



Think Ahead

Taxation (CHN)

Sample Questions – July 2020

Get to know your exam

These graphical representations are intended to give an indication of past exam requirements and associated question content.

Please note that you will not be able to complete answers within these documents and in isolation they will not sufficiently prepare you for your exam.

We encourage you to visit the ACCA Practice Platform in order to attempt up to date practice exams within the computer-based exam environment.

Introduction screen



Introduction

This practice exam indicates how the live exam will be structured and assessed, and the likely style and range of questions that could be asked.

You should use the practice exam to become familiar with the question types and the features and functionality contained within the live exam.

The practice exam is reflective of the live exam experience but has some differences:

- The live exam will be timed, however there is no time limit in this exam.
- If you want to sit this exam in exam style conditions you should answer the questions presented within the time allowed for your live exam.
- Once you have started this exam you are able to leave at any time by closing the browser window. When you return, anything you have entered into the response options will be saved and you can continue sitting the exam.
- In the live exam your answers to the constructed response questions will be expert-marked. At the end of this exam, all objective test questions (OTs) be auto-marked however you should use the solution material provided to assess your performance in the constructed response questions.
- You will be able to access solution material at the end of this exam when using the Self-Marking resources which include a Marking Guide and/or Sample Answer for each question. If you wish to access these without completing the questions, click on [End Exam](#) on the Item Review Screen and navigate to the Marking tab on the Dashboard to Self-Mark.

Instruction screens


Instructions (1 of 4)

The instructions displayed below are representative of those displayed in the live exam. Where there are differences between this exam and the live exam these are explained.


General Instructions

- In this exam, the instruction screens are not timed however in the live exam they will be available for a maximum of 10 minutes prior to the exam starting.
- In the live exam, the stated exam time will automatically start once the 10 minute period has passed (or earlier if you choose to start the exam within the 10 minute period).
- A copy of the instruction screens can be accessed at any time during the exam by selecting the Help button provided.

Answering and Navigating

- Please read each question carefully.
- The question number you are viewing is displayed in the top display bar. You can hide or restore this display by selecting .
- You can navigate between screens by selecting **Next →** or **← Previous**, or by clicking on a question number from the Navigator or Item Review screens.
- A warning message will display to remind you that you cannot navigate away from a question if you have not viewed all of the question content. Ensure that you use all scrollbars and/or open any on-screen exhibits before navigating from each question.
- Some questions have the scenario and answer area divided by either a horizontal or vertical splitter bar. You can move this splitter bar to see more or less of the scenario or answer area.
- Please ensure you provide an answer for all elements of each question.
- You can revisit questions and change your answers at any time during the exam.

Flag for Review

- If you wish to revisit/review a question later in the exam, click  **Flag for Review**.
- Click the button again if you no longer wish to revisit/review the question later in the exam.

Instruction screens (continued)

Instructions (2 of 4)

Help

- Click the **Help** button provided to access:
- A copy of these exam instructions.
- Help and guidance on constructed response questions. (in the constructed response section of the exam only).
- Formulae sheets/tax tables if your exam requires these. Note that the name of the Help button will indicate if formulae sheets/tax tables are available i.e. **Help**, **Help/Formulae Sheet** or **Help/Tax Tables**

Calculator

- You have the option to use the on-screen standard or scientific calculators by selecting **Calculator**
- Note that in the live exam you are also permitted to use your own calculator providing it does not have the facility to store or display text.

Highlight and Strikethrough

- You can highlight key phrases or figures in the question scenario by selecting **Highlight**
- You can strikethrough text in the question scenario by selecting **Strikethrough**
- Highlighted and strikethrough text will be displayed on all questions relating to the scenario.

Workings/Scratch Pad

- You may use an on-screen Scratch Pad to make notes/workings by selecting **Scratch Pad**
- The Scratch Pad retains all notes/workings entered for all questions and these are available for the duration of the exam. They will not be submitted for marking after your live exam.
- You will also be provided with paper for notes/workings for your live exam, should you prefer to use it. This will not be submitted for marking. It will be collected at the end of the exam and must not be removed from the exam room.
- **Important:**
 - The notes/workings entered onto the Scratch Pad or your workings paper during the live exam will not be marked.
 - If you want the marker to see any notes/workings for questions in the constructed response section of the live exam you must show them within the answer areas.

Instruction screens (continued)

Instructions (3 of 4)


Copy and Paste

- You can copy and paste from the Scratch Pad or question scenario into your answers in the constructed response section of the exam by using the Ctrl-C (Copy) and Ctrl-V (Paste) shortcuts. **Note:** When pasting into a spreadsheet in the live exam you must double-click the cell or paste directly into the formula bar. In this exam you can also paste into the spreadsheet by selecting the cell.


Symbol

- You can add a selection of currency symbols to your answers in the constructed response section of the exam by selecting  **Symbol** on the top toolbar.

Navigator Screen

- The Navigator screen can be accessed at any time during the exam by selecting  **Navigator**
- This screen allows you to jump to any question number in the exam.
- It also allows you to see the status of questions and whether they have been viewed, are complete or incomplete, or have been flagged for review.

Close All

- You can close each window (eg. Calculator or Scratch Pad) individually or you can close multiple windows by selecting  **Close All** on the top toolbar.

Reviewing the Exam

- You can review your exam once you have attempted any, or all, of the questions.
- To do this:
 - Navigate to the **last question** in the exam.
 - Click **Next→**
- This takes you to the Item Review screen.

Instruction screens (continued)

Taxation - China (TX - CHN) Sample Questions - June 2020

Instructions (4 of 4)

Item Review Screen

- This screen gives you an opportunity to see the flag and completion status of all questions before you exit the exam.
- You can select individual questions you wish to revisit, or quickly access groups of questions from the Item Review screen.
- During the item review period Navigator is not available however you can navigate to questions by selecting **Next** → , ← **Previous** or → **Review Screen**
- When reviewing questions you can change your answer and click → **Review Screen** to view any updated status on the Item Review screen.

Ending the Exam

- Once you have completed your item review and wish to finally end the exam click → **End Exam**
- Once you end the exam, you cannot revisit any questions.

Select **Next** to move to the Exam Summary screen.

← Previous Next →

Exam summary screen

Taxation - China (TX - CHN) Sample Questions - June 2020

Time allowed: This sample exam is not timed.

This exam is divided into two sections:

Section A

- 15 objective test (OT) questions, each worth 2 marks.
- 30 marks in total.

Section B

- Six constructed response questions that may contain a scenario which relates to one or more requirement(s).
- Each constructed response question is worth 10 or 15 marks in total.
- 70 marks in total.

All questions are compulsory.

Select **Next** to start your exam.

← Previous Next →

Sample exam questions

Section A – summary screen

Taxation - China (TX - CHN) Sample Questions - June 2020

Flag for Review

Section A

This section of the exam contains **15 objective test (OT) questions**.

Each question is worth **2 marks** and is compulsory.

This exam section is worth **30 marks** in total.

Important:

1. Calculations and workings need only be made to the nearest whole unit of currency, unless instructed otherwise.
2. All apportionments should be made to the nearest month.

Select **Next** to continue.

Navigator Next →

Section A - questions

Taxation - China (TX - CHN) Sample Questions - June 2020
1 of 27

\$ Symbol
Highlight
Strikethrough
Calculator
Scratch Pad
Close All
Flag for Review

Which of the following does NOT qualify as a specific additional deduction for individual income tax?

☐ Home leave
☐ Child education
☐ Rental expense
☐ Serious illness

Earth Ltd is a trading company. In January 2020, it purchased 30,000 kitchen utensils for export at RMB3,000,000 plus value added tax (VAT) of RMB390,000. In February 2020, it exported 20,000 kitchen utensils at RMB6,000,000. The VAT rate is 13% and the VAT refund rate is 5%.

What is the amount of input VAT which is not refundable or not recoverable in relation to the goods exported in February 2020?

☐ RMB160,000
☐ RMB480,000
☐ RMB240,000
☐ RMB320,000

Beta Ltd is a trading company which imports smart phones via the Free Trade Zone (FTZ). On 1 December 2019, smart phones valued at USD100,000 were reported to the Shanghai FTZ General Administration of Customs (GAC) as imported from a country outside China to the FTZ. On 10 February 2020, Beta Ltd sold the smart phones to customers outside the FTZ in China at USD130,000 and this was reported to Shanghai FTZ GAC.

What is the dutiable value for customs duty and the month for payment of customs duty respectively?

Option	Dutiable value for customs duty	Month for payment of customs duty
1	USD100,000	December 2019
2	USD130,000	December 2019
3	USD130,000	February 2020
4	USD100,000	February 2020

☐ Option 1
☐ Option 2
☐ Option 3
☐ Option 4

Section A – questions (continued)

MM Ltd is a United Kingdom tax resident company. It licensed its trademark to a Chinese company for a royalty fee of RMB1,000,000 per annum. The contract stated that the Chinese company will bear all the China taxes. The value added tax (VAT) rate is 6% on the royalty.

What is the amount of enterprise income tax (EIT) (withholding tax) to be withheld by the Chinese company on the royalty payable to MM Ltd in 2019?

You should ignore surtaxes on VAT and treaty reduction on the withholding tax rate.

- ☐ RMB94,340
- ☐ RMB100,000
- ☐ RMB106,383
- ☐ RMB111,111

PT Ltd, since inception in 2008, has been exporting goods from China to its related company located in a country outside China. In 2020, the tax authority disagreed with the transfer pricing policy of PT Ltd and subsequently adjusted the company's profit and reassessed its tax payable on an arm's length basis.

Which of the following consequences will apply to PT Ltd?

- (1) The tax authority will impose a penalty ranging from 50% to 500% of PT Ltd's tax payable figure
- (2) The tax authority will impose a late payment surcharge of 0.05% per day on PT Ltd's tax payable figure
- (3) The tax authority can assess PT Ltd's enterprise income tax (EIT) liability using the comparable uncontrollable price method
- (4) The tax authority can impose interest at the People's Bank of China lending rate plus 5%

- ☐ 1, 2 and 3
- ☐ 1 and 4
- ☐ 2 and 3 only
- ☐ 3 and 4

Beauty Ltd (BL) sells cosmetic products. In January 2020, it purchased 20,000 lipstick items at RMB200,000 from Gloss Ltd (GL), which is a production company. GL paid consumption tax (CT) of RMB30,000. BL sold half of the lipstick items for RMB120,000.

BL also produces rouge. In January 2020, BL produced 15,000 rouge items and sold 10,000 of these. The selling price of each item is RMB180.

The consumption tax (CT) rate is 15% for cosmetics. The amounts above are stated exclusive of value added tax (VAT).

What is the amount of CT payable by Beauty Ltd in January 2020?

- ☐ RMB288,000
- ☐ RMB405,000
- ☐ RMB270,000
- ☐ RMB273,000

Section A – questions (continued)

Small Ltd is a small-scale value added tax (VAT) taxpayer. It is eligible for the VAT exemption incentives for small-scale taxpayers. Small Ltd's revenue for 2019 was as follows:

	Revenue (exclusive of VAT)
	RMB
Quarter 1	298,000
Quarter 2	320,000
Quarter 3	250,000
Quarter 4	400,000
Total	1,268,000

What is the total VAT payable by Small Ltd in 2019?

- ☐ RMB2,040
- ☐ RMB21,600
- ☐ RMB3,600
- ☐ RMB27,240

Mr Wang, a China tax resident, is a free-lance consultant in Shanghai. He received consultancy fees of RMB80,000 in each of October 2019 and December 2019 from A Ltd and B Ltd respectively. Total individual income tax (IIT) of RMB37,200 was withheld. Mr Wang did not have any other income in 2019. The total amount of specific deduction and specific additional deduction of 2019 was RMB70,000.

Which of the following statements is/are correct?

- (1) Mr Wang does not need to file an annual tax return for comprehensive income according to the IIT Regulations
- (2) Mr Wang should file an annual tax return for comprehensive income according to the IIT Regulations
- (3) Mr Wang can apply for a tax refund of RMB37,200
- (4) Mr Wang can opt to file an annual tax return for comprehensive income according to the IIT Regulations

- ☐ 1, 3 and 4
- ☐ 2 and 3
- ☐ 2 only
- ☐ 1 and 4 only

Section A – questions (continued)

SK Ltd is a production company. It acquired a land use right and built factory premises on the land at a cost of RMB10,000,000 on 31 December 2009. On 1 January 2020, SK Ltd contributed the factory premises as paid up capital to set up a new production company. The premises were valued at RMB25,000,000 (exclusive of value added tax (VAT)). The net book value of the premises as per the financial statements as at 1 January 2020 was RMB5,000,000.

What is the amount of land appreciation tax payable by SK Ltd on the factory premises in January 2020?

You should ignore deed tax and surtaxes on VAT.

- ☐ RMB0
- ☐ RMB6,000,000
- ☐ RMB3,250,000
- ☐ RMB10,250,000

Oyster Ltd is a Singapore company. It has a representative office (RO) in Beijing. The Beijing Municipal Tax Service, State Taxation Administration assessed Oyster Ltd's enterprise income tax (EIT) on a deemed basis using a deemed profit margin of 15%. The total costs incurred, including a donation to an approved charity of RMB20,000, by the RO, amounted to RMB6,500,000.

What is the amount of enterprise income tax (EIT) payable by Oyster Ltd's representative office in 2019?

- ☐ RMB285,882
- ☐ RMB286,764
- ☐ RMB243,000
- ☐ RMB211,304

Wonder Ltd is a value added tax (VAT) general taxpayer which trades in electrical appliances. It acquired the following items in December 2019:

- A new warehouse with VAT of RMB8,000,000 stated on the VAT special invoice
- New furniture from a small-scale taxpayer with VAT of RMB50,000 stated on the VAT special invoice
- High speed train tickets for employees' business trips costing a total of RMB8,000 as stated on the tickets
- Electrical appliances with VAT of RMB6,400,000 stated on the VAT special invoice, half of which were sold in 2019

What is the input VAT creditable by Wonder Ltd for December 2019?

- ☐ RMB11,250,661
- ☐ RMB14,450,661
- ☐ RMB14,406,000
- ☐ RMB14,450,000

Section A – questions (continued)

In 2019, YA Ltd discovered that it has overpaid its enterprise income tax (EIT) for 2010 by RMB1,000,000.

Which of the following statements is correct?

- ☐ YA Ltd can claim a refund of the overpaid tax with no interest
- ☐ YA Ltd cannot claim a refund of the overpaid tax
- ☐ YA Ltd can claim a refund of the overpaid tax plus interest at the savings deposit rate of the People's Bank of China
- ☐ YA Ltd can claim a refund of the overpaid tax plus interest at the savings deposit rate of the People's Bank of China plus 5%

KK Ltd is a Malaysian tax resident. KK Ltd does not have an establishment nor a permanent establishment in China. The following income items relate to its Chinese business:

- (1) Profit of RMB400,000 earned on export of goods from Malaysia to China
- (2) Interest income of RMB200,000 received from a Chinese company
- (3) Rental income of RMB300,000 received on the leasing of a ship to a Singapore company for a Chinese voyage
- (4) Service income of RMB100,000 received from a Chinese company on services provided in Malaysia

Which of the above income items is/are sourced from China for enterprise income tax (EIT) purposes?

- ☐ 1, 2, 3 and 4
- ☐ 1 and 4 only
- ☐ 2 only
- ☐ 2 and 3 only

Ms Koo is a non-domiciled China tax resident throughout 2020. During that year she receives interest income from her friend in the United States of USD5,000 and other interest income from her friend in China of RMB50,000. She does not receive any other income during 2020.

What is the amount of individual income tax (IIT) payable by Ms Koo in 2020 based on the above income?

You should ignore value added tax (VAT) and tax treaty reduction.

- ☐ RMB0
- ☐ RMB10,000
- ☐ RMB5,000
- ☐ RMB17,000

Section A – questions (continued)

YL Ltd is required to prepare a local file of transfer pricing documentation for 2019.

Which of the statements below is correct?

- ☐ YL Ltd should submit the local file on filing the annual enterprise income tax (EIT) return
- ☐ YL Ltd should submit the local file within 60 days of when it is requested by the tax bureau
- ☐ YL Ltd should submit the local file within 30 days of when it is requested by the tax bureau
- ☐ YL Ltd should submit the local file within 90 days of when it is requested by the tax bureau

Section B – summary screen

Section B

This section of the exam contains **six constructed response questions**.

Each question may contain a scenario which relates to one or more requirement(s) which may be split over multiple question screens.

Each question is worth **10 or 15 marks** and is compulsory.

This exam section is worth **70 marks** in total.

Important:

1. Calculations and workings need only be made to the nearest whole unit of currency, unless instructed otherwise.
2. All apportionments should be made to the nearest month.
3. In your live exam you must:
 - Enter your answer for each question in the response area provided for that question. Any answers entered into a response area provided for a different question will not be marked.
 - Show all notes/workings that you want the marker to see within the response area provided for the question. Remember, any notes/workings made on the Scratch Pad or on your workings paper will not be marked.

Select **Next** to continue.

Section B – questions

Scenario 1

Taxation - China (TX - CHN) Sample Questions - June 2020

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🧮 Calculator

📝 Scratch Pad

The following scenario relates to requirements (a)(i) and (ii) only.

Peter, a citizen of the United States (US), is employed by a US company. His employer has sent him to China for 200 days of residence, in 2020, for business purposes. His salary will be paid in the US and will not be borne by a Chinese entity.

Mary is a citizen of the US. She has been awarded a short-term teaching employment, in Beijing, with a Beijing international school, for 60 days, in 2020. She will receive a salary from the Beijing school. Once the employment is completed, she will return to the US.

The following scenario relates to requirement (b) only.

Robert is a China tax resident. He has received an offer of employment from WeWah Ltd for which the total annual remuneration for 2020 will be RMB1,200,000. WeWah Ltd has provided three payment options to Robert as follows:

Option 1: A monthly salary of RMB100,000.

Option 2: A monthly salary of RMB50,000 and a year-end bonus of RMB600,000.

Option 3: A consultancy fee of RMB100,000 each month.

Assumptions:

- Robert does not have any other comprehensive income
- Robert does not have any specific deductions or specific additional deductions
- Robert opts to calculate individual income tax (IIT) on his annual bonus separately
- You should ignore value added tax (VAT)

🔗 Help/Tax Tables

Section B – questions (continued)

Scenario 1: requirements

(a)(i) Explain whether each of Peter and Mary will be China tax resident in 2020. (2 marks)

(ii) Explain whether each of Peter and Mary will be subject to China individual income tax (IIT) for the salaries they will receive in 2020. (2 marks)

Paragraph

(b) Calculate the individual income tax (IIT) payable by Robert in 2020 under each option. (6 marks)

(10 marks)

Edit Format

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Section B – questions (continued)

Scenario 2

The following scenario relates to requirement (a) only.

Alpha Ltd (AL) is a new company operating a newly set up restaurant. AL's budget for 2020 is as follows:

- Receipts from customers (inclusive of value added tax (VAT)) of RMB4,800,000.
- Rental and other costs and expenses of RMB3,500,000 plus input VAT of RMB105,000.
- Kitchen utensils costs of RMB1,000,000 plus input VAT of RMB130,000. The utensils may be used for five years and will have no residual value.

Management is deciding whether it should apply for VAT general taxpayer status or operate as a small-scale taxpayer. If AL is a VAT general taxpayer, it can benefit from the incentive of 15% additional input VAT credit.

AL cannot benefit from the VAT exemption for small-scale taxpayers.

The following scenario relates to requirement (b) only.

H Chain Store (HCS) imports watches from Switzerland for sale in China. The following transactions occurred in January 2020:

- 5 January: Imported 500 watches at RMB9,000 each, free on board (FOB). HCS paid freight and insurance of RMB80,000. HCS paid customs duty at 20% and import value added tax (VAT) at 13% on 18 January.
- During the month, 300 watches were sold by the retail store at RMB20,000 each (retail price inclusive of VAT). VAT ordinary invoices were issued. One watch was taken for the monthly lottery prize and no invoice was issued.

Section B – questions (continued)

Requirements for Scenario 2

(a) Calculate the value added tax (VAT) payable and profit before enterprise income tax (EIT) if:

(i) AL is a small-scale taxpayer.
(ii) AL is a VAT general taxpayer.

(7 marks)

Edit Format

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11 B I U A E L .00 % 1/2

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(b) Calculate:

(i) The customs duty payable by H Chain Store (HCS) on importation of the watches.
(ii) The value added tax (VAT) payable or input VAT credit carried forward by HCS for January 2020.

(3 marks)
(10 marks)

Edit Format

100%

11 B I U A E L .00 % 1/2

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Section B – questions (continued)

Scenario 3

Taxation - China (TX - CHN) Sample Questions - June 2020

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Calculator

Scratch Pad

The following scenario relates to requirements (a)(i) to (v) only.

The Pudong District Office of Shanghai Municipal Tax Service, State Taxation Administration, discovered during a tax audit in May 2020, that GG Ltd has understated the cash received on the sale of goods by RMB5,000,000 in December 2018 and hence underpaid both value added tax (VAT) and enterprise income tax (EIT). The output VAT rate was 16% and the EIT rate was 25% at that time. GG Ltd paid the VAT and EIT on 1 June 2020. GG Ltd is a VAT general taxpayer.

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Help/Tax Tables

Section B – questions (continued)

Requirements for Scenario 3

(a)(i) Calculate the underpayment of both value added tax (VAT) and enterprise income tax (EIT).

Note: You should ignore surtaxes on VAT.

(1 mark)

(ii) State the dates the VAT and annual EIT would have been due in respect of the sale of goods in December 2018, if the taxes had been accounted for correctly.

(1 mark)

(iii) Briefly explain why the Pudong District Office of Shanghai Municipal Tax Service, State Taxation Administration (PDO-STA) is likely to consider that GG Ltd has committed an act of tax evasion.

(2 marks)

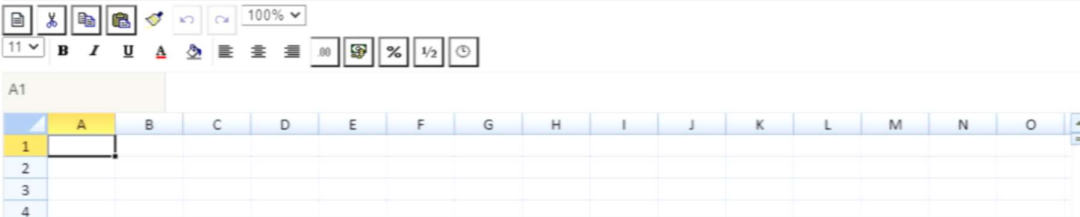
(iv) State the range of penalty which PDO-STA can impose on GG Ltd.

(1 mark)

(v) GG Ltd did not agree with the decision of PDO-STA and would like to submit an administrative appeal. State the deadline for, and the tax bureau with which, GG Ltd can raise an administrative appeal.

(2 marks)

Edit Format



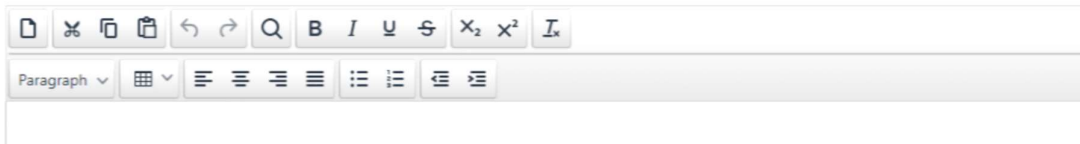
(b) State the period for which a resident enterprise should maintain its accounting books and records for tax purposes.

(1 mark)

(c) State the government bodies which enact the Tax Collection and Administrative Law and the Implementation Rules on the Provisional Regulations on Land Appreciation Tax respectively.

(2 marks)

(10 marks)



Section B – questions (continued)

Scenario 4

Taxation - China (TX - CHN) Sample Questions - June 2020

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🧮 Calculator

🖋 Scratch Pad

The following scenario relates to requirements (a)(i), (ii) and (iii) only.

Super Ltd (SL) is resident in China and has invested in a railway project in India and provided patent technology to a Malaysian customer. The holding structure of its Indian investment is as follows:

Invested in

Invested In

SL → Cayman Islands Company → Indian Company

In 2019, SL received a net-of-tax dividend from the Cayman Islands Company of RMB2,000,000. The amount was after paying Indian enterprise income tax of 28% and Indian dividend withholding tax of 10%. There was no income tax levied in the Cayman Islands. SL also received a net-of-tax royalty from Malaysia of RMB1,000,000 after deducting 10% Malaysian withholding tax.

The following scenario relates to requirement (b) only.

Knowledge Ltd (KL) qualifies as a small-profit enterprise in 2019. KL's tax adjusted profit for 2019 is RMB2,800,000.

The following scenario relates to requirement (c) only.

QT Ltd and Mr Frank jointly invested in a partnership called QTF Firm which is engaged in the advertising business.

🔍 Help/Tax Tables

Section B – questions (continued)

Requirements for Scenario 4

(a)(i) Calculate the total amount of foreign taxes paid on each of the royalty income and dividend income (including the underlying tax) received by Super Ltd (SL) from India and Malaysia respectively.

(4 marks)

(ii) Calculate the enterprise income tax (EIT) payable and foreign tax credit carried forward by SL in 2019 on the income from India and Malaysia if it opts to claim foreign tax credit on a country-by-country basis.

(2 marks)

(iii) Calculate the EIT payable and foreign tax credit carried forward by SL in 2019 on the income from overseas if it opts to claim foreign tax credit on a combined basis (i.e. not on a country-by-country basis).

(1 mark)

Edit Format

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(b) Calculate the amount of enterprise income tax payable by Knowledge Ltd in 2019.

(2 marks)

(c) State which entity is the taxpayer for enterprise income tax (EIT) purposes.

(1 mark)

(10 marks)

Edit Format

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11 B I U A

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Section B – questions (continued)

Scenario 5

Taxation - China (TX - CHN) Sample Questions - June 2020

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🧮 Calculator

✎ Scratch Pad

The following scenario relates to requirements (a)(i), (ii) and (iii) only.

RR Ltd employed Mr Wu on 1 November 2019 at a monthly salary of RMB35,000. Mr Wu is a China tax resident.

Before being employed by RR Ltd, Mr Wu had total employment income from 1 January 2019 to 31 October 2019 of RMB520,000. His previous employer withheld individual income tax (IIT) of RMB76,680.

The total amount of specific deductions and specific additional deductions was RMB6,800 for each month during 2019.

The following scenario relates to requirement (b) only.

Ms Robinson is a non-China tax resident. She has been working in an international school in Beijing from 1 September 2019. During the year, she received the following income:

- (1) Salary of RMB50,000 per month from 1 September 2019 to 31 December 2019.
- (2) Bonus of RMB80,000 in December 2019 for her four months' employment.
- (3) Smart phone valued at RMB6,000 won on a supermarket lottery.
- (4) Internet red-pocket money of RMB800 from friends in China.

The following scenario relates to requirement (c) only.

Mr Stevenson is a non-domiciled China tax resident. He has been staying in China and has not left China since 2019.

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Help/Tax Tables

Section B – questions (continued)

Requirements for Scenario 5

(a)(i) Calculate the individual income tax (IIT) withheld by RR Ltd for Mr Wu for November and December 2019. (4 marks)

(ii) Calculate the total IIT payable by Mr Wu and the additional IIT payable by him based on his annual IIT filing for the year 2019. (3 marks)

(iii) State the period in which Mr Wu should file his annual IIT return for 2019. (1 mark)

Edit Format

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(b) Calculate the individual income tax (IIT) payable by Ms Robinson in 2019. (5 marks)

Note: You should list all of the items (1) to (4) as referred to in the question, identifying by the use of '0' any item which is tax exempt or not taxable.

Edit Format

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(c) State and briefly explain the year from which Mr Stevenson will be subject to China individual income tax (IIT) on his worldwide income. (2 marks)

(15 marks)

100%

Paragraph

Section B – questions (continued)

Scenario 6

Taxation - China (TX - CHN) Sample Questions - June 2020

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The following scenario relates to one requirement.

Free Ltd (FL) is a ship building company. Its accounting profit before tax for the year ended 31 December 2019 is RMB10,450,000. Except where stated otherwise, the following items have all been accounted for when computing this accounting profit:

- (1) Revenue recognised as taxable income of 2018 and accounting income of 2019 amounted to RMB2,400,000; revenue recognised as taxable income of 2019 and accounting income of 2020 amounted to RMB3,150,000.
- (2) Inventory loss of RMB1,514,000 due to a fire. Insurance compensation received amounted to RMB1,500,000.
- (3) Irrecoverable debt written off of RMB358,000.
- (4) Provision for doubtful debts on receivables of RMB708,000.
- (5) Qualified research and development expenses of RMB2,240,000.
- (6) Donation of RMB200,000 to the relative of an employee who died in an accident.
- (7) Total wages and salaries amounted to RMB14,000,000. RMB1,400,000 was incurred for staff training and education.
- (8) New equipment acquired in June 2019 for RMB8,400,000, which qualifies for the energy and water saving incentive.
- (9) Unrealised exchange loss of RMB321,000
- (10) Unrealised loss of RMB183,000 on an investment in an associated company.
- (11) Loan interest expense of RMB8,200,000 which was calculated at 10% per annum on a loan of RMB82,000,000 provided by a non-China resident shareholder. The weighted average total amount of
- (12) Penalty of RMB500,000 imposed by the State Administration for Market Regulatory on infringement of copyright.
- (13) Compensation of RMB450,000 paid to a customer on breach of contract.
- (14) Commercial insurance of RMB120,500 for employees.
- (15) Liability insurance of RMB80,000 in respect of decision-making by the board of directors.
- (16) Loss of RMB320,000 on sale of government bonds.
- (17) Interest received on government bonds of RMB42,000.
- (18) Dividend of RMB1,000,000 received from FL's Chengdu subsidiary. The Chengdu subsidiary paid enterprise income tax (EIT) at 15%.
- (19) Profit of RMB920,000 on investment in a partnership.

Help/Tax Tables

The following two items have NOT been taken into account when computing the accounting profit before tax:

- (20) Declaration of dividend by FL of RMB5,000,000 to the shareholders.
- (21) New shareholder capital contribution of RMB1,000,000 and share premium of RMB9,000,000.

Help/Tax Tables

Requirements for Scenario 6

Calculate the enterprise income tax (EIT) payable by Free Ltd (FL) for the year 2019, assuming that FL has made all relevant applications and/or reports to the tax authorities.

Notes:

1. You should start your computation with the net profit figure of RMB10,450,000 and list all of the items (1) to (21) as referred to in the question, identifying by the use of '0' any item that does not require adjustment.
2. You are not required to make adjustments for any of the above items for accounting purposes.

(15 marks)

[illegible]

Example view of full CBE constructed response workspace

Taxation - China (TX - CHN) Sample Questions - June 2020

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The following scenario relates to requirements (a)(i) and (ii) only.

Peter, a citizen of the United States (US), is employed by a US company. His employer has sent him to China for 200 days of residence, in 2020, for business purposes. His salary will be paid in the US and will not be borne by a Chinese entity.

Mary is a citizen of the US. She has been awarded a short-term teaching employment, in Beijing, with a Beijing international school, for 60 days, in 2020. She will receive a salary from the Beijing school. Once the employment is completed, she will return to the US.

The following scenario relates to requirement (b) only.

Robert is a China tax resident. He has received an offer of employment from WeWah Ltd for which the total annual remuneration for 2020 will be RMB1,200,000. WeWah Ltd has provided three payment options to Robert as follows:

- Option 1: A monthly salary of RMB100,000.
- Option 2: A monthly salary of RMB50,000 and a year-end bonus of RMB600,000.
- Option 3: A consultancy fee of RMB100,000 each month.

Assumptions:

- Robert does not have any other comprehensive income
- Robert does not have any specific deductions or specific additional deductions
- Robert opts to calculate individual income tax (IIT) on his annual bonus separately
- You should ignore value added tax (VAT)

(a)(i) Explain whether each of Peter and Mary will be China tax resident in 2020.
(2 marks)

(ii) Explain whether each of Peter and Mary will be subject to China individual income tax (IIT) for the salaries they will receive in 2020.
(2 marks)

Paragraph [Grid] [List] [Text] [Table] [Equation] [Link]