subject to CT.

8 D

((RMB678,000 + RMB40,000) ÷ 2 x 30% - RMB40,500) + (RMB220,000 ÷ 2 x 20%)) = RMB89,200

The dividend from the limited company received by the partnership is taxed at 20%. The other income of the partnership is taxed based on the operating income tax tables.

9 C

Option 3.

EIT of 2021 = RMB0 (exempt)

EIT of 2025 = RMB40m x 12.5% = RMB5,000,000

The first profit-making year refers to the year after setting off the taxation loss, i.e. 2021. 2025 is the fifth year. The 50% reduction is based on the standard rate of 25% (i.e. 12.5%) and not the reduced rate of 15% for a high and new technology enterprise.

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10 B, C and D

Goods for personal use, goods given to customers free-of-charge and donation of goods to a school are all deemed sales. A school is not a qualified charity and the donation of goods to a school cannot be VAT exempt.

11 B

Option 2.

The deadline for preparing the transfer pricing documentation (TPD) local file is 30 June of the following year, i.e. 30 June 2026. The taxpayer has to submit the TPD local file within 30 days on request by the tax bureau, i.e. 15 September 2026.

12 B and E

Taxable salary is RMB11,079 (RMB10,000 + RMB180 + RMB899)
Occasional income is RMB0

Free meals in the staff canteen is a collective benefit for all the staff and this cannot be turned into a monetary benefit; hence, it is tax exempt. The reimbursement of business trip expenses is not taxable.

The moon-cake coupon and the mobile phone are monetary benefits arising from employment and should be taxed as salaries.

If the moon-cake coupon and the mobile phone were given to customers and other individuals, these would be taxed under occasional income (i.e. 20% IIT rate).

13 RMB5,000,000

Non-China tax resident enterprise (CTRE): RMB50,000,000 x 10% = RMB5,000,000

A CTRE receiving dividend from another CTRE (the Shanghai subsidiary) is EIT exempt. A non-CTRE (non-resident enterprise) receiving dividend from a CTRE is subject to EIT at 10%.

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14 D

(RMB6,600 x 30% + RMB2,000) = RMB3,980

Input VAT on the acquisition or the leasing of fixed assets and immovable property (except for those assets with a value of over RMB5 million) for use of both VAT exempt and zero-rated and VATable supplies can be fully recoverable. Input VAT specifically used for VAT exempt supplies is not recoverable. For the other input VAT, they will be apportioned.

15 A

((RMB800,000 + RMB45,500 + RMB150,000) x 12%) = RMB119,460

Import customs duty is calculated based on CIF (cost, insurance and freight) value and other adjustments. Royalty paid for the goods imported is also dutiable. Since the handbags are branded goods, the royalty is dutiable. CIF value = FOB (free on board) plus the international freight and insurance expenses.

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Section B

16

Yanyan

(a) Individual income tax (IIT) return filed under a sole proprietor and royalty

	RMB
Sole proprietorship taxable income	4,455,000
IIT before tax incentive (RMB4,455,000 x 35% - RMB65,500)	1,493,750
Less: IIT incentive ((RMB2,000,000 x 35% - RMB65,500) x 50%)	(317,250)
IIT of Wei initially paid under the sole proprietorship	**1,176,500**
Royalty income	200,000
Taxable income (RMB200,000 x 80%)	160,000
Less: Annual allowance	(60,000)
	100,000
IIT on royalty income (RMB100,000 x 10% - RMB2,520) (annual table)	7,480

(b) Revised IIT

	RMB
Royalty income	200,000
Live streaming income	12,345,000
	12,545,000
Taxable income (RMB12,545,000 x 80%)	10,036,000
Less: Annual allowance	(60,000)
	9,976,000
IIT (RMB9,976,000 x 45% - RMB181,920) (annual table)	4,307,280

(c)

Specific deductions are mandatory deductions which the employers withhold and contribute to the government for the employees. For example, social security contributions (pension, medical insurance and unemployment insurance) made in accordance with the Social Security Law and contributions made to the statutory Housing Fund.

Specific additional deductions are additional deductions which can be available to taxpayers who are eligible. There are seven deductions made on an annual basis, which are all subject to specific eligibility rules and caps. For example, specific additional deductions for children's education, further education, mortgage interest, rental expenses, elderly care and care for infants under the age of three.

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Both specific deductions and specific additional deductions are deductions for China tax residents in addition to the basic deduction (allowance) of RMB60,000 per annum.

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17

Forest Moon Ltd (FML) representative office (RO) - enterprise income tax (EIT)

(a) EIT of the RO

	RMB
1. Bank interest income	0
2. Amount received from FML	0
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	0
9. Other office overheads	1,000,000
10. Tax penalty	0
11. Customs duty paid	45,000
12. Value added tax (VAT) paid	0
13. Depreciation of fixed assets	0
Tax base for cost-plus	**6,425,000**
Grossed-up (RMB6,425,000 ÷ (1 - 15%))	7,558,824
Taxable profit (RMB7,558,824 x 15%)	1,133,824
EIT (RMB1,133,824 x 25%)	283,456

(b)

The Shanghai Tax Bureau may assess the EIT by using the deemed profit basis in cases when the accounting books and records of the representative office (RO) are incomplete, and when the RO cannot accurately compute its income and its costs and expenses, based on its actual functions and risks. The RO cannot receive income, however as it is carrying out income generating activities, the deemed profit basis may be used to assess its income.

Tutorial note: According to tax notice Guoshuifa [2010] No. 18, fixed assets of the RO should be treated as the cost base of the RO on acquisition, income cannot be offset against expenses, donation and tax penalties should be excluded from the tax base. VAT is price-exclusive, it should be excluded from the tax base on grossing up of the taxable turnover. Since the cost of fixed assets has been taxed on acquisition, deprecation is not taxed again.

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18

Chengli, Khazu Film Co Ltd and Zhejiang Entertainment Ltd

(a)

Transaction 1 is an act of tax evasion. Using a fraudulent contract is a form of fabrication of documents in order to underreport income and, hence, underpay the tax.

(b) Tax consequences of each party for transactions 1 and 2

Transaction 1
Chengli must pay back the individual income tax and will be subject to a late payment surcharge of 0.05% per day from the tax due date and a penalty of 50% to 5 times.

Khazu Film Co Ltd will be subject to a penalty of 50% to 5 times.

Tutorial note: The withholding agent involved in tax evasion is subject to the same penalty.

Transaction 2
Chengli must pay back the individual income tax

Tutorial note: There is no need to pay a penalty and late payment surcharge since it is the non-withholding of tax by the withholding agent.

Zhejiang Entertainment Ltd will be subject to a penalty of 50% to 3 times.

(c) Government authorities

The VAT Law is issued by the Standing Committee of the National People's Congress.
The Regulations on VAT Law are issued by the State Council.
The Public Notice on Amendment of VAT Returns is issued by the State Taxation Administration.

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19

Great Battery Ltd (GBL) and Energy Trading Ltd (ETL)

(a) GBL – Value added tax (VAT)

	RMB
Irrecoverable input VAT (RMB17,654,000 x (13% - 9%))	706,160
VAT refund on export of GBL:	
Input VAT on new machinery	820,000
Input VAT on purchase of raw materials	2,468,000
Input VAT on overheads	350,000
Total input VAT	**3,638,000**
Less: Irrecoverable input VAT	(706,160)
Input VAT creditable	**2,931,840**
Output VAT on domestic sales (RMB11,223,000 x 13%)	1,458,990
Less: Input VAT creditable	(2,931,840)
Input VAT refundable	**(1,472,850)**
Cap of export VAT refund (RMB17,654,000 x 9%)	1,588,860
Since the amount refundable is lower than the cap, the full amount can be refunded	1,472,850

(b) ETL – VAT

	RMB
Input VAT on purchases from GBL (RMB3,000,000 x 13%)	390,000
Input VAT on transport and warehousing	0
VAT refundable on export (RMB390,000 x 80% x 9%/13%)	216,000

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20

George and Shanghai International School (SIS)

(a) Individual income tax (IIT) of 2024 - George is a non-tax resident of China since his days of residence in China is less than 183 days

	RMB	**RMB**
Salary per month	40,000	
Less: Monthly allowance	(5,000)	
	35,000	
IIT on salary per month (RMB35,000 x 25% - RMB2,660) (monthly table)	6,090	
IIT on salary from August to December 2024 (5 months)		30,450
1. IIT on insurance compensation		0
2. IIT on profit on sale of A-shares		0
3. IIT on interest income from lending to a Chinese company (RMB3,650 x 20%)		730
4. Fee for lecturing in another school (taxed under service income of a non-resident)	5,700	
Taxable amount (RMB5,700 x 80%)	4,560	
IIT on lecturing fee (RMB4,560 x 10% - RMB210) (monthly table)		246
Total IIT of George in 2024		**31,426**

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IIT of 2025 - George is a China tax resident since his days of presence in China is over 183 days

	RMB	RMB
IIT on comprehensive income in 2025:		
Salary for 7 months (RMB40,000 x 7)	280,000	
5. Fee for speaking in an English training course (RMB6,300 x 80%)	5,040	
6. Authorship income (RMB30,000 x 80% x 70%)	16,800	
		301,840
Less:		
Annual allowance	(60,000)	
Employee's contribution to social insurances (RMB3,200 x 7)	(22,400)	
Specific additional deductions (RMB2,000 x 12)	(24,000)	
		(106,400)
Taxable income		**195,440**
IIT (RMB195,440 x 20% - RMB16,920) (annual table)		22,168
Annual bonus	92,000	
Find tax rate and QD: RMB92,000 ÷ 12 = RMB7,667 => 10%, QD: RMB210		
IIT on bonus (RMB92,000 x 10% - RMB210)		8,990

(b) IIT withheld by SIS in 2025 - cumulative withholding method for tax resident

	RMB	RMB
Salary for 7 months (RMB40,000 x 7)	280,000	
Bonus	92,000	
		372,000
Less:		
Annual allowance for 7 months (RMB5,000 x 7)	(35,000)	
Employee's contribution to social insurances (RMB3,200 x 7)	(22,400)	
Specific additional deductions (RMB2,000 x 7)	(14,000)	
		(71,400)
		300,600
IIT withheld (RMB300,600 x 25% - RMB31,920) (annual table)		43,230

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21

Big Wheat Ltd

Enterprise income tax (EIT) for the year 2025

		RMB	RMB
	Accounting profit before tax		19,300,000
1.	Irrecoverable input value added tax (VAT) on abnormal loss	0	
2.	Factory building depreciation	0	
3.	Full deduction of machines	(2,200,000)	
3.	Accounting depreciation (RMB2,200,000 x (1 - 5%) ÷ 10 x 6/12)	104,500	
4.	Scrapped fixed assets deducted in full in 2023	13,570	
5.	Additional research & development expenses (100%)	(2,831,000)	
7.	Employer's contribution to social insurances	0	
8.	Commercial insurance for employees	767,000	
9.	Increase in provision for doubtful debts	954,000	
10.	Specific government subsidy - Project Sun	(7,210,000)	
10.	Expenses incurred - Project Sun	1,090,000	
11.	Balance of specific government subsidy – Project Star (RMB5,048,000 – RMB4,970,000)	78,000	
12.	VAT refund on export	0	
13.	Interest on government bonds	(490,000)	
14.	Dividend from Hainan subsidiary	(3,035,000)	
15.	Dividend from HKSAR subsidiary	(2,650,000)	
16.	Business entertainment (RMB6,890,000 x 60% = RMB4,134,000, capped at RMB988,000,000 x 0.5%; deductible = RMB4,134,000; non-deductible = RMB6,890,000 - RMB4,134,000 = RMB2,756,000)	2,756,000	
17.	Promotion and advertising (cap: RMB988,000,000 x 15% = RMB148,200,000; amount not deducted in 2024 can be deducted in 2025)	(1,260,000)	
18.	Penalty to State Administration for Market Regulations	150,000	
19.	Penalty on breach of contract	0	
			(13,762,930)
			5,537,070

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	EIT on China sourced income before tax credit (RMB5,537,070 x 25%)		1,384,268
6.	Energy and water saving equipment tax credit (10%)		(612,000)
	EIT payable on China-sourced income		**772,268**
15.	Dividend from HKSAR subsidiary (grossed up: RMB2,650,000 ÷ (1 - 16.5%))		3,173,653
	EIT at 25%		793,413
	Less: Foreign tax credit: HK tax paid (RMB3,173,653 x 16.5%)		(523,653)
	EIT on foreign-sourced income		**269,760**

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Mark scheme

Section A

Questions 1 – 15 (all questions worth two marks)

Maximum 30 marks

Section B

Maximum 70 marks

Question 16

a	Yanyan – Individual income tax (IIT) Sole proprietorship: - Taxable income - IIT before incentive - Incentive Royalty income: - Taxable income - Annual allowance - IIT calculation	 0.5 1 1 0.5 0.5 0.5
Maximum 4 marks		
b	Revised IIT: - Royalty income - Live streaming income - Taxable income - Annual allowance - IIT calculation	 0.5 0.5 0.5 0.5 1
Maximum 3 marks		
c	Deductions	3
Maximum 3 marks		
Total 10 marks		

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Question 17

a	Forest Moon Ltd (FML) representative office Enterprise income tax (EIT): - Bank interest income - Received from FML - Furniture and equipment - Wages and salaries - Office rent - Business entertainment - Bank interest expenses - Donation - Other office overheads - Tax penalty - Customs duty paid - Value added tax (VAT) paid - Depreciation - Gross-up calculation - Taxable profit calculation - EIT calculation	 0.5 0.5 0.5 0.5 0.5 0.5 0.5 0.5 0.5 0.5 0.5 0.5 0.5 0.5 0.5 0.5
Maximum 8 marks		
b	Analysis – deemed profit basis assessment	2
Maximum 2 marks		
Total 10 marks		

Question 18

a	Assessment – transaction 1	2
Maximum 2 marks		
b	Tax consequences: - Chengli - Khazu Film Co Ltd - Zhejiang Entertainment Ltd	 3 1 1
Maximum 5 marks		
c	Government authorities: - Value added tax (VAT) Law - Regulations on VAT Law - Public Notice on Amendment of VAT Returns	 1 1 1
Maximum 3 marks		
Total 10 marks		

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Question 19

a	Great Battery Ltd (GBL) – Value added tax (VAT)	
	- Irrecoverable input VAT	2
	- New machinery	0.5
	- Raw materials	0.5
	- Overheads	0.5
	- Deduction of irrecoverable input VAT	0.5
	- Output VAT on domestic sales	1
	- Deduction of input VAT creditable	0.5
	- Cap of export VAT refund	1
	- Amount refunded	0.5
Maximum 7 marks		
b	Energy Trading Ltd – VAT refund	
	- Input VAT on purchases	1
	- Input VAT on transport and warehousing	0.5
	- VAT refundable calculation	1.5
Maximum 3 marks		
Total 10 marks		

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Question 20

a	George and Shanghai International School Individual income tax (IIT) - 2024 - Salary - Monthly allowance - Calculation of IIT - Insurance compensation - Profit on sale of A-shares - Interest from lending - Lecturing fee IIT – 2025 - Salary - Course fee - Authorship fee - Annual allowance - Employee's contributions - Specific additional deductions - IIT calculation - Annual bonus	 0.5 0.5 1.5 0.5 0.5 1 1.5 0.5 0.5 1 0.5 0.5 0.5 1 1.5
Maximum 12 marks		
b	IIT withheld in 2025 - Salary - Bonus - Annual allowance - Employee's contributions - Specific additional deductions - IIT withheld calculation	 0.5 0.5 0.5 0.5 0.5 0.5
Maximum 3 marks		
Total 15 marks		

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Question 21

a	Big Wheat Ltd Enterprise income tax (EIT) for 2025:	
	- Irrecoverable input value added tax (VAT)	0.5
	- Depreciation	0.5
	- Machines – deduction and depreciation	1.5
	- Scrapped fixed assets	0.5
	- Research and development	0.5
	- Employer's contributions	0.5
	- Commercial insurances	0.5
	- Doubtful debts	0.5
	- Project Sun	1
	- Project Star	1
	- VAT refund	0.5
	- Interest on government bonds	0.5
	- Dividends	1
	- Business entertainment	1
	- Promotion and advertising	1
	- Penalties	1
	- EIT calculation before tax credit	0.5
	- Tax credit	0.5
	- Dividend grossed up	1
	- EIT calculation	0.5
	- Foreign tax credit	0.5
Total 15 marks		

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