

Fundamentals Level – Skills Module

# Taxation (China)

Tuesday 2 June 2015



**Time allowed**

Reading and planning: 15 minutes

Writing: 3 hours

This paper is divided into two sections:

Section A – ALL 15 questions are compulsory and MUST be attempted

Section B – ALL SIX 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.**

**Do NOT record any of your answers on the exam paper.**

**This question paper must not be removed from the examination hall.**

The Association of Chartered Certified Accountants

Paper F6 (CHN)

**ACCA**

## SUPPLEMENTARY INSTRUCTIONS

1. 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 when answering Section B.

## TAX RATES AND ALLOWANCES

The following tax rates and allowances are to be used in answering the questions.

### 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	2.5% of total wages*
Donations	12% of the accounting profits
Entertainment expenses	60% of the amount subject to a maximum of 0.5% of the sales/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

Entrepreneurs who receive production or operation income derived from private industrial or commercial enterprises

Level	Annual taxable income (RMB)	Rate	Quick deduction factor (RMB)
1	Up to and including 15,000	5%	0
2	Over 15,000 to 30,000	10%	750
3	Over 30,000 to 60,000	20%	3,750
4	Over 60,000 to 100,000	30%	9,750
5	Over 100,000	35%	14,750

### Employment income

Level	Taxable income on which employee bears the tax/employer bears the tax (RMB)	Rate	Quick deduction factor (RMB)
1	Up to and including 1,500/1,455	3%	0
2	Over 1,500 to 4,500/1,455 to 4,155	10%	105
3	Over 4,500 to 9,000/4,155 to 7,755	20%	555
4	Over 9,000 to 35,000/7,755 to 27,255	25%	1,005
5	Over 35,000 to 55,000/27,255 to 41,255	30%	2,755
6	Over 55,000 to 80,000/41,255 to 57,505	35%	5,505
7	Over 80,000/57,505	45%	13,505

Monthly personal allowance for a China local	RMB3,500
Additional allowance for expatriate employees	RMB1,300

### Individual service income

Before tax income (RMB)	Rate	Quick deduction factor (RMB)
Up to and including 20,000	20%	0
Over 20,000 to 50,000	30%	2,000
Over 50,000	40%	7,000
<b>Allowance each time for individual service income, income from manuscripts, royalties and rental of property</b>		
RMB4,000 and below		RMB 800
Over RMB4,000		20%
Income from manuscripts, royalties, interest, dividends, rental of property, transfer of property, incidental income and other income		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)

		Rate
For importation of goods	depending on the itemised goods	17%/13%
For small-scale taxpayers and simplified method		3%
For general taxpayers	for the sale of itemised goods, processing, and repairing	17%
	for the sale or import of itemised goods	13%
	input tax credit for agricultural products	13%

### VAT pilot programme

Industries	Rate
Transportation, postal and certain telecom services	11%
R&D and technical services, IT services, cultural and innovation services, logistics auxiliary services, attestation and consulting services, and broadcasting, film and television services, certain telecom services	6%
Tangible movable property leasing services	17%

**Note:** The above rates are based on the pilot rules published by 30 September 2014. The new rules effective from 1 October 2014 are not examinable in the 2015 exams.

### Business tax

Industries	Rate
Construction, culture and sports	3%
Finance and insurance, services, transfer of intangible property, sale of immovable property	5%
Entertainment	5%~20%

### Land appreciation tax

Level	The ratio of increased value against the value of deductible items	Rate	Quick deduction ratio
1	No more than 50%	30%	0
2	Over 50% to 100%	40%	5%
3	Over 100% to 200%	50%	15%
4	Over 200%	60%	35%

### Exchange rate

USD1 = RMB6

**Section A – ALL 15 questions are compulsory and MUST be attempted**

Please use the grid provided on page two of the Candidate Answer Booklet to record your answers to each multiple choice question. Do not write out the answers to the MCQs on the lined pages of the answer booklet. Each question is worth 2 marks.

1 T Ltd is a monthly taxpayer for value added tax (VAT) and business tax (BT).

**What is T Ltd's monthly tax filing deadlines for value added tax (VAT) and business tax (BT) respectively?**

	VAT monthly filing deadline (days after the month end)	BT monthly filing deadline (days after the month end)
A	10th	15th
B	10th	7th
C	15th	15th
D	7th	10th

2 A corporate taxpayer has under-reported its taxable revenue in 2002 and hence underpaid value added tax (VAT) and enterprise income tax (EIT). In 2014, the taxpayer was charged by the tax authority with committing an act of tax evasion in 2002.

**Which of the following statements is correct?**

- A The taxpayer must pay the additional taxes due, plus a late payment surcharge and a penalty
- B There is no need for the taxpayer to pay any additional taxes, late payment surcharge or penalty as the statute of limitation is ten years
- C The taxpayer must pay the additional taxes, but no late payment surcharge or penalty as the statute of limitation is ten years for late payment surcharge and penalties
- D The taxpayer must pay the additional taxes and a late payment surcharge but not a penalty as the statute of limitation is five years for penalties

3 Co X, a US company, owned 30% of the equity of a Chinese company, Co A. Co X sold all of the equity in Co A at a profit to a UK company, Co Y.

**Which of the following statements are correct?**

- (1) Co X is the taxpayer for China enterprise income tax (EIT)
- (2) Co Y is the withholding agent for China EIT
- (3) Co A is the withholding agent for China EIT
- (4) The EIT should be filed at the place where Co A is located

- A 1 and 2
- B 1, 3 and 4
- C 1 and 4 only
- D 3 and 4 only

4 **Which of the following authorities promulgates the Tax Collection and Administrative Law?**

- A The National People's Congress
- B The State Council
- C The Ministry of Finance
- D The State Administration of Taxation

5 In 2014 Mr Yuan inherited an estate of RMB2 million from his uncle who had died two months earlier.

**What is the correct treatment of the estate income for individual income tax purposes?**

- A The estate income is not taxable
- B The estate income will be taxed as occasional (ad hoc) income
- C The estate income will be taxed as other income
- D The estate income will be taxed as service income

6 Which of the following are deemed sales for value added tax (VAT) purposes?

- (1) The sale of a package of shampoo together with a sample of hair conditioner
  - (2) A sample of hair conditioner given to the walk-in customers to a department store
  - (3) Finished goods delivered to a warehouse in another city for storage
  - (4) Fixed assets contributed as a capital injection to a subsidiary
  - (5) Accountancy services provided free-of-charge to a non-government organisation for charity purposes
- A All of the above
  - B 1 and 3 only
  - C 2, 3 and 4 only
  - D 2 and 4 only

7 A company has value added tax (VAT) special invoices for the following items in October 2014:

	Amount of VAT stated in the VAT special invoice
(1) A yacht for business use	RMB20,000
(2) Consumables for the staff canteen	RMB5,000
(3) Materials for the production of goods which are exported from China and are subject to zero rate VAT treatment	RMB180,000
(4) Materials for the production of goods which are exported from China and are subject to VAT-exempt treatment	RMB60,000

**What is the amount of the company's total value added tax (VAT) creditable for the four items in October 2014?**

- A RMB265,000
- B RMB240,000
- C RMB180,000
- D RMB200,000

8 In June 2014, a property management company collected a total of RMB250,000 from the property landlords, of which RMB100,000 was for the water and electricity allocated to the landlords and RMB120,000 was for the salaries of the security guards.

**How much business tax (BT) should the property management company pay in June 2014?**

- A RMB12,500
- B RMB7,500
- C RMB6,500
- D RMB1,500

- 9 A Chinese company has borrowed a USD500,000 loan from an overseas bank. Interest on the loan is accrued and paid annually at the rate of 12% per annum. The relevant business tax rate is 5% and neither surcharges nor treaty relief apply.

**What is the amount of enterprise income tax (EIT) the Chinese borrower needs to withhold from the annual interest paid to the overseas bank?**

- A USD6,000
- B USD15,000
- C USD5,700
- D USD14,250

- 10 Mr Li, a photographer, had his photos published in the July 2014 edition of the tourism journal. The total fee was RMB20,000 and the publisher agreed to pay Mr Li by two instalments, one of RMB18,000 in June 2014 and the balance of RMB2,000 in August 2014. The same photos were republished by the government in a promotion brochure in August 2014 and Mr Li was paid a further fee of RMB3,000 by the government.

**What is the total amount of individual income tax (IIT) which Mr Li will pay on the above incomes?**

- A RMB2,492
- B RMB2,576
- C RMB2,548
- D RMB3,680

- 11 ABC Ltd, a consultancy company based in the Macau Special Administrative Region, provided consultancy services to a client in Shanghai. According to the service contract, ABC Ltd will receive a fee, net of value added tax (VAT), of RMB500,000. The Shanghai tax authority considers that ABC Ltd has a China permanent establishment and so has assessed ABC Ltd to enterprise income tax (EIT) on the service fee based on a deemed profit rate of 20%. Consultancy service fees are subject to VAT at the rate of 6%.

**How much enterprise income tax (EIT) will ABC Ltd have to pay on the service fee?**

- A RMB100,000
- B RMB25,000
- C RMB23,585
- D RMB10,000

- 12 **Which one of the following taxes is administered by the local offices of the State Administration of Taxation (State Tax Bureau)?**

- A Enterprise income tax (EIT)
- B Individual income tax (IIT)
- C Land appreciation tax (LAT)
- D Business tax (BT)

- 13 **Which of the following transactions is subject to an immediate charge to land appreciation tax (LAT)?**

- A Company P contributed the land use right for the construction of a new factory as capital to its new subsidiary
- B Company D contributed the land use right for the construction of a shopping mall as capital to its new subsidiary
- C Company X which owned an office tower was merged by absorption with Company Y. Company X was dissolved after the merger
- D The local government transferred the land use right for the construction of a hotel to Company K

**14** Company Mi of Dalian imported equipment from the UK with a value of RMB1,000,000 at CIF (cost, insurance and freight). In addition, Company Mi has paid the following expenses relating to the equipment:

	<b>RMB</b>
– A packing fee for packing in the UK prior to shipping	44,000
– Delivery charges from Dalian port to Company Mi's factory	33,000
– An installation fee for installing the equipment at Company Mi's factory	55,000
– Royalties for the usage of the equipment in China	66,000

The relevant customs duty rate is 10%.

**What is the amount of customs duty payable by Company Mi on the import of the equipment?**

- A** RMB119,800
- B** RMB113,200
- C** RMB111,000
- D** RMB108,800

**15** In January 2014, Cig Ltd purchased tobacco for RMB60,000 and produced and sold cigarettes for RMB200,000. Cig Ltd's inventory of tobacco was RMB10,000 on 1 January 2014 and RMB13,000 on 31 January 2014. Cig Ltd pays consumption tax (CT) on all the tobacco it purchases. The CT rate for both tobacco and cigarettes is 30%.

**What is the amount of consumption tax (CT) payable by Cig Ltd in January 2014?**

- A** RMB42,000
- B** RMB42,900
- C** RMB60,000
- D** RMB77,100

**(30 marks)**

**Section B – ALL SIX questions are compulsory and MUST be attempted**

Please write your answers to all parts of these questions on the lined pages within the Candidate Answer Booklet.

- 1 (a) Prop Ltd is a property developer. In the year ended 31 December 2014, Prop Ltd completed Project K which qualified as a development of ordinary standard residential property.

The following information relating to Project K has been extracted from Prop Ltd's accounting records:

	RMB (in millions)
Acquisition of the land use right from the local government	110
Development and construction costs	170
Management and administrative expenses for the project which have not been included in the development and construction costs	72
Deed tax on obtaining the land use right	3.3
Interest expenses on borrowings from banks	50
Total sales	600

**Required:**

- (i) **State the criteria for land appreciation tax (LAT) exemption for a property developer who sells ordinary standard residential property.** (1 mark)
- (ii) **Calculate Prop Ltd's LAT liability on Project K as at 31 December 2014.**

Notes:

1. City maintenance and construction tax and education levy are to be calculated at 12% of business tax.
2. Ignore stamp duty. (6 marks)

- (b) Manu Ltd, a manufacturer which has suffered from losses in recent years, sold its factory premises for RMB200 million on 31 December 2014. The factory premises had been purchased on 1 March 1997 for RMB90 million (including the cost of the land use right) and it had a net book value (after depreciation) of RMB9 million at its date of sale.

Manu Ltd has never arranged for a valuation of the factory premises.

**Required:**

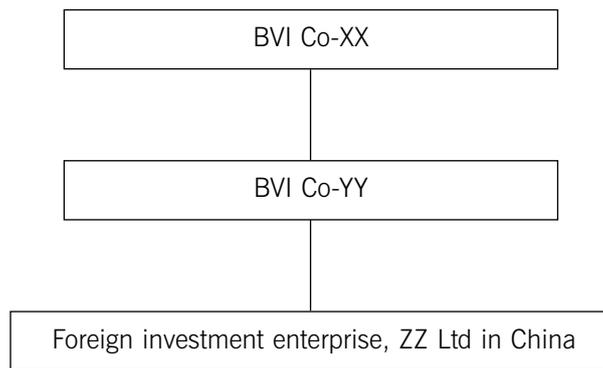
**Calculate the land appreciation tax (LAT) liability of Manu Ltd on the sale of the factory premises on 31 December 2014.**

Notes:

1. City maintenance and construction tax and education levy are to be calculated at 12% of business tax.
2. Ignore stamp duty. (3 marks)

**(10 marks)**

- 2 (a) In January 2013, BVI Co-XX, a company set up in the British Virgin Islands (BVI), sold its shareholding in BVI Co-YY. The holding structure of the BVI group prior to the sale was as follows:



The China local tax authority looked into the sale transaction and required BVI Co-XX to pay enterprise income tax (EIT) on the share transfer, with a tax payment date of 1 June 2013.

BVI Co-XX disagreed with the decision of the China tax authority. It ignored the tax payment request issued by the local tax authority and so has not paid any EIT on the transaction.

In September 2014, BVI Co-XX decided it would like to appeal against the decision of the local tax authority.

**Required:**

- (i) **State the general anti-avoidance rules under the 2008 Enterprise Income Tax Law.** (2 marks)
- (ii) **State, giving reasons, whether BVI Co-XX can still appeal against the decision of the local tax authority.** (3 marks)
- (b) The STP group has two companies in China, one in Shanghai and another one in Guangxi. The Shanghai company pays enterprise income tax (EIT) at 25%, while the Guangxi company enjoys the tax incentives and only pays EIT at 15%.

A consultant has proposed the following scheme as a way in which the STP group can pay less tax in China. Under the scheme, the Guangxi company would borrow RMB10 million from the bank at the market interest rate of 8% per annum. The Guangxi company would then lend RMB10 million to the Shanghai company at an interest rate of 30% per annum. As a result, the STP group would effectively shift the profit to a lower tax region.

**Required:**

- (i) **State, giving reasons, why the proposed scheme would not reduce the enterprise income tax (EIT) payable by the STP group.** (3 marks)
- (ii) **State any two other taxes which the STP group will need to pay (in addition to EIT) if it executes the consultant's scheme.** (2 marks)

**(10 marks)**

3 Make-it Ltd was set up in March 2014 and is a value added tax (VAT) general taxpayer.

Details of Make-It Ltd's purchases from its inception but before the commencement of production are:

2014		RMB
April	Purchase of equipment domestically	350,000
May	Purchase of concrete and building materials	220,000
June	Payment to the construction company for building its factory premises. A construction invoice was obtained	185,000

In August 2014, Make-It Ltd commenced production of two finished products in the same workshop with the same equipment and materials: Taso, which is subject to VAT, and Exo, which is VAT exempt. Details of Make-It Ltd's transactions for the months of August to December 2014 are:

	RMB
(1) Purchase of production materials (40,000 kg)	400,000
(2) Electricity for production purposes	80,000
(3) Materials loss due to evaporation during the production process of 3,000 kg	
(4) Materials loss due to an earthquake of 1,200 kg	
(5) Materials stolen from a warehouse without a security guard of 800 kg	
(6) Sales of finished product Taso domestically	300,000
(7) Sales of finished product Exo	200,000

All amounts are stated exclusive of VAT and VAT special invoices/or business tax invoices were obtained.

**Required:**

- (a) **State, giving reasons, if Make-it Ltd can claim a value added tax (VAT) input credit on the three items purchased prior to the commencement of production.** (2 marks)
- (b) **Explain the meaning of 'abnormal loss' for VAT purposes and state whether each of the materials losses (items (3), (4) and (5) above) will be an abnormal loss or not an abnormal loss.** (4 marks)
- (c) **Calculate the total input VAT which can be credited to Make-it Ltd in 2014.** (4 marks)

**(10 marks)**

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Question 4 begins on page 12.**

- 4 (a) Chops Ltd produces one-off wooden chopsticks. The company's budget forecast for the year 2015 is as follows (all figures are stated exclusive of value added tax):

	RMB	RMB
Sales		730,000
Cost of goods sold		
Raw materials	225,000	
Labour costs	138,000	
Factory overheads	147,500	
Total expenses	<u>          </u>	(510,500)
		<u>219,500</u>

Chops Ltd's financial controller is considering two alternative proposals to reduce the company's consumption tax (CT).

**Proposal A:** Chops Ltd will set up a new trading company, NewCo, to distribute the chopsticks it manufactures. The cost of production will be the same as now and Chops Ltd will sell the chopsticks to NewCo for RMB650,000. NewCo will then sell the chopsticks to Chops Ltd's customers for RMB730,000.

**Proposal B:** Chops Ltd will cease production of chopsticks and instead import chopsticks from Vietnam for RMB520,000. Chops Ltd will then sell the chopsticks to its customers for RMB730,000.

**Required:**

**Calculate the amounts of consumption tax (CT) Chops Ltd will pay under the existing model, Proposal A and Proposal B.**

**Notes:**

1. The customs duty rate on one-off wooden chopsticks is 7%.
2. The relevant consumption tax rate is 5%. (4 marks)

- (b) Const Ltd is a construction company in Xiamen. In 2010, Const Ltd used its own labour force to build an office tower. The costs of construction of the office tower were:

	RMB
Materials	2,000,000
Labour	1,500,000
Overheads	800,000
Total	<u>4,300,000</u>

In 2014, Const Ltd sold the office tower for RMB8,000,000.

**Required:**

- (i) **State in which year Const Ltd would pay business tax (BT) on the self construction of the office tower building.** (1 mark)
- (ii) **Calculate the total BT payable by Const Ltd if the Xiamen local tax bureau agreed to levy BT on the self construction on a deemed profit basis.**

Note: The deemed profit rate for the construction industry is 5%. (3 marks)

(c) Nancy received a bill from a karaoke in Guangzhou as follows:

	RMB
Room charge (4 hours)	1,000
Set dinner in the karaoke room (10 persons)	800
Soft drinks and snacks	350
Total	<u>2,150</u>

**Required:**

**Calculate the business tax (BT) payable by the karaoke in respect of the bill received by Nancy.**

Note: In Guangzhou, the business tax rate for the entertainment industry is 15% and for the food and beverages industry is 5%. (2 marks)

**(10 marks)**

- 5 Hit Ltd, a company set up in Suzhou in 2008, qualifies for the enterprise income tax (EIT) incentive for high and new technology enterprises.

Hit Ltd's taxation profits and losses position for the years 2008 to 2013 are summarised as follows:

Year	2008	2009	2010	2011	2012	RMB 2013
Tax profit/(loss)	(1,200,040)	(820,080)	(680,500)	125,300	1,552,100	(8,000)

The company's statement of profit or loss for the year 2014 is as follows:

	Notes	RMB	RMB
Sales	(1)	11,280,000	
Other income	(2)	42,000	
			11,322,000
Cost of sales	(3)		(6,136,000)
Gross profit			5,186,000
Selling expenses	(4)	(1,210,900)	
Administrative and management expenses	(5)	(768,000)	
Financial expenses	(6)	(245,000)	
			(2,223,900)
Non-operating income	(7)	23,040	
Non-operating expense	(8)	(33,030)	
			(9,990)
Net profit for the year			2,952,110

**Notes:**

(1) Sales include goods sold on 29 December 2014 on which following a price dispute, Hit Ltd granted the customer a discount of RMB60,000 in February 2015.

(2) Other income comprises:

	RMB
(a) Dividend received from a subsidiary in China	20,000
(b) Royalty received from an affiliate in China	15,000
(c) Handling income from the local government on withholding of taxes	7,000
	<u>42,000</u>

(3) Cost of sales includes:

	RMB
(a) Normal wastage of materials	270,800
(b) Provision for obsolete inventory	405,140
(c) Research and development expenses qualifying for an additional tax deduction	347,000

(4) Selling expenses include:

	Amount incurred in 2014	Amount in excess of deduction threshold in 2013
	RMB	RMB
(a) Advertising and promotion expenses	567,520	1,800,900
(b) Entertainment expenses	125,800	256,400
(c) Compensation to customers for breach of contract	30,000	
(d) Penalty paid to the State Administration for Industry and Commerce for infringement of the copyright of another company	18,500	

- (5) Administrative and management expenses include a payment of RMB314,650 in lieu of notice paid on the dismissal of a senior manager.
- (6) Financial expenses include:
- |   | RMB    |
|---|--------|
| (a) Interest paid to the company's equity owner, Mr Peng, at the rate of 2% per annum. The interest rate for a bank loan on similar terms would be 6% per annum | 15,200 |
| (b) Unrealised exchange loss  | 8,750  |
| (c) Cash discounts granted to customers   | 12,950 |
- (7) The non-operating income arose on the disposal of national bonds.
- (8) The non-operating expense is the loss which arose on fixed assets destroyed by an earthquake. The net book value of the assets was RMB120,000 and the insurance compensation received was RMB86,970.

**Required:**

- (a) Calculate the taxable profit of Hit Ltd for the year 2014.**

Note: You should start your computation with the net profit figure of RMB2,952,110 and list all of the items referred to in notes (1) to (8) identifying any items which do not require an adjustment by the use of zero (0).  
(11 marks)

- (b) Calculate the enterprise income tax (EIT) payable by Hit Ltd after setting off the taxation losses brought forward from previous years.**  
(4 marks)

**(15 marks)**

- 6 (a) Mr Wang operates a sole proprietorship. His results for the year 2014, before taking into account any of the consultant's advice (see below), are as follows:

	RMB
Sales	2,100,500
Cost of sales and other expenses (all tax deductible)	1,428,000

A consultant has advised Mr Wang that he could reduce the profits and hence the individual income tax (IIT) liability of the business if he charged the following expenses to the sole proprietorship:

- (1) a salary for himself of RMB23,500 per month; and
- (2) interest at the rate of 5% per annum on the loan of RMB1,000,000 which he had provided to the business from 1 January 2014. The interest rate on a bank loan at similar terms would be 8% per annum.

**Required:**

- (i) Explain whether the individual income tax (IIT) payable by the sole proprietorship can be reduced by charging the two items suggested by the consultant to the business. (2 marks)
  - (ii) Calculate the IIT liability of the sole proprietorship for the year 2014 assuming that both of the items were charged to the business. (2 marks)
- (b) Ms Gu is a China tax resident. In October 2014, she earned a salary from Employer A of RMB9,500 and another salary from Employer B of RMB11,000. Neither of Ms Gu's two employers knew that Ms Gu had dual employments and they withheld individual income tax (IIT) based on the law on the salaries they paid to her respectively.

**Required:**

**Calculate the additional individual income tax (IIT) which Ms Gu needs to pay for the month of October 2014.** (2 marks)

- (c) Ms Chen is a China tax resident. Details of her salary slip for the month of December 2014 are as follows:

	RMB
Basic salary	5,000
Overtime	1,000
Reimbursement for business trips, supported by invoices	520
Meal allowance (23 working days)	2,300
Total of the above	8,820
Less: Statutory employee's contributions for social insurances	(450)
Amount payable to employee before individual income tax	8,370
Add: Statutory employer's contribution for social insurances	1,200
Total payroll costs	9,570

**Required:**

**Calculate the individual income tax (IIT) payable by Ms Chen for the month of December 2014, clearly identifying any items included on the salary slip which are exempt from IIT.** (4 marks)

- (d) Mrs Ink is a China tax resident. After her retirement, she invested in A-shares and real estates in China. In 2014 her incomes (before individual income tax (IIT)) were as follows:

	<b>RMB</b>
Gain from trading A-shares in the stock market	20,000
Loss on the sale of property	(200,000)
Interest income from a bank deposit	4,000
Royalty income	<u>170,000</u>
Total net loss for 2014	<u><u>(6,000)</u></u>

As she had a net loss for the year of RMB6,000, Mrs Ink considers that she does not need to pay any IIT for 2014.

**Required:**

- (i) State why Mrs Ink is incorrect in considering that she does not need to pay any individual income tax (IIT) for 2014. (2 marks)

- (ii) For each of Mrs Ink's items of income, state whether it is 'tax exempt' or 'taxable' and calculate the IIT payable on her taxable income for 2014.

Note: Ignore business tax and other surtaxes. (3 marks)

**(15 marks)**

**End of Question Paper**