
Answers

Section A

Marks

- 1 D Cash lottery IIT RMB50 ($200 \div 80\% \times 20\%$); WeChat Red-pocket money IIT RMB0.
- 2 A Deemed sales and deemed promotion expenses are both RMB10,000.
- 3 D Input VAT creditable = $550,000 \times 60\% + 170,000 = 500,000$
Output VAT = 10,000
Input VAT carried forward = RMB490,000
- 4 A Deductible for LAT = $100 + 1.8$ million
Land appreciation value = $300 - 101.8 = 198.2$ million
LAT = $198.2 \times 50\% - 101.8 \times 15\% = 83.83$ million
- 5 D
- 6 B RMB151,400 ($(1,500,000 + 10,000 + 4,000) \times 10\%$)
- 7 C RMB0 ($28,000 + 35,000 + 22,000 = 85,000$ which is less than 90,000, which is VAT exempt)
- 8 B Taxable profit = $220,000 - 38,000 = 182,000$
EIT = $182,000 \times 10\%$
- 9 B
- 10 A RMB37,500 ($85,000 \times 50\% \times 15\% \div 17\%$)
- 11 C
- 12 A RMB58,050 ($(500,000 \div 2 - 42,000) \times 35\% - 14,750$)
- 13 C RMB0
[Tutorial note: *Not abnormal loss.*]
- 14 D RMB150,000 ($1,200,000 \times 12.5\%$)
Tutorial note: *Can only enjoy one tax incentive and the EIT rate as a software enterprise is 12.5%.*
- 15 C

2 marks each

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Section B	<i>Marks</i>	
1 (a) (i) Ms Zheng has China domicile and is subject to China individual income tax (IIT) on her worldwide income. Her overseas salaries income is taxable.	1	
(ii) Mr Liu does not have China domicile and stayed in China for no more than 90 days in the calendar year (or 183 days under tax treaty) and his income is not borne or paid by any China entities. His salary is tax exempt in China.	1.5	
(iii) Miss Xu does not have China domicile and she has stayed in China for five consecutive years (2012 to 2016). She is subject to worldwide tax from the sixth year onwards if she resides in China for the full 2017 year. Her interest income is taxable in China.	1.5	
	<u>4</u>	
(b) Mr Ou		
(i) Circumstances in which individual income tax (IIT) annual self-filing is required: An individual who derives		
– annual income of over RMB120,000; or		
– wages and salaries from two or more sources in China; or		
– overseas income; or		
– taxable income but with no withholding agent.		
Four items, 1 mark each	<u>4</u>	
(ii) 31 March 2018.	<u>1</u>	
(iii)		
IIT on lottery income (USD200 x 6 x 20%)	RMB 240	0.5
Less: Foreign tax credit (USD30 x 6)	(180)	<u>0.5</u>
IIT payable	<u>60</u>	<u>1</u>
		<u>10</u>
2 (a) Horse Ltd		
(i) The penalty on under-withholding of individual income tax (IIT) ranges from 50% to three times the outstanding tax under-withheld (i.e. RMB50,000 to RMB300,000).	1	
(ii) The penalty on tax evasion ranges from 50% to five times the tax evaded (i.e. RMB75,000 to RMB750,000).	1	
(iii) The late payment surcharge at 0.05% per day counting from 1 June 2017 to 31 October 2017 (30 + 31 + 31 + 30 + 31 days), i.e. RMB150,000 x 0.05% x 153 days = RMB11,475.	<u>2</u>	
	<u>4</u>	
(b) Horse Ltd		
(i) Horse Ltd cannot appeal against the tax audit results. This is because an appeal should be submitted within 60 days of paying the tax, penalty and late payment surcharge. Since the amount was paid on 31 October 2017, the appeal would need to have been made no later than 31 December 2017. As it is now August 2018, it is too late.	1.5	
(ii) Horse Ltd could appeal against the tax administrative decision of downgrading in August 2018 since it is within 60 days of the decision. It could appeal to the city level state tax bureau.	<u>1.5</u>	
	<u>3</u>	
(c) The circumstances in which the tax authorities can assess the enterprise income tax (EIT) of a resident taxpayer on the deemed basis:		
– The taxpayer does not need to keep accounting records under the law.		
– The taxpayer should keep accounting records but has not.		
– The taxpayer destroys the accounting records without approval.		
– The taxpayer refuses to provide tax information.		

- The taxpayer has kept accounting books but the information on costs and vouchers on income and expenses are incomplete and cannot be audited.
- The taxpayer is liable to tax but has not filed their tax return on time and, after being requested to by the tax authorities, the taxpayer still has not filed their tax return on time.
- The tax base included in the tax return filed is obviously low and without legitimate reason.

Any three items, 1 mark each 3
10

3 (a) GH Ltd/XY Ltd

(i)	RMB	
Annual interest income (10,000,000 x 20%)	2,000,000	
Tax base for value added tax (VAT) and withholding tax (2,000,000 ÷ (1 + 6%))	1,886,792	1
VAT at 6%	113,208	0.5
Enterprise income tax (EIT) (withholding tax) at 10%	188,679	0.5
		<u>2</u>
(ii) Deductible interest		
Net equity RMB4,000,000 x 2 x market interest rate 7%	560,000	<u>2</u>

(b) Lont Pte Ltd

	RMB	
(1) Sold goods to Chinese customers	0	1
(2) Enterprise income tax (EIT) (withholding tax) on royalty (700,000 x 10%)	70,000	1
(3) EIT on sale of shares (4,800,000 x 10%)	480,000	1
(4) EIT on service fee (260,000 x 30% x 25%)	19,500	2
(5) EIT withholding tax on rental income (3,300,000 x 10%)	330,000	1
		<u>6</u>
		10

Tutorial notes:

1. Goods sold to Chinese customers are not taxable because Lont Pte is a non-tax resident enterprise and the income is not China-source.
2. Depreciation of fixed assets leased out is not allowed for rental income received by a non-tax resident without a China establishment/permanent establishment.

4 (a) KT Ltd

(i) Input value added tax (VAT)

	RMB	
(1) Raw materials	102,000	0.5
(2) Transportation fee	1,100	0.5
(3) Rent to landlord (no VAT special invoice – no VAT credit)	0	0.5
(4) Staff canteen (for staff consumption – no VAT credit)	0	0.5
(5) Machinery	136,000	1
		<u>3</u>

(ii) Output VAT

	RMB	
(6) Total sales (20,000 x 44 + 8,000 x 39) ÷ (1 + 17%) x 17%	173,197	2
(6) Deemed sales (2,000 x 44) ÷ (1 + 17%) x 17%	12,786	1
(7) Sale of old machinery (2,000 ÷ (1 + 17%) x 17%)	291	1
		<u>4</u>

Tutorial note: The coupon is effectively a discount which reduces the price on which VAT is payable.

Marks

- (b) Under the value added tax (VAT) exemption, there is no taxable supply, no output VAT on sales, and input VAT is not recoverable or refundable.
- Under zero rated, there is a taxable supply, output VAT on sales is at 0% and input VAT can be recoverable or refundable.

1·5

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5 (a) Wonder Ltd – Individual income tax (IIT)

	RMB	
(1) Mr Wang, taxed under the category of service income Donation of RMB1,800 within the limit of 30% deduction $[40,000 \times (1 - 20\%) - 1,800] \times 30\% - 2,000$	7,060	2
(2) Ms Xie, both items taxed as salaries $[(80,000 + 50,000) - 3500] \times 45\% - 13,505$	43,420	1·5
(3) Mr Yao Salary: $(70,000 - 3,500) \times 35\% - 5,505$ Bonus: $(1,000,000 \div 12) \Rightarrow$ IIT rate of 45% IIT on bonus: $1,000,000 \times 45\% - 13,505$	17,770 436,495	1 0·5 0·5
(4) Ms Zhang Granting of share options Gain on exercising of share options = $3,000 \times (19 - 1) \times 6$ Find IIT rate $324,000 \div 12 \Rightarrow 25\%$ and quick deduction factor 1,005 IIT on exercising of share options $(324,000 \div 12 \times 25\% - 1,005) \times 12$ Gain on sale of shares $(2,000 \times (28 - 19) \times 6)$ IIT on sale of shares $(108,000 \times 20\%)$	0 324,000 68,940 108,000 21,600	0·5 0·5 0·5 1 0·5 0·5 <u>9</u>

(b) Ms Ma – Individual income tax (IIT) in December 2017

	RMB	
(1) Monthly salary	90,000	0·5
(2) Rental allowance in cash	10,000	0·5
(3) Reimbursement of air-tickets on business trips	0	0·5
(4) Reimbursement of air-tickets on the third home leave in 2017	4,100	0·5
(5) Reimbursement of costs for Ms Ma to learn Putonghua in China	0	0·5
(6) Reimbursement of piano tuition fees in China for Ms Ma's children	2,400	0·5
(7) Laundry allowance on a reimbursement basis	0	0·5
(8) Reimbursement of car rental for private use	6,700	0·5
(9) Employer's contribution on social security	0	0·5
(10) Less: Employee's contribution on social security	(3,200)	0·5
Taxable income	110,000	
Less: Monthly allowance	(4,800)	0·5
	<u>105,200</u>	
IIT on wages and salaries $(105,200 \times 45\% - 13,505)$	33,835	0·5
		<u>6</u>
		15

6 Moon Ltd – Enterprise income tax (EIT) for 2017

	RMB	
Profit before tax	620,000	
(1) Entertainment expenses (capped at the lower of 120,000 x 60% = 72,000 or turnover 12,300,000 x 0.5% = 61,500; non-deductible = 120,000 – 61,500 = 58,500)	58,500	1.5
(2) Marketing and promotion expenses (maximum deduction = 12,300,000 x 15% = 1,845,000), excess expense b/f from 2016 of RMB350,000 can be fully deducted)	(350,000)	1.5
(3) Research and development (160,000 x additional deduction of 75%)	(120,000)	1
(4) Additional deduction on salaries of handicapped employees	(200,000)	0.5
(6) Fine issued by the trademark bureau	17,800	0.5
(7) Staff welfare expenses (maximum deduction 4,000,000 x 14% = 560,000)	0	0.5
(8) Warehouse fire inventory loss	0	0.5
(9) Special provision for doubtful debts	121,000	0.5
(10) Bad debt written off	0	0.5
(11) Non-taxable specific purpose government subsidy (350,000 – 310,000)	(40,000)	1
(12) General purpose government subsidy	0	0.5
(13) Creditor written to income	0	0.5
(14) Interest income on treasury bonds	(8,000)	0.5
(15) Bank interest income	0	0.5
(16) Value added tax (VAT) refund on export of goods	0	0.5
(17) Vietnam foreign tax paid on dividend income	10,000	0.5
(18) Dividend income from China subsidiary	(30,000)	0.5
(19) Profit on sale of A-shares	0	0.5
(20) Donation to the China Red Cross (maximum deduction: 620,000 x 12% = 74,400)	25,600	1
	<u>104,900</u>	
EIT at 25%	26,225	0.5
(5) EIT credit on qualified work safety equipment (150,000 x 10%)	(15,000)	1
(17) Foreign tax credit: Vietnam tax paid	(10,000)	0.5
EIT payable	<u>1,225</u>	
		<u>15</u>