

Fundamentals Level – Skills Module

# Taxation (China)

Monday 2 June 2008

**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)

The ACCA logo consists of the letters 'ACCA' in a bold, white, sans-serif font, centered within a solid black square.

**SUPPLEMENTARY INSTRUCTIONS**

1. The final result of all 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.

**Income tax**

Income tax for domestic and foreign enterprises	<b>Rate</b> 25%
<b>Entrepreneurs who receive production or operation income derived from private industrial or commercial enterprises</b>	

Level	Annual taxable income (RMB)	Tax rate (%)	Fast deduction factor (RMB)
1	Under 5,000	5%	0
2	5,000 – 10,000	10%	250
3	10,000 – 30,000	20%	1,250
4	30,000 – 50,000	30%	4,250
5	Over 50,000	35%	6,750

**Income tax for individuals**

**For monthly salary**

Taxable income (RMB)	Rate	Fast deduction factor (RMB)
below 500	5%	0
the part 501 – 2,000	10%	25
the part 2,001 – 5,000	15%	125
the part 5,001 – 20,000	20%	375
the part 20,001 – 40,000	25%	1,375
the part 40,001 – 60,000	30%	3,375
the part 60,001 – 80,000	35%	6,375
the part 80,001 – 100,000	40%	10,375
the part 100,001 and above	45%	15,375

**For other income**

	<b>Rate</b>
each time below RMB 800	0%
each time from RMB 801 to RMB 4,000	20%
each time above RMB 4,000 (with 20% allowance)	20%

**Income from services provided**

for the part RMB 20,000 to RMB 50,000	30%
for the part above RMB 50,000	40%

**Business tax**

	<b>Rate</b>
Group A transportation, construction, communication, culture and sports	3%
Group B hotels, restaurants, tourism, warehousing, advertising, transfer of intangible property, sale of real estate	5%
Group C finance	5%
Group D recreation	5~20%

<b>Land appreciation tax</b>		
<b>The ratio of increased value against the value of deductible items</b>		<b>Rate</b>
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%

<b>Value added tax (VAT)</b>		
		<b>Rate</b>
For small size taxpayers		6%
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%

### **Allowances**

#### **Funds for domestic enterprises**

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

#### **Donations**

Enterprises	up to 12% of the taxable income
Individuals	up to 30% of the taxable income
	100% if donation 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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**ALL FIVE questions are compulsory and MUST be attempted**

- 1 (a)** Company H is a manufacturing joint venture enterprise which was established and started operations on 1 January 2008.

The statement of enterprise income tax (EIT) payable prepared by the accountant of Company H for the year 2008 is as follows:

	Note:	RMB
Turnover		300,000,000
Cost of goods sold		(200,000,000)
Gross profit		100,000,000
Management expenses	(1)	(35,000,000)
Investment income	(2)	475,000
Other loss: writing off of fixed assets	(3)	(300,000)
Taxable profits		65,175,000
Tax rate		25%
Tax payable		16,293,750

Notes:

- (1) The following amounts are included within the management and sales expenses:

	RMB
– Salaries and bonuses paid to staff (including RMB 200,000 paid to qualified disabled employees)	10,000,000
– Entertaining expense	1,500,000
– Advertising expense	3,000,000
– Donation to a qualified charity	250,000
– Research and development expense	800,000
– Staff and workers benefits	500,000
– Staff and workers education expenses	100,000
– Sponsorship of a car racing event	100,000

- (2) The investment income comprises:

	RMB
– Overseas dividend (net of foreign income tax at 15%)	85,000
– Gain on disposal of listed B-shares	270,000
– Interest income on national debenture (gross)	20,000
– Gain on disposal of national debenture (Net)	100,000

- (3) The original cost of the fixed assets was RMB 1,000,000 and the accumulated depreciation was RMB 700,000, while the accumulated tax allowances claimed were RMB 800,000.

- (4) During the year the foreign investor of Company H donated machinery with a fair value of RMB 100,000 to the company. The accountant recorded this donation as a credit to the capital reserve account.

**Required:**

- (i) **Briefly explain the enterprise income tax (EIT) treatment of each of the items referred to in notes (1) to (4) above.** (15 marks)
- (ii) **Calculate the correct amount of enterprise income tax (EIT) payable by Company H for the year 2008.** (8 marks)

- (b) Company J 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 that Company J must satisfy in order to be eligible for a tax deduction for the shared costs.** (4 marks)

- (c) In the case of each of the following manufacturing wholly foreign owned enterprises, briefly explain the transitional arrangements under the new enterprise income tax (EIT) laws and rules effective from 1 January 2008.

(i) Company L, which was incorporated in Shenzhen about 10 years ago. (3 marks)

(ii) Company M, which was incorporated in Shenzhen in 2006 and has started but not yet finished its tax holiday period (i.e. two years exempt and half rate for the following three years). (2 marks)

(iii) Company N, which was incorporated in Shenzhen in 2006 and has incurred losses ever since then. (3 marks)

**(35 marks)**

- 2 (a)** Mr C, a Chinese national, had the following income for the month of January 2008:
1. Monthly employment income of RMB 10,000, a bonus for the year 2007 of RMB 10,000 and free holiday travel for a trip to Hong Kong with a market value of RMB 3,000 as a reward for his outstanding performance.
  2. A net gain of RMB 20,000 from trading in the A-shares market.
  3. Gross interest income of RMB 1,000 from a bank deposit.
  4. Gross interest income of RMB 2,000 from a national debenture and a net gain of RMB 20,000 from the disposal of the national debenture.
  5. RMB 20,000 received as fire insurance compensation, which was less than the original cost of the asset destroyed by the fire.

**Required:**

**Briefly explain and calculate the individual income tax (IIT) payable by Mr C for the month of January 2008, clearly identifying any amounts which are tax exempt.** (9 marks)

- (b) Briefly explain the individual income tax (IIT) treatment of each of the following transactions and calculate the tax payable (if any) by Mr D, Mr E and Mr F:**
- (i) Mr D is one of the investors of a limited company, Company P. During the year, Company P bought a car for RMB 200,000 for Mr D's personal use. Mr D is the registered owner of the car.** (2 marks)
  - (ii) Mr E is one of the investors of a limited company, Company Q. During the year Company Q lent RMB 200,000 to Mr E so he could buy a car for his personal use.** (2 marks)
  - (iii) Mr F is the sole owner of a private enterprise R. During the year R bought a car for RMB 200,000 for Mr F's personal use. Mr F is the registered owner of the car.** (2 marks)
- (c) Briefly explain the requirements for the reporting and payment of tax due in the case of the individual income tax (IIT) on employment income.** (5 marks)

**(20 marks)**

- 3 (a) Company X built a five-floor office building by itself for its own use at a total cost of RMB 20,000,000. After completion, Company X changed its mind and sold the first two floors of the building to outsiders for RMB 15,000,000.

**Required:**

**Calculate the business tax (BT) payable by Company X as a result of the above transactions, if the deemed profits rate is 30%. (4 marks)**

- (b) During the month of May 2008, Company A carried out the following transactions:

Imported 100 motor cycles at RMB 30,000 each and since it could not provide the supporting documentation required, the Customs deemed that the related transportation cost and insurance expenses were 2% and 0.3% respectively. It paid RMB 20,000 to transport the motor cycles from the port to its warehouse. It sold 50 of the motor cycles at RMB 60,000 each (including VAT) during the month and took one motor cycle for the company's own use as a fixed asset.

Subcontracted some domestic raw materials valued at RMB 100,000 to an overseas company. The related fee and transportation cost were RMB 20,000 and RMB 5,000 respectively.

Sold a used bonded fixed asset to one of its customers for RMB 200,000. The original cost of the asset which was imported duty free three years ago was RMB 500,000.

**Required:**

**Calculate the customs tariff, consumption tax (CT) and value added tax (VAT) payable by Company A for the month of May 2008.**

Note: you should assume that:

(1) The tariff for all kinds of imported goods is 20%.

(2) The rate of consumption tax (CT) is 10%.

(3) The bonded period for all kinds of fixed assets is five years.

(13 marks)

- (c) **State the timelimits (deadlines) for the reporting and payment of value added tax (VAT) for a taxpayer with:**

(i) **an assessable period of one month; and**

(1 mark)

(ii) **an assessable period of less than one month.**

(2 marks)

**(20 marks)**

- 4 (a) Company Z, a TV trader and general value added tax (VAT) payer, had the following transactions in the month of April 2008:
1. Sold used machinery, with an original cost of RMB 10,000, for RMB 80,000.
  2. Sold a used car, with an original cost RMB 60,000, for RMB 8,000.
  3. Sold scrap for RMB 10,000.
  4. Sold 100 TV sets for RMB 1,200 each. The company had purchased the TV sets for RMB 1,000 each.
  5. Purchased used materials for recycling with an ordinary invoice for RMB 10,000.
  6. Paid electricity charges of RMB 5,000.

All of the above amounts are stated excluding VAT.

**Required:**

**Calculate the value added tax (VAT) payable by Company Z for the month of April 2008.** (10 marks)

- (b) Company K is a manufacturing foreign invested enterprise which commenced business two years ago. It has an accounting policy of making a general provision for obsolescence equal to 3% of its year end stock balance.

Details of the movements in this provision for the two years since the commencement of Company K's business are as follows:

	Year 1 RMB	Year 2 RMB
Year end stock balance	100,000	800,000
Movement on account of the stock provision:		
Opening balance	0	30,000
(1) General provision for the year	30,000	–
(2) Amount written off	–	(1,000)
(3) Amount written back	–	(5,000)
Closing balance	30,000	24,000

**Required:**

**Briefly explain the tax treatment of the items identified as (1), (2) and (3) comprising the movements in the provision in years 1 and 2.** (5 marks)

**(15 marks)**

- 5 **Briefly explain the consequences of the following actions, including any fines or other penalty that may be imposed:**

- (a) **Failure to apply for tax registration.** (2 marks)
- (b) **Non performance of tax withholding by an agent.** (2 marks)
- (c) **Failure to file a tax return.** (2 marks)
- (d) **Fraudulently obtaining a tax refund on an export.** (4 marks)

**(10 marks)**

**End of Question Paper**