

The People's Republic of China Tax Facts and Figures 2019



Foreword

This booklet has been prepared to provide the reader with an overview of taxes levied in the People's Republic of China. The material contained in this publication was assembled on 31 March 2019 and, unless otherwise indicated, is based on information available at that time. It is not intended to cover exhaustively the subjects it addresses but rather to answer some of the important, broad questions that may arise for the reader. When specific issues arise in practice, it will be necessary to refer to the laws, regulations and interpretations of the PRC. Since the laws and regulations are still evolving and are not always uniformly interpreted, it is advisable to obtain appropriate professional advice.

If you would like more information on any of our services described on pages 18 to 19, please contact one of our specialists listed at the back of this booklet.

The commentary in this booklet does not cover taxes levied in Hong Kong and Macau, which became Special Administrative Regions of the PRC on 1 July 1997 and 20 December 1999 respectively. Hong Kong and Macau continue to retain their own tax systems and the taxes applicable in Mainland China do not apply in Hong Kong and Macau.

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Overview

An overview of PRC taxes

The People's Republic of China levies a wide range of taxes including income taxes (corporate income tax and individual income tax), turnover taxes (value added tax and consumption tax), taxes on real estates (land appreciation tax, real estate tax, arable land occupation tax, and urban and township land-use tax) and other taxes such as deed tax, stamp duty, custom duties, motor vehicle acquisition tax, vehicle and vessel tax, resource tax, environmental protection tax, urban construction and maintenance tax, vessel tonnage tax and tobacco tax.

There is no capital gains tax as such in the PRC. Gains on the sale of fixed assets are taxable as ordinary income.

Tax administration

China's major tax laws are passed by the People's Congress, and the implementation regulations are formulated by the State Council. The Ministry of Finance (MOF) and the State Taxation Administration (STA) are delegated to provide interpretation and implementation of the tax laws and regulations. Meanwhile the STA is also responsible for supervising the enforcement of the tax collection at the local levels.

Investment restrictions on foreign investors

Foreign companies or individuals can establish equity joint ventures, contractual joint ventures, wholly foreign-owned enterprises and foreign-invested partnership enterprises in China. Except for regulations governing the minimum registered capital for certain special industries, there is no restriction on the initial capital contribution ratio or the timing of capital instalment for foreign-invested enterprises (including those invested by Hong Kong, Macau and Taiwan investors).

Foreign investors shall assess whether their investment projects are restricted, prohibited or encouraged in China before they make the investment decisions:

- The “Negative List for Market Access (2018 Version)” (“Market Access Negative List”) is a set of measures that applies to both domestic and foreign investors. The restrictive measures for the restricted and prohibited sectors under this “Market Access Negative List” are applicable to both domestic and foreign investors. For instance, approval is needed for both domestic and foreign investors for the construction of large theme parks; the investment in specific sectors such as lottery and porn sectors are prohibited to both domestic and foreign investors. The “Market Access Negative List (2018 Version)” is implemented nationwide starting from 1 January 2018.

- Currently, foreign investors should follow the “Special Administrative Measures for Foreign Investment” (2018 Version) (2018 Negative List), which lists out 48 special administrative measures to restrict and prohibit foreign investment.
- “Industry Catalogue Guide for Foreign Investment (2017 Revised Version)” (The 2017 Catalogue) also sets out 348 sectors in the encouraged category: agriculture, forestry, animal husbandry and fishery; mining; manufacturing; the production and supply of electricity, heat, gas and water; transportation, warehousing and postal services; wholesale and retail; leasing and commercial services; scientific research and technical services; water, environment and public facility management; education; health and social undertakings; culture, sports and entertainment. Foreign investment under the encouraged category may enjoy tax incentives including duty exemption on the imported equipment.
- In principle, foreign invested projects that are not subject to the restrictive measures under the “Market Access Negative List” and not in the 2018 Negative List are only subject to the record-filing administration, which means that no pre-approval is required.

Other important aspects related to foreign investments include:

- Foreign investment in the Pilot Free Trade Zones (PFTZs) shall follow the PFTZ special administrative rules (i.e. the PFTZ Negative List). The State Council released the 2018 PFTZ Negative List, which takes effect from 30 July 2018 and is applicable to the current twelve PFTZs in China.
- Hong Kong, Macau and Taiwan investors shall also follow the 2017 Catalogue and the 2018 Negative List. If there are more favourable measures under the “Closer Economic Partnership Arrangement (CEPA) between Mainland China and Hong Kong”, the Mainland — Macau CEPA or the “Economic Cooperation Framework Agreement”, the relevant investors may follow these specific agreements.

Besides, the 2nd session of the 13th National People's Congress (NPC) has passed the “Foreign Investment Law of the PRC” (hereinafter referred to as the “Foreign Investment Law”), which will be effective from 1 January 2020. The “Foreign Investment Law”, defined as the fundamental law on foreign investment, will not regulate the organizational form and internal organization of foreign enterprises. Instead, these matters shall be subject to the regulation of the Company Law and the Partnership Enterprise Law, etc.

Pilot Free Trade Zones

China has established twelve Pilot Free Trade Zones within designated areas of the following provinces and municipal cities: Shanghai, Guangdong, Tianjin, Fujian, Liaoning, Zhejiang, Henan, Hubei, Hainan, Shaanxi, Sichuan and Chongqing.



Corporate income tax law

Concept of tax resident enterprise

Tax resident enterprise (TRE) is a concept in the corporate income tax (CIT) Law. TRE refers to an enterprise established according to the Chinese law or an enterprise established according to foreign laws but with its effective management located in China. A non-resident enterprise (non-TRE) is an enterprise that is set up in accordance with the laws of a foreign country and whose place of effective management is not located in China, and has an establishment and place (E&P) in China and receives incomes that have no actual connection to its China-based E&P; or does not have an E&P in China, but derives incomes sourced from China. TREs are subject to CIT on worldwide income while non-TREs only on China sourced income. Enterprises registered in China are always TRE. A foreign enterprise with effective management in China may also be regarded as a TRE.

Tax rate for TREs

The standard CIT rate is 25%. Lower tax rates are available for qualified enterprises (please refer to "Tax incentive policies" on the next page).

Tax rate for non-TREs

Non-TRE that have E&Ps in China generally applies a CIT rate of 25%. If a Non-TRE does not have an E&P, or the income obtained in China has no actual connection with the E&P it has established, 10% tax rate (also known as "withholding income tax", WHT) shall apply. This WHT rate is applicable to dividend, interest, rental, royalty, and other passive income such as the gains from the sale or transfer of real estate property, land use right and shares in a PRC company.

WHT rates may be lower than 10% or exempted under a tax treaty.

Dividends distributed by a FIE out of its pre-2008 profit are exempted from WHT. In addition, since 2018, for the direct re-investment into all non-prohibited projects and fields in China by foreign investors using profits distributed from domestic enterprises in China, if certain conditions are met, the foreign investors can enjoy a provisional WHT deferral treatment.

Tax incentive policies

The CIT regime adopts the “predominantly industry-oriented, limited geography-based” tax incentive policy. Key emphasis is placed on “industry-oriented” incentives aiming at directing investments into those industry sectors and projects encouraged and supported by the State. The tax incentive policies mainly include:

Tax reduction and exemption

CIT may be reduced or exempted on income derived from the following projects:

Projects/industries	CIT incentive ³	Valid period
Agriculture, forestry, animal-husbandry and fishery projects	Exemption or 50% reduction	All years as long as it is engaged in these projects
Specified basic infrastructure projects ¹	3+3 years tax holiday	Starting from the first income-generating year
Environment protection projects and energy/water conservative projects ²	3+3 years tax holiday	Starting from the first income-generating year
Qualified new/high-tech enterprises established in Shenzhen, Zhuhai, Shantou, Xiamen, Hainan and Pudong New Area of Shanghai newly established after 1 January 2008	2+3 years tax holiday	Starting from the first income-generating year
Software enterprises established before 31 December 2017	2+3 years tax holiday	Starting from the first profit-making year or 2017 whichever is earlier
Integrated circuits (IC) design enterprises established before 31 December 2017	2+3 years tax holiday	Starting from the first profit-making year or 2017 whichever is earlier
IC packaging/testing enterprises established before 31 December 2017	2+3 years tax holiday	Starting from the first profit-making year or 2017 whichever is earlier
Enterprises which manufacture key parts or equipment used for the production of IC established before 31 December 2017	2+3 years tax holiday	Starting from the first profit-making year or 2017 whichever is earlier
IC production enterprises established before 31 December 2017 with a total investment exceeding RMB 8 billion, or which produce IC with a line-width of less than 0.25um, provided that its operation period exceeds 15 years	5+5 years tax holiday	Starting from the first profit-making year
IC production enterprises established before 31 December 2017 which produce IC with a line-width of less than 0.8um	2+3 years tax holiday	Starting from the first profit-making year
IC production enterprises or projects invested after 1 January 2018, which produce IC with a line-width of less than 130nm, provided that its operation period exceeds 10 years	2+3 years tax holiday	Starting from the first profit-making year for enterprises; Starting from the project's first income-generating year
IC production enterprises or projects invested after 1 January 2018, with total investment exceeding CNY 15 billion or that produce IC with a line-width of less than 65nm, provided that its operation period exceeds 15 years	5+5 years tax holiday	Starting from the first profit-making year for enterprises; Starting from the project's first income-generating year
Qualified energy-saving service enterprises	3+3 years tax holiday	Starting from the first income-generating year
Encouraged enterprises established before 1 January 2020 in underprivileged areas of Xinjiang	2+3 years tax holiday	Starting from the first income-generating year
Projects involving clean development mechanism	3+3 years tax holiday	Starting from the first year during which the first disposal of certified emission reduction units takes place
Certified animation enterprises established before 31 December 2017 which produce self-developed animation products	2+3 years tax holiday	Starting from the first profit-making year or 2017 whichever is earlier

Notes:

1. Including harbour, wharf, airport, railway, highway, city public transportation, electric power, water resources utilisation projects, etc.
2. Including public sewage treatment, public refuse treatment, comprehensive development and utilisation of methane, technologies alteration for energy-saving and emission reduction, seawater desalination projects, etc
3. “2+3 years tax holiday” refers to first two years of exemption from CIT followed by three years of 50% reduction of CIT; similarly, “3+3 years tax holiday” refers to first three years of exemption plus three years of 50% reduction of applicable CIT.



For income derived by a TRE from the transfer of qualified technology in a tax year, the portion that does not exceed RMB 5 million shall be exempted from CIT; and the portion that exceed RMB 5 million shall be allowed a half reduction of CIT.

CIT is exempted on dividend derived by a TRE from the direct investment into another TRE except for the case that the investment income is from stocks publicly traded on the stock exchanges and the holding period is less than 12 months.

CIT is exempted on income derived by non-profit-making organisations from engaging in non-profit-making activities.

Reduced tax rate

The major reduced rates under CIT laws and regulation include:

Qualified new/high tech enterprises are applicable to the reduced CIT rate of 15%. An enterprise has to fulfil a set of prescribed criteria and be subject to assessment in order to be qualified as a new/high-tech enterprise.

Key software enterprises and IC design enterprises that do not enjoy the exemption treatment are eligible for a reduced CIT rate of 10%. An enterprise has to fulfil a set of prescribed criteria and be subject to an assessment in order to qualify as a key software enterprise or key IC design enterprise.

Qualified technology-advanced service enterprises are applicable to a reduced CIT rate of 15%. An enterprise has to fulfill a set of prescribed criteria and be subject to an assessment in order to qualify as a technology-advanced service enterprise.

Enterprises established in the Qianhai Shenzhen-Hong Kong Modern Services Industry Cooperation Zone are applicable to a reduced CIT rate of 15% provided that the enterprise is engaged in projects that fall within the Catalogue for CIT Preferential Treatments of the zone.

Enterprises established in Zhuhai's Hengqin New Area are applicable to a reduced CIT rate of 15% provided that the enterprise is engaged in projects that fall within the Catalogue for CIT Preferential Treatments of the area.

Enterprises established in the Pingtan Comprehensive Experimental Zone of Fujian Province are applicable to a reduced CIT rate of 15% provided that the enterprise is engaged in projects that fall within the Catalogue for Encourage Industries of the zone.

From 1 January 2011 to 31 December 2020, encouraged enterprises in the Western Regions are eligible for a reduced preferential CIT rate of 15%.

From 1 January 2018 to 31 December 2018, qualified small and thin-profit enterprises with an annual taxable income of RMB 1 million or less is subject to an effective CIT rate of 10%.

From 1 January 2019 to 31 December 2021, qualified small and thin-profit enterprises with an annual taxable income of RMB 1 million or less is applicable to the effective CIT rate of 5%. Where its annual taxable income exceeds RMB 1 million but does not exceed RMB 3 million (inclusive), the RMB 1 million portion will be subject to an effective CIT rate of 5%, whereas the excess portion will be subject to the effective CIT rate of 10%.

Reduction of revenue

Where an enterprise uses resources specified by the State as its major raw materials to produce non-restricted and non-prohibited products, only 90% of the total income derived may be assessed as taxable total income.

Offset of certain venture capital investment

For a venture capital enterprise that makes a direct equity investment in a non-listed small-to-medium sized new/high-tech enterprise or a start-up technology enterprise for more than 2 years, 70% of its investment amount may be used to offset against the taxable income of the venture capital enterprise in the year after the holding period has reached 2 years. Any portion that is not utilised in that year may be carried forward and deductible in the following years. Corporate partners of a venture capital in the form of a limited partnership are also eligible for such incentive.

Investment tax credit

Enterprises purchasing and using plant and machinery specified by the State for environmental protection, energy and water conservation, or production safety purposes may claim 10% of the investment in such equipment to offset against its CIT payable.

Tax deductions and other treatments

Depreciation

Wear and tear allowances are granted on fixed assets and other capital assets used in the production of income. Production-nature biological assets are also classified as capital assets under the CIT regime and can also be depreciated. Generally the straight-line method of depreciation is allowed.

Depreciation on fixed assets and production-nature biological assets is computed beginning from the month following that in which the assets are put into use and ceasing from the month following that in which the assets are no longer used.

Minimum depreciation periods for different kinds of assets are specified as follows:

Buildings and structures	20 years
Aircrafts, train, vessels, machinery, mechanisms and other production equipment	10 years
Appliances, tools, furniture, etc,	5 years
Means of transport other than aircrafts, trains and vessels	4 years
Electronic equipment	3 years
Production-nature biological assets in the nature of forestry	10 years
Production-nature biological asset in the nature of livestock	3 years

From 1 January 2018 to 31 December 2020, newly acquired fixed assets, other than real estate properties, with unit value not exceeding RMB5 million are allowed to be expensed-off in one lump sum in the year of acquisition.

Accelerated depreciation

Shorter tax depreciation life or accelerated depreciation is allowed for particular types of fixed assets due to advancement of technology or suffering from constant vibration or severe corrosion. New fixed assets acquired by companies in specified industries or new fixed assets and equipment acquired specifically for research and development purpose may be depreciated with shorter appreciation life or under accelerated depreciation method.

Where shorter depreciation period method is applied, the minimum depreciation period shall not be less than 60% of the minimum depreciation period as prescribed in the CIT Law; where accelerated depreciation method is applied, double declining balance method or sum-of-years-digits method may be used.

Intangibles

Intangible assets are amortised by the straight-line method over a period of not less than ten years or the stipulated time limit set out in the contract or agreement under which use of the intangible asset is made available.

Purchased goodwill is not deductible until the enterprise is entirely transferred or liquidated.

Payments to affiliates

Management fee of stewardship nature are not deductible. Services fees paid to affiliates in China or overseas may be deductible only if the service fee is charged at an arm's length and beneficial to the service recipient. Royalties paid to affiliates in China or overseas may be deductible only if the royalties are charged at arm's length and commensurate with the economic benefit obtained by the payer of the royalties.

Interest on loans

Interest on loans is generally deductible. For interest expenses on borrowings from non-financial institutions by a non-financial institution, the portion that does not exceed the commercial rate is deductible.

Interest of capital nature has to be capitalised and depreciated or amortised.

The deductions of interest paid to related parties are subject to the thin capitalisation rule under the CIT law (see further details described below).

Entertainment

60% of the actually incurred entertainment expense is deductible but the deduction shall not exceed 0.5% of the sales or business income of that year.

Commercial insurance premiums for individuals

Commercial insurance premium paid for employees and individual investors of an enterprise is not deductible unless it is paid for safety insurance for workers conducting special types of works.

Advertising and business promotion expenses

Advertising expenses and business promotion expenses are deductible up to 15% (30% for certain industries) of the sales (business) income of that year unless otherwise prescribed in the tax regulations. Any excess amount is allowed to be carried forward and deductible in the following tax years.

Asset loss

Asset loss (including bad debt loss) may be deductible in the tax year during which such loss is incurred, provided that supporting documents are maintained for inspection by the in-charge tax bureau.

Charitable donations

Charitable donations are tax-deductible up to 12% of the annual accounting profit, and any excess amount in the current year can be carried forward and deductible in the following 3 years.

Super deductions

From 1 January 2018 to 31 December 2020, enterprises incurring R&D expenses for new technology, new products or new craftsmanship can enjoy an extra 75% deduction in addition to the actual R&D expenses incurred. For R&D expenses that have formed intangible assets, the tax amortization shall be based on 175% of the cost of the intangible asset.

Also as incentive, 200% of the actual salary expenses paid to handicapped staff are deductible.

Other non-deductible expenses

Provisions for asset impairment reserves (e.g. bad debt provisions) and risk reserves are generally not deductible unless otherwise prescribed in the tax regulations. Financial institutions and insurance companies may deduct certain provisions and reserves subject to the caps specified in the relevant tax circulars.

Non-advertising in nature and non-charitable in nature sponsorship expense is non-deductible.

Inventory valuation

Inventory of commodities, finished products, work-in-progress, semi-finished goods and raw materials of an enterprise must be valued according to costs. In computing the cost of inventories that are sold or used for delivery, the enterprise may choose one of the following methods: first-in first-out, weighted average or specific identification.

Loss carryovers

Generally, tax losses incurred by an enterprise may be carried forward for a period of up to five years, subsequent to the year of the loss. For new/high-tech enterprises and small and medium sized technology enterprises, tax loss can be carried forward for ten years.

Treatment of dividends

Dividends between TREs are not taxable except for the case that the dividend is from stocks publicly traded on the stock exchanges and the holding period is less than 12 months.

Currency

CIT is computed in renminbi (RMB) currency. Income in foreign currency is converted into RMB for tax payment purposes.

Exchange gains or losses are generally taxable or deductible regardless whether realised or unrealised unless otherwise prescribed by the tax regulations.

Deemed taxable income

If an enterprise cannot submit complete and accurate documentation of its costs and expenses to enable its taxable income to be calculated, the Chinese tax authorities may assess a taxable income. Normally, a deemed profit percentage is applied to its gross income or turnover. This deemed profit percentage will vary depending on the industry in which the enterprise operates and will usually be between 3% and 30% for TREs and between 15% and 50% for non-TREs.

Foreign tax credit

A TRE may credit against the PRC tax payable the foreign income tax already paid overseas in respect of income derived from sources outside the PRC based on a country-basket method or a comprehensive method. However, the creditable amount may not exceed the amount of income tax otherwise payable in the PRC in respect of the non-China sourced income.

Corporate restructuring

Generally, gains (or losses) of all corporate restructuring (including debt restructuring, share acquisition, assets acquisition, merger and spin-off) shall be subject to CIT (deductible for CIT purposes) when the transaction takes place. Fair value shall be used to determine the gains or losses. Restructuring transactions meeting certain prescribed conditions are eligible for concessionary treatment, i.e. the realization of the gain arising from the corporate restructuring may be deferred wholly or partly to later years, and the resulting tax liabilities may be effectively deferred.

Special tax adjustment (anti-tax avoidance)

The PRC CIT Law (Special Tax Adjustment) covers transfer pricing rules and advance pricing arrangements, and introduces relevant concepts for anti-avoidance. During 2016 to 2017, China STA enacted a series of public notices to renew the regulations in terms of reporting and documentation of the related party transactions, advance pricing arrangements, and the anti-avoidance investigations. These public notices reflected the requirements of Base Erosion and Profit Shifting (BEPS) Action Plans, and the Chinese tax authorities' position regarding anti-avoidance issues.

Related party transactions

All enterprises are required to follow the arm's length principle in their revenue and capital transactions with related parties. The Chinese tax authorities pay special attention to transfer pricing practices. If a related party transaction is not compliant with the arm's length principle which results in the reduction of taxable income of the enterprise or its related party, the tax authorities shall have the authority to make adjustment using appropriate methods.

Reporting and documentation of related party transactions

China adopts stringent requirements on filing and submission of related party information for transfer pricing enforcement. Enterprises are required to file annual related party transactions forms, as part of their annual CIT return package on or before the statutory filing due date which is 31 May of each year. Country-by-Country Reports and more overseas related party information are also required to be disclosed. In addition, enterprises are required to prepare transfer pricing documentation in place for inspection upon request by the Chinese tax authorities. The transfer pricing documentation includes a three-tier documentation, including master file, local file and special issue file. Enterprises meeting certain conditions can be exempted from such documentation requirement.

Cost sharing

Cost sharing is allowed in respect of intangible assets developed and shared among related parties, and for the provision and receiving of common services (generally limited to group procurement and group marketing strategies). The costs borne by each participant shall be consistent with what an independent party would have borne for obtaining the benefits under comparable conditions. The arm's length costs can be deducted for CIT purposes. There is no need to submit cost sharing agreement for tax authorities' pre-approval, but a copy should be provided to Chinese tax authorities within 30 days upon conclusion (or change) of a cost sharing agreement.

Controlled foreign corporation rules (CFC Rules)

A CFC is an enterprise established outside China by TREs or jointly established by TREs and Chinese individuals. CFC rules are introduced such that undistributed profits derived by CFCs without reasonable commercial purpose, located in low-tax jurisdictions with an effective income tax rate less than 12.5% may be taxed in China as a deemed distribution to the parent company in China.

Thin-capitalisation rule

Thin-capitalisation rule is introduced to disallow interest expense arising from excessive related party loans. The safe harbour debt/equity ratio for enterprises in the financial industry is 5:1 and for enterprises in other industries is 2:1. However, if there is sufficient proof to show that the financing arrangement is at arm's length, these interests may still be fully deductible even if the ratios are exceeded.

General anti-avoidance rules (GAAR)

There is a GAAR provision allowing the Chinese tax authorities to make adjustment to taxable revenue or taxable income where business transactions are carried out without reasonable commercial purpose and with the main purpose of reduction, exemption or deferral of tax payments. If all other special tax adjustment measures have been exhausted, upon approval by the STA, the Chinese tax authorities may invoke general anti-avoidance investigation if they suspect that an enterprise undertakes any of the following transactions: abuse of preferential tax treatments, abuse of tax treaties, abuse of corporate structure, use of tax havens for tax avoidance purposes or other arrangements that do not have a reasonable commercial purpose.

Interest levy on tax adjustments

Tax adjustments made by tax authorities under the special tax adjustment chapter may be subject to interest levy at the base rate for loans announced by the People's Bank of China plus an additional interest of five percentage points. The period for interest levy is from 1 June of the year following the tax year in which the transaction takes place to the day the underpaid tax is settled. For an enterprise which provides contemporaneous documentation and relevant information in accordance with relevant regulations, or for an enterprise which is exempted from the preparation of contemporaneous documentation in accordance with the relevant regulations but provides other relevant information upon request of tax authorities, the additional interest of five percentage points can be waived.

CIT filing and payment

Tax period

The tax year in the PRC is the calendar year.

Combined CIT filing and consolidated CIT filing

TREs in China are not allowed to file combined returns on a group basis unless otherwise prescribed by the State Council. Up to now, the State Council has not yet issued any regulation to allow group combined CIT filing.

However, a non-TRE having two or more establishments in the PRC may select one main establishment or place for consolidated tax filing and payment if it meets all of the following requirements:

- All establishments or places of that non-TRE have completed the tax registration with their in-charge tax authorities and have obtained the taxpayer identification number (TIN).
- The main establishment or place must assume supervisory and management responsibility over the business of the other establishment(s); and it keeps complete accounting records and vouchers that can correctly reflect the income, costs, expenses, profits and losses of the other establishment(s).
- None of the establishments or places use deemed method to calculate CIT liability.
- All establishments or places can calculate its allocated tax liability and complete tax filing with its in-charge tax authority.

Tax filing

Annual tax return has to be filed on or before 31 May following the end of a tax year (subject to local variation). Provisional reporting and payments have to be made on a monthly basis or quarterly basis which is determined by the in-charge tax authorities. Provisional payments shall be settled with 15 days following the end of each month/quarter.



Individuals

Individual income tax

Resident individuals are individuals with domicile in the PRC, or individuals without domicile who have resided in the PRC for a total of 183 days or more in a tax year, and they are subject to China individual income tax (IIT) on their worldwide income.

Non-resident individuals are individuals without domicile and have resided in the PRC for less than 183 days in a tax year. They are subject to IIT on their PRC sourced income only. Remuneration from foreign employers to individuals without domicile but working in the PRC is exempt from IIT if they reside in the PRC for less than 90 days in a calendar year, provided that the remuneration is not borne or paid by an establishment in the PRC. This 90-day period may normally be extended to 183 days if the individual is entitled to protection under a relevant tax treaty/tax arrangement.

Starting from 2019, non-China domiciled individuals who have resided in the PRC for less than six consecutive years in each of which they have resided 183 days or more in the PRC annually, upon record filing with tax authorities, the income derived outside the PRC and paid by overseas entities or individuals shall be exempted from IIT. A non-China domiciled individual will be subject to IIT on worldwide income starting from the seventh year of residing 183 days in the PRC if there is no single absence of more than 30 consecutive days during any of the previous six years. If a non-China domiciled individual reside in the PRC for less than 183 days in the PRC or spend more than 30 consecutive days outside of the PRC during any calendar year, the six-year count mentioned above can be reset.

A non-China domiciled individual who is employed by a foreign employer can reduce his IIT liability and be taxed based on the actual number of days working in the PRC if certain criteria are met.

Individual income tax rates for comprehensive income

From 1 January, 2019, resident individuals' incomes from employment, personal service, manuscript and royalty are taxed according to the following progressive rates, ranging from 3% to 45%:

Annual comprehensive taxable income *	Tax rate %
36,000 or less	3
The part > 36,000 ≤ 144,000	10
The part > 144,000 ≤ 300,000	20
The part > 300,000 ≤ 420,000	25
The part > 420,000 ≤ 660,000	30
The part > 660,000 ≤ 960,000	35
The part > 960,000	45

* Resident individual's annual comprehensive taxable income is calculated after an annual standard deduction of RMB 60,000, special deductions (i.e. social security contribution and housing fund paid according to China's regulations), special additional deductions and other deductions regulated by the Law.

Where an individual's income tax liability is borne by the employer, the tax liability is calculated on a grossed-up basis and a different tax rate table will be used to reflect the tax-on-tax effect.

Non-resident Individual

Non-resident individuals' income from employment, personal service, manuscript and royalty is not taxed comprehensively, but calculated by types and by items on a monthly or transaction basis according to the following progressive rates, ranging from 3% to 45%:

Taxable income per month or transaction* (RMB)	Tax rate %
3,000 or less	3
The part > 3,000 ≤ 12,000	10
The part > 12,000 ≤ 25,000	20
The part > 25,000 ≤ 35,000	25
The part > 35,000 ≤ 55,000	30
The part > 55,000 ≤ 80,000	35
The part > 80,000	45

* Non-resident individual's monthly taxable income is calculated after monthly standard deduction of RMB 5,000.

Where an individual's income tax liability is borne by the employer, the tax liability is calculated on a grossed-up basis and a different tax rate table will be used to reflect the tax-on-tax effect.

Employment income

For IIT purposes, taxable income refers to “wages, salaries, bonuses, year-end bonus, profit shares, allowances, subsidies or other income related to job or employment”.

Certain employment benefits for foreign individuals could be specifically treated as not being taxable under the IIT law if certain criteria can be met. These include:

- employee housing costs (with supporting invoices) borne by an employer;
- reasonable home leave fares of 2 trips per annum for the employee (with supporting invoices);
- reasonable employee relocation and moving costs (with supporting invoices); and
- reasonable reimbursement of certain meals, laundry, language training costs and children’s education expenses in the PRC (with supporting invoices).

Any cash allowance paid to cover expected work-related expenditures (such as an entertaining or travel allowance) will be fully taxable to an employee. IIT may be reduced by reimbursing specific work-related expenses incurred by an employee (which may include entertainment, health or social club fees, local travel, newspapers and journals, telephone costs, etc.) instead of paying an allowance. The expense reimbursement may not be subject to IIT if prescribed administrative procedures are followed.

Incomes other than employment income

Business operation income

Income earned by individuals from operating privately-owned businesses, sole proprietorship enterprises registered in the PRC, and partnerships, or income from the operation of a business on a contract or lease basis are generally subject to IIT at progressive rates from 5% to 35%. The 35% marginal rate applies to annual taxable income (i.e. gross revenue less allowable costs, expenses and losses, etc.) over RMB 500,000.

Income from interest, dividend, transfer of property, rental income and contingent income

Such income is normally taxed at a flat rate of 20%. However, IIT may be reduced or exempted for certain income meeting certain prescribed conditions.

Allowable deductions

Special additional deductions

Starting from 1 January 2019, when calculating taxable income of resident individuals who obtained comprehensive income, the following expenses can be deducted as special additional deductions:

- Child education
- Continuing education
- Major medical expense
- Mortgage interest and rental expense
- Elderly care

Other deductions

There are specific and complex tax rules to address the deductions available for business operation income. Certain deduction caps are similar to those applicable to companies that are subject to corporate income tax.

In addition, for an individual who earns business operation income but no comprehensive income, an annual deduction of RMB 60,000, special deductions, special additional deductions and other deductions regulated by the law are allowed to be deducted from the net income derived from these businesses.

For income from personal services, manuscript and royalty income a deduction of 20% of the payment is allowed. Moreover, for manuscript income, a further 30% deduction can be claimed.

The deduction of rental income is as follows:




- If the amount received in a single payment is not more than RMB4,000, a standard deduction of RMB800 is allowed;
- If the amount received from a single payment exceeds RMB4,000, a deduction equal to 20% of the payment is allowed.

For transfer of property, the original cost plus reasonable expenses are deductible.

No deduction is allowed against income from interest, dividend or other income.

Anti-tax avoidance rules

The revised IIT Law that came into effect in 1 January 2019, newly introduced the anti-tax avoidance rules, providing a legal basis for tax authorities to adjust tax liabilities for tax avoidance arrangements without justifiable reasons or reasonable commercial purposes. According to the anti-avoidance rules, circumstances where adjustment of tax is allowed include:

	Transactions with related parties: The business between the individual and its related parties does not comply with the arm's length principle, thus reducing the tax liability of the individual or its related parties without justifiable reasons.
	Controlled foreign companies: An enterprise, which is controlled by individual residents, or jointly controlled by individual residents and the resident enterprises, is established in a country (region) where its effective tax burden is significantly low, and does not distribute or reduce the distribution of its profits that should be attributed to the individual residents without reasonable operational needs.
	General anti-tax avoidance: Individuals perform other arrangements without reasonable business purpose to obtain improper tax benefit.

Tax filing and payment

The IIT shall be withheld by the payer.

Employers should withhold IIT from resident individuals’ employment income and pay to the tax authorities with a “cumulative withholding method” on a monthly basis. If the annual cumulative tax amount withheld and the final tax payable amount are inconsistent, resident individuals should perform annual IIT reconciliation filing with the in-charge tax authorities from 1 March to 30 June in the following year. For non-resident individuals’ employment income, employers should withhold IIT on a monthly basis.

IIT returns must be filed within 15 days following the end of each month.

Annual IIT self reporting requirement

Starting from 1 January 2019, individuals under six circumstances are required to perform annual IIT self-reporting with the PRC tax authorities, including: final settlement required for the comprehensive income, obtaining overseas income, cancellation of Chinese household registration due to immigration, non-resident individuals obtaining employment income from two or more places within the PRC, etc.



Other taxes

Value-added tax (VAT)

The sales or importation of goods, the provision of services and the sales of intangible properties and immovable properties are subject to VAT. For general VAT taxpayers, input VAT can be credited against output VAT.

The applicable VAT rate for general VAT taxpayers from 1 April 2019 are set out in the following table, and the rate for small-scale VAT taxpayers is 3%.

Industries	Applicable Tax Rate%
Sales or importation of goods	13
Sales or importation of necessity goods (such as agricultural products, water and gas, etc.) (Note)	9
Provision of repairs, replacement and processing services	13
Tangible movable property leasing services	13
Transportation services, postal services, basic telecommunications services, construction services, immovable property leasing services, sales of immovable properties, transfer of land use right	9
Value-added telecommunications services, financial services, modern services (except for leasing service), consumer services, sales of intangible properties (except for land use right)	6
Exportation of goods; Exportation of repair, replacement and processing services; International transportation service and spacecraft transportation services; Exported services that are completely consumed outside China, including: <ul style="list-style-type: none"> • Research and development services • Energy performance contracting services • Design services • Production and distribution services for radio, film and television programs • Software services • Circuit design and testing services • Information system services • Process management services • Offshore outsourcing services • Transfer of technology 	0

For taxpayers which are eligible for the above zero rate, generally they may be entitled to a credit or refund of the input VAT incurred. The VAT refund rate for exported services is the same as the applicable VAT tax rate. For exported goods, the VAT refund rates range from 0% to 13%. There is a prescribed formula for determining the amount of refund, under which full refund of input VAT are not available to many exported goods and the exporter will suffer different degree of export VAT costs.

In addition, a few types of qualified exported services may be applicable to the VAT exemption treatment. In that respect, the relevant input VAT incurred cannot be credited or refunded.

From 1 April 2019 to 31 December 2021, taxpayers of manufacturing and living service industries can enjoy an extra 10% VAT input credit based on its VAT input for the current period.

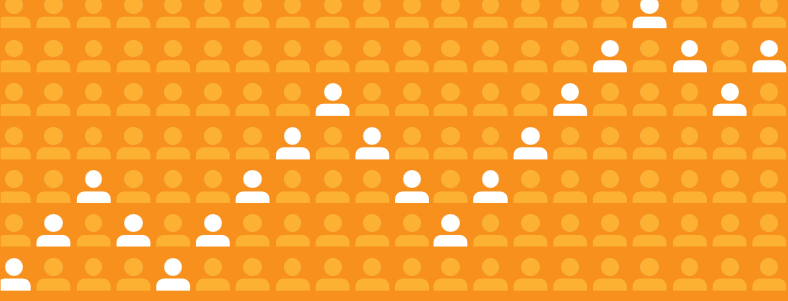
Since 1 April 2019, China introduced the pilot VAT refund policy. Taxpayers who fulfil certain requirements can apply for a refund of the input VAT credit balance.

Consumption tax

Consumption tax is levied on manufacturers and importers of specified categories of consumer goods, including tobacco, alcoholic beverages, high-end cosmetics, jewellery, fireworks, gasoline and diesel and certain petroleum products, motorcycles, automobiles, golf equipment, yacht, luxury watch, disposable chopsticks, wooden floorboard, battery and coating. The tax liability is computed based on the sales amount and/or the sales volume depending on the goods concerned.

Urban construction and maintenance tax

Urban construction and maintenance tax is imposed at a certain rate on the amount of China's indirect taxes (i.e. VAT and consumption tax) payable by the taxpayer. Effectively, the taxpayers of indirect taxes are also the taxpayers of urban construction and maintenance tax. It is charged at three different rates depending on the taxpayer's location, 7% for urban areas, 5% for county areas, and 1% for other areas.



Educational surcharge

Educational surcharge is imposed at 3% on the amount of China's indirect taxes (i.e. VAT and consumption tax) payable by the taxpayer. Effectively, the taxpayers of indirect taxes are also the taxpayers of educational surcharge.

Local educational surcharge

Local educational surcharge is levied at 2% on the amount of China's indirect taxes (i.e. VAT and consumption tax) payable by the taxpayer. Effectively, the taxpayers of indirect taxes are also the taxpayers of local educational surcharge.

Land appreciation tax (LAT)

LAT is levied on certain gains realised from real property transactions at progressive rates from 30% to 60%, based on the "land value appreciation amount" which is the consideration received from the transfer or disposition of real property less the "total deductible amount".

For taxpayers engaged in a real estate development business, the "total deductible amount" includes:

- The amount spent on obtaining the land use right;
- Costs of real property development and construction;
- Finance expenses, such as interest, may be deducted in certain circumstances. Other real property development expense (i.e. selling and administrative) are limited to 5% of the total amount expended to acquire the land use right and the costs of real property development and construction;
- Taxes in connection with the transfer of real property (generally stamp tax); and
- Additional deduction equal to 20% of the sum of the amount spent on obtaining the land use right and costs of real property development and construction is allowed.

For disposal of used properties, the deductible amount includes the assessed value of the used building and the taxes incurred upon the disposal.

Customs duties

The Customs shall levy import and export customs duty on goods that are allowed to be imported into or exported based on relevant Customs regulation. Customs are authorised to collect VAT and consumption taxes at the time of importation.

The Consignee of imported goods, consignor of export goods, and owner of entry articles are parties held liable for paying customs duties.

The Customs Classification of import and export goods is the base for the Customs supervision, Customs taxation, and Customs statistics. In 2017, along with the revisions of the classified catalogue in "International Convention for Harmonised Commodity Description and Coding System" made by World Customs Organisation (WCO), a large scale adjustments have been made to China import and export tariff system.

Import duty is charged in ad valorem, in specific, compound, or sliding terms, etc. Ad valorem duty is charged based on the customs valuation of the goods. The dutiable value of the goods is multiplied by an ad valorem tariff rate to arrive at the amount of duty payable. Duty collection on ad valorem basis is the main taxation measure used by most countries including China. The dutiable value of import and export goods is the taxable value determined by the Customs to levy ad valorem duties on the import and export goods, which is the base to value and levy Customs duties payable of import and export goods and import-associated taxes.

Import duties are categorised as normal tariff rate, Most Favoured Nation (MFN) tariff rate, contractual tariff rate, preferential tariff rate, tariff-rate quota (TRQ) rate, and temporary tariff rate.

The Country of Origin of imported goods also plays a part in determining the applicability of a number of other trade policies such as: TRQ, preferential tariffs, anti-dumping duty, anti-subsidy duty, etc.

Duty Reduction or Exemption: import and export goods are reduced with or exempted from customs duties, import VAT and consumption tax according to state regulations. There are statutory, specific and temporary duty reduction or exemption.

The importation of raw materials under Processing Trade is bonded, and Customs duty, import VAT and consumption tax exemption is allowed on the part to be re-exported after processing.

For goods that enter into and exit from the Customs special supervision zone, import duties and import VAT and consumption tax are held over at the time of importation, which are to be exempted for exportation, or to be paid for sales from Customs special supervision zone to domestic markets.

Stamp tax

All enterprises and individuals who execute or receive "specified documentation" are subject to stamp tax. Rates vary between 0.005% on loan contracts to 0.1% for property leasing and property insurance contracts.

Real estate tax

Real estate tax is a tax imposed on the owners, users or custodians of houses and buildings. The tax rate is 1.2% of the original value of buildings. A tax reduction of 10% to 30% is commonly offered by local governments. Alternatively, tax may be assessed at 12% of the rental value.

Motor vehicle acquisition tax

Motor vehicle acquisition tax is a tax at a rate of 10% of the taxable consideration. It will be levied on any purchase, import, self-production, receipt as a gift or award, etc. of an automobile, a tramcar, a trailer, or a motorcycle with a gas displacement of over 150 milliliters within the PRC.

Deed tax

Deed tax, generally at rates from 3% to 5%, may be levied on the purchase or sale, gift or exchange of ownership of land use rights or real properties. The transferee/assignee is the taxpayer.

Vehicle and vessel tax

Vehicle and vessel tax is a tax that is levied on all vehicles and vessels within the PRC. A fixed amount is levied on a yearly basis. Transport vehicles are generally taxed on a fixed amount according to own weight, with passenger cars, buses and motorcycles being taxed on a fixed unit amount. Vessels are taxed on a fixed amount according to deadweight tonnage.

Vessel tonnage tax

Vessel tonnage tax is levied on any vessel entering into a port inside the territory of the PRC from overseas and is collected by the customs authorities. The tax rates are categorised into preferential rates and ordinary rates depending on the nationality of the vessels. The tax payable is computed based on the net tonnage multiplied by the applicable tax rate that is determined depending on the net tonnage and the term of tonnage tax license.

Urban and township land-use tax

Urban and township land-use tax is levied on taxpayers who utilize land within the area of city, country, township and mining districts. It is computed on an annual basis, based on the space of area actually occupied by a taxpayer multiplied by a fixed amount per square meter that is determined by the local governments.

Arable land occupation tax

Arable land occupation tax is levied on companies and individuals who build buildings, structures or engage in non-agricultural development on arable land within PRC. It is computed based on the space of area actually occupied by a taxpayer multiplied by a fixed amount per square that is determined by the local governments and is settled in a lump sum.

Environmental protection tax

The Environmental Protection Tax (EPT) Law became effective on 1 January 2018 and it is collected from enterprises that directly discharge taxable pollutants (i.e. air pollutants, water pollutants, solid waste and noise pollution) within the territory of China. EPT is calculated based on the volume of pollutants discharged, multiplied by the specific EPT tax amount.

Resource tax

The exploitation of natural resources including crude oil, natural gas, coal, salt, raw metallic metals and non-metallic metals, etc. is subject to resource tax on a sales turnover or tonnage / volume basis. The range of tax rates are specified by the State Council. Resource tax is collected on the usage of water in 10 provinces and cities on a trial basis.

Tobacco tax

Tobacco tax is levied on taxpayers who purchase tobacco leaves within the territory of the PRC. The tax is assessed at the rate of 20% on the purchasing value and shall be settled with the tax bureau at the place of the purchase.

Cultural business development levy

Companies and individuals engaged in entertainment and advertising businesses shall pay cultural business development levy at 3% on the relevant income.





Tax treaties/arrangements

Foreign tax relief (for PRC tax residents) and exemption or reduction in PRC tax (for foreign tax residents) may be offered under a tax treaty (or arrangement) to which the PRC is a party. Tax treaties may operate to reduce the amount of withholding income tax or CIT payable in the PRC by a foreign enterprise or a foreign individual. A tax treaty may also operate to reduce the amount of overseas withholding or income tax payable by a resident of the PRC. As of 31 March 2019, the tax treaties with the following 100 countries and 2 Special Administrative Regions (SAR) are effective.

Albania	Iceland	Philippines
Algeria	India	Poland
Armenia	Indonesia	Portugal
Australia	Iran	Qatar
Austria	Ireland	Romania
Azerbaijan	Israel	Russia
Bahrain	Italy	Saudi Arabia
Bangladesh	Jamaica	Seychelles
Barbados	Japan	Singapore
Belarus	Kazakstan	Slovak Republic
Belgium	Korea, Rep. of	Slovenia
Bosnia and Herzegovina	Kuwait	South Africa
Brazil	Kyrgyzastan	Spain
Brunei	Laos	Sri Lanka
Bulgaria	Latvia	Sudan
Cambodia	Lithuania	Sweden
Canada	Luxembourg	Switzerland
Chile	Macau SAR	Syria
Croatia	Macedonia	Tajikistan
Cuba	Malaysia	Thailand
Cyprus	Malta	Trinidad and Tobago
Czech Republic	Mauritius	Tunisia
Denmark	Mexico	Turkey
Ecuador	Moldova	Turkmenistan
Egypt	Mongolia	Ukraine
Estonia	Morocco	United Arab Emirates
Ethiopia	Nepal	United Kingdom
Finland	Netherlands	United States
France	New Zealand	Uzbekistan
Georgia	Nigeria	Venezuela
Germany	Norway	Vietnam
Greece	Oman	Yugoslavia
Hong Kong SAR	Pakistan	Zambia
Hungary	Papua New Guinea	Zimbabwe



Foreign exchange administration

Foreign exchange transactions are administered by the State Administration of Foreign Exchange (SAFE) and its branches.

The regulatory administration on foreign exchange transactions by a FIE depends on whether the transaction is a current account item or a capital account item. Under the PRC Foreign Exchange Administration Regulations, current account items refer to ordinary transactions within the context of international receipts and payments, including balance of payments from trade, labour services, unilateral transfers, etc. Capital account items refer to items of increase or decrease in debt and equity due to inflow or outflow of capital within the context of international receipts and payments, including direct investment, all forms of loans, investment in securities, etc.

Generally, if a transaction falls under the category of current account items, a FIE can purchase and sell foreign currency through designated banks on the interbank foreign exchange trading system without prior approval of the SAFE. When a FIE has to make a payment in foreign currency, it can instruct its bank to pay from its foreign exchange account. In the meantime, it should provide supporting documents such as contracts, invoices and shipping documents to the bank.

Except for certain capital account transactions that require pre-approval by the State Administration of Foreign Exchange, many can be directly processed with the banks. However, from 2016, the Chinese government has enhanced the authenticity and compliance examination for certain foreign exchange transactions under the capital and current accounts so as to further regulate the foreign exchange market in China.

To speed up the process of RMB internationalisation, companies in China are now allowed to use RMB settlement when conducting cross-border trade with overseas companies. Since 2011, the Chinese governmental authorities have also released several rules allowing certain specified capital account transactions to be conducted in RMB.





Our services and solutions in China

PwC offers a wide range of tax and business advisory solutions to companies with operations in the PRC. These include:

Accounting and payroll

Provide a wide range of outsourced back-up services including accounting services, payroll services, company secretarial services, project management and other value-added services.

Common reporting standard

Assist financial institutions, companies and individuals in analysing the impact of the requirements of automatic exchange of financial account information, provide solutions to ensure compliance and manage the relevant tax risks.

Corporate restructuring

Advise on share transfers, transfers of businesses, reorganisations of the capital and assets of enterprises, and liquidations.

Corporate tax compliance

Preparation and submission of corporate income tax and turnover tax returns.

Customs and trade solutions

Assist in identifying import and export savings opportunities and compliance needs.

Distribution strategies

Advise on strategies to optimize the opportunities in China's distribution market within the latest legal framework.

Domestic enterprise tax service

Assist domestic enterprises in China in optimising tax efficiency and effectiveness and enhancing the value of the enterprise in response to their business demands in areas such as cross-border trading, outbound investment, initial public offering, stock incentive and merger and acquisition transactions, etc.

Establishment of representative offices and PRC wholly foreign-owned enterprises

Set up representative offices and PRC entities, obtain business licenses and tax registrations, confirm for appropriate tax reporting methods, tax compliance, etc.

Financial services

Advise enterprises and institutions in the financial services sector on tax issues relating to their domestic and cross-border financial transactions. Also provide solutions on tax exposures such as permanent establishment and transfer pricing, etc.

Foreign contractors

Tax effective structuring for foreign contractors involving in China power plants and other infrastructure projects, contract reviews, registrations, tax bureau negotiations, compliance requirements.

Health check of PRC operations

Diagnose compliance of PRC operations with relevant rules and regulations and suggest corrective actions and options to improve tax efficiency.

Indirect tax administration

Assist in actively managing indirect tax processes and exploring indirect tax saving opportunities.

Market entry advice

Assist in developing entry strategies and setting up entities and offices within China.

Mergers and acquisitions — due diligence reviews

Perform a full-scope due diligence review or a specific procedures review of regulatory risks and tax exposures.

PRC individual income tax consulting and compliance services

Help companies with foreign employees working in China to devise tax effective compensation package, register their employees with the tax authorities, and prepare their monthly individual tax filings. Develop tax equalisation programmes for China assignees.

Research and development services

Help companies to obtain China R&D incentives, including tax incentives and other government incentives and maintain the China R&D incentives through being compliant with the relevant technology, accounting and tax requirements

Structuring of investment and financing

Advise on appropriate ownership structures and financing methods to maximise returns.

Tax controversy services

Help clients proactively prevent, efficiently manage and favourably resolve tax controversies and disputes. Services offered include tax ruling application, tax policy formulation, tax audit defense, handling queries from tax authorities and negotiating tax settlements, etc.

Tax reporting and strategy

Help build a tax function for the future by bringing together tax function design, technology and compliance with a holistic approach.

Tax technology

Help companies to develop and implement a tax technology strategy to drive greater efficiency in data management, improve tax processes and manage risks enabling tax function to become a strategic business asset, adding value across the organisation.

Tax valuation advisory

Provide one stop solutions to China tax valuation issues from planning, documentation preparation to dispute resolution.

Transfer pricing

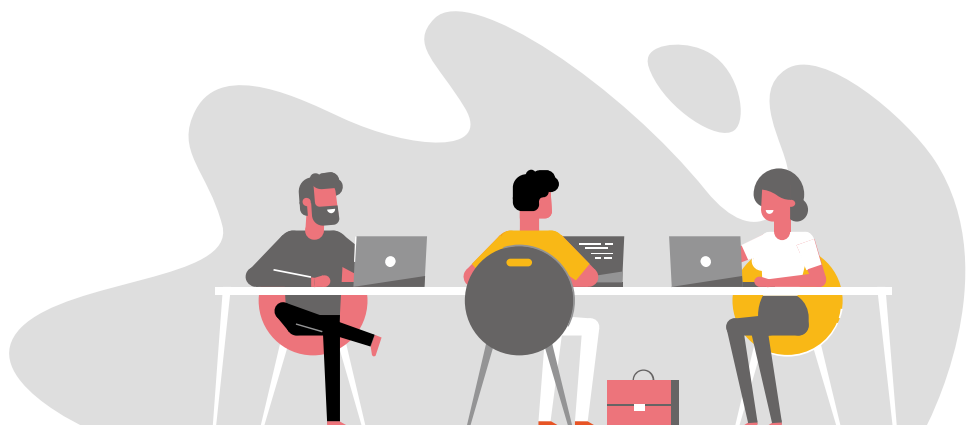
Perform a risk assessment review of transfer pricing policies and related exposures, reporting requirements, documentation of policies, tax consulting, obtaining Advance Pricing Agreements, etc.

US tax consulting service

Provide a wide range of US tax compliance and consulting services to multinational companies.

Value chain transformation

Help organisations optimise business, tax and legal operating models during value chain changes by providing integrated advisory, tax and legal services.





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With close to 3,750 tax professionals and over 200 tax partners across Hong Kong, Macau, Singapore, Taiwan and 23 cities in Mainland China, PwC's Tax and Business Service Team provides a full range of tax advisory and compliance services in the region. Leveraging on a strong international network, our dedicated China Tax and Business Service Team is striving to offer technically robust, industry specific, pragmatic and seamless solutions to our clients on their tax and business issues locally.

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