

## AIA Professional Qualification: Taxation (China)

Candidates should also refer to the Professional Qualification (PQ) Programme. The China Taxation version forms part of the PQ Programme.

The professional accountant frequently encounters issues which require an understanding of taxation not only in order to provide specific taxation related services but to evaluate the taxation implications of an alternative course of action. A professional accountant must therefore appreciate the liability of individuals and companies to the main China taxes and the impact those taxes on their situations and decisions. This paper provides a grounding in a variety of China taxes for a newly-qualified accountant, with a focus on practical scenarios.

The paper is structured to assess the learning outcomes consistent with the International Education Standards (IESs), IES2 Intermediate standard for Taxation and relevant aspects of IES4 (refer to the PQ programme for the full list of standards).



### Aims

The aim of this paper is to develop and examine the candidate's:

1. Understanding of the responsibilities of an accountant working in taxation
2. Knowledge of tax legislation across a breadth of taxation topics
3. Ability to apply their knowledge of various China taxes in practical situations and their recognition of the cash and other practical implications thereof
4. Understanding of ethics and professional responsibilities relating to taxation across a range of scenarios, including interactions with clients and with the Tax Authority.



### Learning Outcomes

In order to successfully complete this paper, candidates will demonstrate that they are able to:

1. Use specified tax tables, including selecting the information which applies to a particular entity for given dates
2. Prepare, or critically assess, direct and indirect tax computations for natural persons, unincorporated entities and artificial legal persons
3. Advise on the practical aspects of tax, both commercially (tax as a cost and a cash outflow) and regarding dealing with the relevant authorities (reporting, payment, and consequences of non-compliance)
4. Recognise the ethical and regulatory issues facing an accountant working in taxation

## Structure of Paper

Assessment is by a three-hour 15-minute examination (including 15 minutes reading time) consisting of between three and six compulsory questions, some divided into sub-requirements. All questions compulsory.

Specified tax tables may be used during the exam. Candidates should use the specified tax tables at the end of the syllabus, which will also form part of the exam

All questions are in an unstructured written format, based on case study/scenarios. The allocation of marks to parts of questions will be disclosed in the examination paper.

The emphasis will be on competence, compliance and practical dealings with the Inland Revenue, rather than planning or speculation



## Syllabus

### 1: Enterprise Income Tax (EIT) (Learning Outcomes 1, 2, 3, 4)

Topic weighting 30%-40%

- Basic principles and scope of EIT including tax treatments for resident enterprises and non-resident enterprises and sources of different types of income
- Analysis of overseas registered enterprises as a China tax resident enterprise
- Profit chargeable to EIT including tax treatments on income and expenses of non-taxable incomes and tax exempt incomes
- Tax adjustments including permanent differences
- Loss carried forward in general and for specific industries
- Tax incentives including common incentives such as high and new technology enterprises
- Transfer pricing methodologies
- Calculation of foreign tax credit
- Tax planning including basic principles on corporate restructuring
- Administrative matters on transfer pricing including transfer pricing documentation, consequences of transfer pricing adjustments
- Administration including notification, payment, filing, penalties, records

### 2: Individual Income Tax (IIT) (Learning Outcomes 1, 2, 3, 4)

Topic weighting 20%-35%

- Basic principles and scope of IIT including definition of tax resident including China domiciled and non-China domiciled resident, non-China domiciled tax resident and non-resident
- Calculation of IIT including time apportionment for non-China domiciled resident and non-residents
- Computation of IIT on different types of income including comprehensive incomes, business

income and other incomes

- Computation of IIT on wages and salaries, annual bonus and stock options for residents and non-residents
- Tax exempt and non-taxable incomes
- Foreign tax credit on incomes sources from outside China
- Administration including notification, payment, filing, penalties, records

### 3: International Tax (Learning Outcomes 1,2,3, 4)

Topic weighting 20%-35%

- Application of tax treaties/arrangements (the treaties/arrangements examined will be given in the examination)
- Analysis on corporates' cross border investments and transactions including permanent establishment, dependent agents, independent agents, etc.
- Analysis on beneficial owner rules on dividend, interest and royalties
- Analysis on taxability of individuals including dependent personal services and independent personal services, directors and senior executives
- Anti-avoidance rules including taxation on indirect transfer

### 4: Value Added Tax (Learning Outcomes 1, 2, 3, 4)

Topic weighting 10%-15%

- Basic principles and scope of VAT
- Input VAT and irrecoverable input VAT including abnormal loss
- Output VAT and deemed supplies
- VAT incentives including additional input VAT credit and refund of input VAT
- Impact of different types of invoices on input tax credit
- Withholding of VAT for overseas enterprises
- VAT refund for export of goods including production enterprises and trading enterprises; VAT treatment on export of services
- Administration including notification, filing, penalties, records.

### 5: Customs Duty (Learning Outcomes 1, 2, 3, 4)

Topic weighting 10-15%

- Basic principles and scope of customs duty
- Dutiable value for customs duty
- Treatments for special customs zones (e.g. Free Trade Zones)

- Exemptions
- Administration including notification, payment, filing, penalties, records.

#### 6: Ethics and Tax Administration (Learning Outcome 4)

Included within the topics and weightings above 5-10%

- Fundamental Principles
- Tax avoidance/planning/evasion
- Consequences of tax non-compliances
- Tax planning standards
- Client take-on procedures
- Conflicts of interest
- Fees
- Confidentiality
- Data Protection
- Money laundering issues.

#### Specified Tax Tables

##### Tax Rates, Relief and Allowances (as at 1 January 2021)

Tax rates tables (as at 1 January 2021)

- **Enterprise income tax**

	Rate
Income tax for resident enterprises and non-resident enterprises with an establishment in China	25%
Income tax for specific China sourced income of non-resident enterprises	10%

##### Deduction limits on certain expenses

Employment welfare expenses	14% of total wages
Labour union expenses	2% of total wages
Employee training expenses	8% of total wages*
Donations	12% of accounting profits
Entertainment expenses	60% of the entertainment expenses subject to a maximum of 0.5% of the sale/business income of the year
Advertising and promotion expenses	15% of the sales/business income of the year *

- \*Except for certain special industries

**Individual income tax**

- **Employment income/comprehensive income (residents)**

Level	Accumulated/annual taxable income (RMB)	Rate (%)	Quick deduction (RMB)
1	36,000 or below	3	0
2	36,001 – 144,000	10	2,520
3	144,001 – 300,000	20	16,920
4	300,001 – 420,000	25	31,920
5	420,001 - 660,000	30	52,920
6	660,001 – 960,000	35	85,920
7	Over 960,000	45	181,920

- **Withholding rates for non-residents (applicable to salary and wages, personal services income, author’s remuneration and royalties)**

Level	Taxable Income (RMB)	Tax Rate ( % )	Quick Deduction (RMB)
1	3,000 or below	3	0
2	3,001 to 12,000	10	210
3	12,001 to 25,000	20	1,410
4	25,001 to 35,000	25	2,660
5	35,001 to 55,000	30	4,410
6	55,001 to 80,000	35	7,160
7	Over RMB80,000	45	15,160

- **Personal deduction:**
  - RMB 60,000 per year
  - RMB 5,000 per month (non-resident)
- **Qualified commercial insurance:**
  - RMB2,400 per year

- **Itemised additional deductions**

Type	Deduction limit (RMB)
Children's education	1,000 per month per child
Continuing education	400 per month
	3,600 per year
Housing loan interest	1,000 per month
Housing rental fee	800, 1,100 or 1,500 depending on the city
Caring for elderly	Sole child: 2,000 per month
	Not sole child: not more than 1,000 per month
Medical expense for serious illness	80,000 per year

- **Withholding of IIT on individual service income for resident**

Before tax income (RMB)	Rate %	Quick deduction factor (RMB)
1 – 20,000	20	0
20,001 – 50,000	30	2,000
50,001 and above	40	7,000

- **IIT rate on other incomes:**

	Rate
Interest, dividends, rental of property, transfer property and incidental income	20%

- **Allowance each time for individual service income, income from manuscripts, royalties and rental of property for withholding of IIT on resident**

RMB 4,000 and below	RMB 800
Over RMB 4,000	20%

- **Donations of individuals**

Limited to 30% of the taxable income; or
100% if the donation is made to certain funds approved by the government

- **Value added tax (VAT) rates for certain industries**

<b>Taxpayers</b>	<b>Charging scope</b>	<b>Rates</b>
General taxpayers	Importation/sale of general goods	13%
	Financial services (include money lending, financial leasing) and insurance services	6%
	'Lifestyle services' (education, healthcare, travel, entertainment, food and beverage, accommodation, citizens daily services and cultural and sports services)	6%
	Assignment of proprietary interest of/ license of right to use of intellectual properties – know-how, trademark, patent, copyright	6%
	Assignment of land use right	9%
	Sale of real estate	9%
General taxpayers eligible for simplified method	For general taxpayers of grandfathered old real estate projects	5%

### **Relationship to Qualification Structure**

This is a stand-alone tax paper, required because a professional accountant must appreciate the liability of and impact on individuals and companies to the main China taxes.

Candidates will be required to demonstrate their ability to integrate tax knowledge, technical competence and other skills effectively in responding to the complex situations represented in the Multi-disciplinary case study examination.

### **Ethics**

Ethical and related regulatory issues arising in taxation work will be examined in every paper, making up a minimum of 5% of the examination. The subject of ethics will be examined as part of any one of the tax-technical question scenarios, with its own requirement within this.

Possible scenarios to include the challenges faced when an accountant's duty to a client conflicts with the duty to Tax Authority and/or the public interest.

Related regulatory issues to include e.g. anti-money laundering, data protection within the context of taxation work.

Candidates will be expected to provide answers in accordance with the IESBA Code and Professional Conduct in Relation to Taxation. Relevant sections of the Code include

110, 120, 130, 140, 150, 220, 240, 270, 291, 310, 320, 330, 340, 350



### Recommended Reading Lists

AIA Magazine - International Accountant

ISSN: 1465 – 5144

#### China Master Tax Guide 2021 (14th Edition)

Author: King and Wood Mallesons

Publisher: Wolters Kluwer (HK) (formerly CCH)

ISBN: 9789887935759

**The Study Text for Certified Public Accountants Examination – Taxation** (税法 -- 2021 年注册会计师全国统一考试辅导教材)

作者: 中国注册会计师协会组织编写

Author: The Chinese Institute of Certified Public Accountants

出版社: 中国财政经济出版社

Publisher: Chinese Financial & Economic Publishing House

ISBN: 12322891

#### Reference book – available in some university/firm libraries

#### China Tax and Customs Law Guide

Year: Latest Edition

Author: Baker & McKenzie

Publisher: Wolters Kluwer (Law & Business)

ISBN: BCTC