

Chapter 2

Introduction to China Taxes

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OVERVIEW OF TAXES

¶2-010 System of taxes

China's current tax system has been evolving ever since the 1994 tax reform and as a result of the subsequent changes in the relevant tax laws. The various types of taxes imposed on different taxpayers and different types of activities are governed by separate tax laws. In China, the 18 types of taxes are classified under seven categories, namely: turnover, income, resource, property and behaviour, prescribed items and customs. The taxpayers can be individuals, entities and economic organisations.

The following summarises the major types of taxes in China. Further details will be provided in the subsequent chapters of this publication.

Income taxes

Individual income tax

Chinese nationals and foreign individuals who reside or are domiciled in China or have derived China-sourced income are subject to individual

income tax on their *employment income, business income and other personal income or remuneration* (see ¶4-020 and following). There are 11 categories of taxable income. The tax liability depends on the China tax residency status of the individual and the source of his/her income (see ¶3-010 and following).

Enterprise income tax

Enterprises which are resident enterprises in China are subject to enterprise income tax on income derived from source inside and outside China. These enterprises include both domestic enterprises and foreign invested enterprises. "Foreign invested enterprises" include Chinese-foreign equity joint ventures, Chinese-foreign cooperative joint ventures and wholly foreign-owned enterprises (see ¶3-210 and following).

On the other hand, unless they are considered as resident enterprises in China, "foreign enterprises" with establishments in China are subject to enterprise income tax on their net income derived from production, business operations and other activities carried out in connection with these establishments (see ¶4-420 and following). Foreign enterprises without establishments in China would be subject to withholding taxes on other incomes, such as dividends, interest and royalties, derived in China (see ¶7-010 and following).

Turnover taxes

Value-added tax (VAT)

This tax is levied on all units and individuals engaged in the *sale of goods, and the provision of taxable services, the importation of goods into the territory of China, as well as the sale of immovable property or intangible assets within the territory of China* (see ¶13-110 and following). Taxable services provided in the following industries for consideration or compensation are subject to value-added tax: transportation; construction; financial and insurance; postal and telecommunications; modern services (e.g. R&D, information technology, leasing, etc.), lifestyle services (e.g. cultural and sports, entertainment).

Business tax (BT)

Note: A VAT reform pilot program was launched in Shanghai on 1 January 2012 with the aim to transitioning all taxable items under business tax into the scope of VAT. Since 1 May 2016, the reform has been rolled out nationwide to all industries which previously were subject to business tax. Therefore, business tax will no longer be imposed after 1 May 2016.

This tax used to be levied on all units and individuals engaged in the *provision of taxable services, the transfer of intangible assets and the sale of immovable property within the territory of China*. Taxable services provided in the following industries for consideration or compensation were subject to business tax: transportation; construction; financial and insurance; post and

telecommunications; cultural and sports, entertainment; and other service industries (see ¶15-010 and following).

Consumption tax (CT)

This tax is levied on all units and individuals engaged in manufacturing, commission processing or importation of the specified *non-essential or luxury consumer goods* within the territory of China. There are 14 categories of items subject to consumption tax, including tobacco; liquor and alcohol; cosmetics; pearls, jewels and jade; firecrackers and fireworks; golf balls and golf equipment; luxury watches; yacht; disposable wooden chopsticks; solid wood flooring; refined oil products; motor vehicle tyres; motorcycles and motor cars (see ¶14-010 and following).

Surtax

Surtaxes include city maintenance and construction tax, and national/local education surcharges. They are levied on the total VAT, BT and CT actually paid (see ¶16-010 and following).

Note: Strictly speaking, national/local education surcharges are not “taxes”. Nevertheless, it will be covered in this publication as they are generally levied and collected along with city maintenance and construction tax.

Property and behavior taxes

Stamp duty

All units and individuals that conclude or receive the specified *documents* that are protected under the PRC laws, such as various types of contracts, documents of the transfer of property title, business books and accounts, etc., are subject to stamp duty (see ¶17-010).

Deed tax

This tax is imposed on behavior relating to the *assignment or transfer of the ownership title of the land use rights* and/or the *buildings*. Generally, deed tax is payable by the assignee or transferee at a rate between 3% to 5% of the transaction price or the value of the assignment or transfer (see ¶17-210).

Land VAT

All units and individuals that realise gains on the *assignment or transfer of land use rights, buildings and the associated structures thereon within the territory of China* are subject to land VAT. The assignment or transfer of non-luxurious residential properties with a value-added amount less than 20% of the total amount of deductible items is exempt from the tax (see ¶17-410).

Real estate tax

This tax is imposed on the *owner or mortgagee of the real estate*. The tax is calculated based on the appraised standard values of the land and buildings

or the rental income. If the owner or mortgagee is not present at the place where the property is located or the ownership of the property has not yet been determined or there is unsettled disputes on tenancy or mortgage of the property, the custodian or the occupant of the property will be responsible to pay the tax on behalf of the owner or mortgagee (see ¶17-610).

Resource tax

This tax is levied on all units and individuals engaged in the extraction of certain mineral products and natural resources, or the production of salt within the territory of China (see ¶17-810).

Customs duty

China Customs imposes import customs duty (CD) on imports into China, and export CD on a few of goods exported from China. The CD is generally calculated by *ad valorem* and in a few cases, calculated by quantity, or by any other means as stipulated by the State (see ¶18-010 and following).

¶2-020 Individual income tax

The *Individual Income Tax Law* (IITL) of the People's Republic of China (PRC) came into effect on 1 January 1994 and was revised on 29 December 2007, and the *Individual Income Tax Implementing Rules* (IITIR) was promulgated on 28 January 1994 and was revised on 18 February 2008. The IITL, IITIR and the relevant tax circulars issued by various levels of tax administration have formed the prevailing legal basis of individual income tax in China.

The IITL applies to:

- foreign individuals,
- PRC nationals,
- individual partner of a Chinese partnership; and
- local entrepreneurs (industrial or commercial households).

Liability to tax

PRC nationals domiciled in China are subject to tax on their worldwide income. Non-domiciled foreign individuals who reside in China for less than one year will be subject to tax on their China-sourced income. Non-domiciled foreign individuals who reside in China for more than one year but less than five consecutive years are subject to tax on their China-sourced income and the portion of foreign-sourced income that are paid or borne by units or individuals located in China. Non-domiciled foreign individuals who reside in China for more than five consecutive years are subject to tax, starting from the sixth year, on their worldwide income for every "one full year" they reside in China unless a recalculation of five years has been triggered (see ¶3-010 and following for details).

Taxable income

According to the IITL, the 11 categories of taxable income include wages and salaries, business income and various prescribed personal income or remuneration (see ¶4-010 and following for details of taxable income and exemptions, and ¶5-010 and following for allowable deductions).

Assessment, tax rates and calculation

Individual income tax is generally assessed on a monthly basis. Wages and salaries are taxed at progressive rates ranging from 5% to 45% in nine tax brackets. Business income is taxed at progressive rates ranging from 5% to 35% in five tax brackets. A standard tax rate of 20% generally applies to other income categories (see ¶2-250 for tables of tax rates and ¶8-040 for further details).

Registration, returns and payments

In the past, only expatriates shall register with the local tax authorities in many places. However, more and more tax authorities have recently extended the registration requirement to all individuals to facilitate the collection of income information (see ¶9-010 for details of registration procedures).

In most cases, an employer or any person who pays taxable income to a taxpayer is obliged to act as a “withholding agent” and is responsible for filing tax returns and remitting tax payments to the tax authorities on behalf of the individual taxpayer (see ¶7-200). If there is no withholding agent, the individual taxpayer is responsible for filing his/her tax return and paying the tax assessed (see ¶9-220).

Investigation, resolving disputes and penalties

In recent years, the Chinese tax authorities have been stepping up law enforcement efforts through tax audits and investigations. For disputes regarding tax liability, an individual has the right to appeal against the tax authorities’ decisions. For details of the tax authorities’ investigation powers, methods of resolving disputes, as well as offences and penalties, refer to ¶10-210 and following.

¶2-030 Enterprise income tax

Effective from 2008, all enterprises obtaining income within the territory of the People’s Republic of China (herein after referred to as enterprises) are subject to income tax under:

- *Enterprise Income Tax Law (EITL)*; and
- *Enterprise Income Tax Law Implementing Rules (EITIR)*.

While the EITL comes into effect, some enterprises may still be able to enjoy certain income tax preferential treatment under the old tax system effective

before January 2008 during the transition period. In order to make clear the transitional rule for the old income tax system as well as to assist the interpretation of the EITL and the EITIR (both of which came into effect on 1 January 2008), various notices and circulars concerning the taxation enterprises have been issued by the SAT.

Liability to tax

Enterprises are divided into resident enterprises and non-resident enterprises. Resident enterprises shall pay the enterprise income tax for income sourced within and outside China.

Non-resident enterprises shall pay the enterprise income tax for income sourced within China and derived from its establishment in China and for income sourced outside China that is effectively connected with its establishment in China.

Non-resident enterprises without any establishment in China deriving income sourced in China and those having an establishment in China earning income sourced in China but is not effectively connected with that establishment shall pay enterprise income tax on income sourced within China on a withholding basis (see ¶7-010).

Taxable income

Enterprise income tax is chargeable on income derived from sales of goods, rendering of services and transfers of properties. Unless otherwise specifically exempted, income derived from other sources including dividends, interest, leasing income, royalties, subsidies and other non-operational income are all subject to enterprise income tax.

Deductions

Generally, the items allowed for deduction are the costs, expenses, taxes and losses relating to the income derived by the enterprise which is subject to income tax (see ¶5-910 and following for the allowable deductions).

The EITL also specifies a list of items that are not allowable for deduction when determining an enterprise's taxable income (see ¶5-1080).

Tax rate

The standard enterprise income tax rate is 25%.

Preferential enterprise income tax rates are available to small-scale enterprises with comparatively lower profit level:

- Industrial enterprises with annual taxable profit not exceeding RMB300,000, number of staff not exceeding 100, and total assets not exceeding RMB30,000,000 are entitled to a reduced tax rate of 20%.

- Other enterprises with annual taxable profit not exceeding RMB300,000, number of staff not exceeding 80 and total assets not exceeding RMB10,000,000 are entitled to a reduced tax rate of 20%.

Enterprises recognised as state-encouraged high and new technology enterprises (see ¶12-110) are entitled to a reduced tax rate of 15%.

Tax registration, returns and payment of tax

All resident enterprises are required to register for tax purposes within 30 days after receiving their business licences. Enterprise income tax is levied annually. Taxpayers are, however, required to make provisional tax payments on either a monthly or a quarterly basis.

Taxpayers shall submit their monthly or quarterly financial statements and provisional income tax returns to the local tax authority in-charge within 15 days after the end of each month or quarter. Taxpayers shall submit their annual financial statements and income tax returns to the tax authority in-charge for annual settlement within five months after the end of the tax year. For more on tax administrative matters refer to Chapter 9 *Tax Administration and Collection*.

Any non-resident enterprise which is established in accordance with the laws of a foreign country (region), with its actual management not in China but having establishment or office in China, regardless of making a profit or loss, shall conform to EITL in performing annual settlement. It shall, within five months after the end of the tax year or 60 days after actual termination of its China operation during a year, submit an annual tax return to the tax authority in-charge.

Investigations, disputes and penalties

Resident enterprises and non-resident enterprises are subject to the investigation and penalty provisions of the *Administrative Law on Levying and Collection of Taxes* (ALLCT) and the *Regulations for Implementation of Administration Law on Tax Collection* (RIATC) and the provisions regarding dispute resolution. Details are provided in Chapter 10 at ¶10-010.

Under EITL, tax bureaus are empowered to make adjustments to the taxable income in accordance with the provisions of “Special Tax Adjustment” and the underpaid tax due to the adjustment will be subject to interest stipulated by the State Council.

¶2-040 Value-added tax

VAT is a turnover tax imposed under the:

- *Provisional Rules on Value-added Tax* (PRVAT); and
- *Provisional Rules on Value-added Tax Implementing Rules* (PRVATIR).

The PRVAT and the PRVATIR, which were promulgated in December 1993, have been amended on 10 November and 25 December of 2008 respectively. Both amendments have come into effect since 1 January 2009.

Numerous circulars are issued by the SAT and other tax authorities to clarify various issues arising from these Rules.

VAT is levied on all units and individuals engaged in the sale of goods, the provision of taxable services within China, the importation of goods into the territory of China or sale of immovable property or intangible assets within the territory of China (see ¶13-110).

In general, VAT payable is the difference between the output tax and the input tax. Generally, "input tax" is creditable against "output tax". "Input tax" is calculated based on the VAT paid or borne by a taxpayer who purchases goods and fixed assets or receives taxable labour services. "Output tax" is calculated as VAT payable by a taxpayer who sells goods or provides taxable labour services before credited by input tax. Input and output taxes are calculated based on the value of the purchase and sales of the goods, respectively, at the tax rates prescribed under the PRVAT.

Taxable "units" include enterprises, administrative units, public institutions, military units, social organisations and other units (see ¶13-120). Taxable "individuals" include sole proprietors and other individuals. VAT is named as such because it is imposed on the added value or the increase in value of a commodity as the commodity goes through each stage in the process of circulation.

Tax filing and payments

The VAT assessable period can be one day, three days, five days, 10 days, 15 days, one month or one quarter of a year. The actual assessable period of taxpayers is determined by the tax authority in-charge based on the amount of tax payable. If a fixed assessable period cannot be followed, taxpayers shall be taxed on a transactional basis. Taxpayers with the assessable period of one month or one quarter of a year shall report and pay tax within 15 days after the end of the period. For the assessable period of one day, three days, five days, 10 days or 15 days, VAT shall be prepaid within five days after the end of the period and a monthly return shall be filed for any balance of VAT due within the first 15 days of the following month (see ¶13-810).

VAT Reform

A new VAT reform pilot program was launched in Shanghai on 1 January 2012 following the Chinese State Council's decision on 26 October 2011. The VAT reform has since been rolled out nationwide and new sectors have been added to the scope of the reform. The VAT reform was introduced with an aim to resolve the double taxation issues arising under the existing indirect tax system, and to foster the development of modern service industries by expanding the scope of VAT to include services that used to be subject to BT. Two new tax rates of 11% and 6% were introduced in addition to the

existing standard VAT rates of 17% and 13%. A new collection rate of 5% has also been introduced, in addition to the existing collection rate of 3%. After the VAT reform, provision of transportation, postal services and basic telecommunication services, construction, sale and lease of immovable properties and transfer of land use rights shall be subject to 11% rate (excludes the situation where transitional rules apply) and provision of value-added telecommunication services, financial services, other specified modern services and sale of intangible assets other than land use rights shall be subject to 6% rate, while leasing of movable and tangible goods shall be subject to VAT at 17% (see ¶13-1030 and ¶13-1060).

¶2-050 Consumption tax

Consumption tax is a turnover tax imposed under the:

- *Provisional Rules on Consumption Tax* (PRCT); and
- *Provisional Rules on Consumption Tax Implementing Rules* (PRCTIR).

The PRCT and the PRCTIR, which were promulgated in December 1993, have been amended on 10 November and 18 December of 2008 respectively. Both amendments have come into effect since 1 January 2009.

Consumption tax is levied on all units and individuals who:

- manufacture taxable consumer goods within China;
- commission the processing of taxable consumer goods within China; or
- import taxable consumer goods into the territory of China.

For details of the scope of charge and the taxpayers' liability to pay consumption tax refer to ¶14-050 and following.

Tax rates and calculation of tax payable

There are 14 categories of taxable items which are subject to tax at different tax rates or basis. The amount of consumption tax payable is calculated based on either the *ad valorem* fixed rate method or the specific fixed amount method (see ¶14-200).

Only very limited exemptions are allowed under the current consumption tax legislation (see ¶14-150).

Tax filing and payments

The consumption tax assessable period is generally on a time basis, i.e. one day, three days, five days, 10 days, 15 days, one month or one quarter of a year. The actual assessable period of taxpayers is determined by the tax authority in-charge based on the amount of tax payable. If a fixed assessable period cannot be followed, taxpayers shall be taxed on a transactional basis. Taxpayers with the assessable period of one month or one quarter of a year

shall report and pay tax within 15 days after the end of the period. For the assessable period of one day, three days, five days, 10 days or 15 days, tax shall be provisionally prepaid within five days after the end of the period, and a monthly return shall be filed for any balance of tax due within the first 15 days of the following month (see ¶14-550).

¶2-060 Business tax

Note: A VAT reform pilot program was launched in Shanghai on 1 January 2012 with the aim to transitioning all taxable items under business tax into the scope of VAT. Since 1 May 2016, the reform has been rolled out nationwide to all industries which previously were subject to business tax. Therefore, business tax will no longer be imposed after 1 May 2016.

Business tax is a turnover tax imposed under the:

- *Provisional Rules on Business Tax (PRBT)*; and
- *Provisional Rules on Business Tax Implementing Rules (PRBTIR)*.

The PRBT and the PRBTIR, which were promulgated in December 1993, were amended on 10 November and 18 December of 2008 respectively. Both amendments have come into effect since 1 January 2009.

Business tax was levied on all units and individuals engaged in the provision of taxable labour services, the transfer of intangible assets, or the sale of immovable properties within the territory of China. It was also imposed on activities involving intangible goods and services which fall outside the taxing scope of VAT.

Business tax was usually imposed on gross turnover. Costs incurred in relation to gross income were deductible only in certain instances which are specified by the MOF (see ¶15-400 and following).

Tax rate

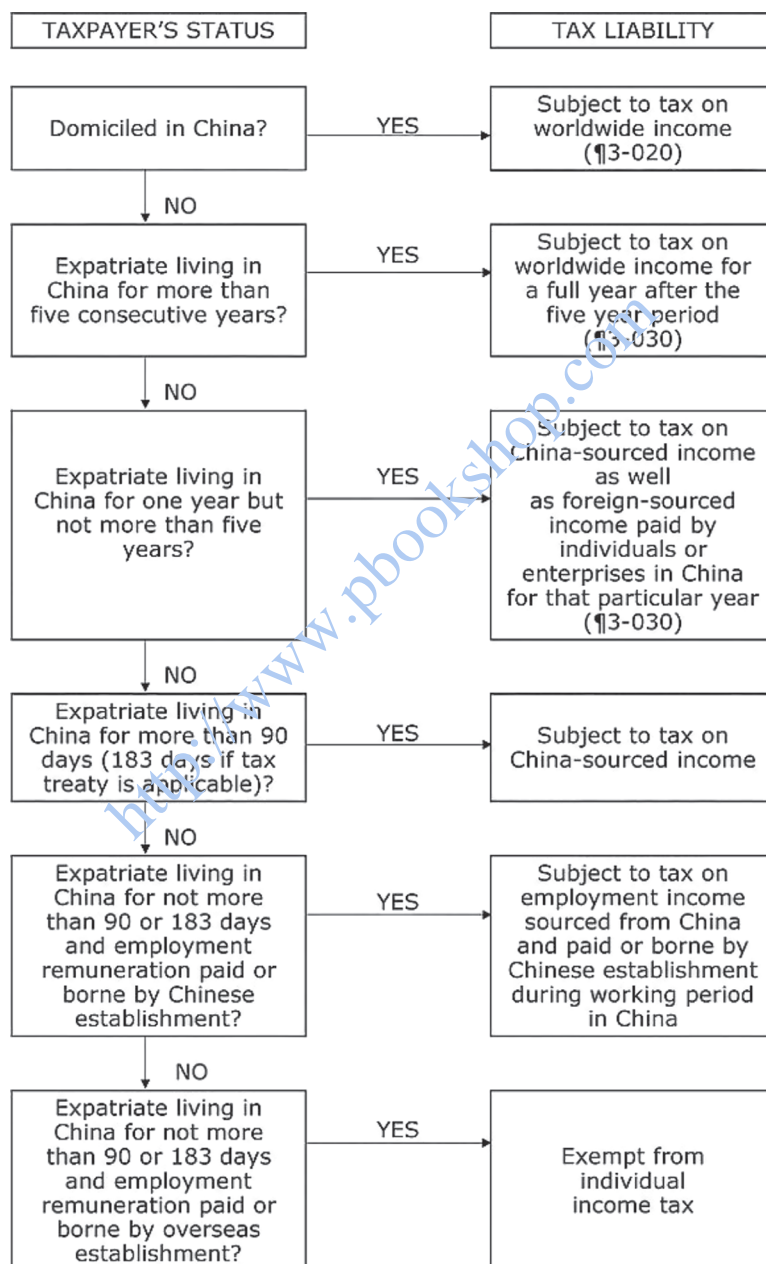
Business tax covered most of the service industries with tax rates ranging from 3% to 20% depending on the service category.

Tax filing and payments

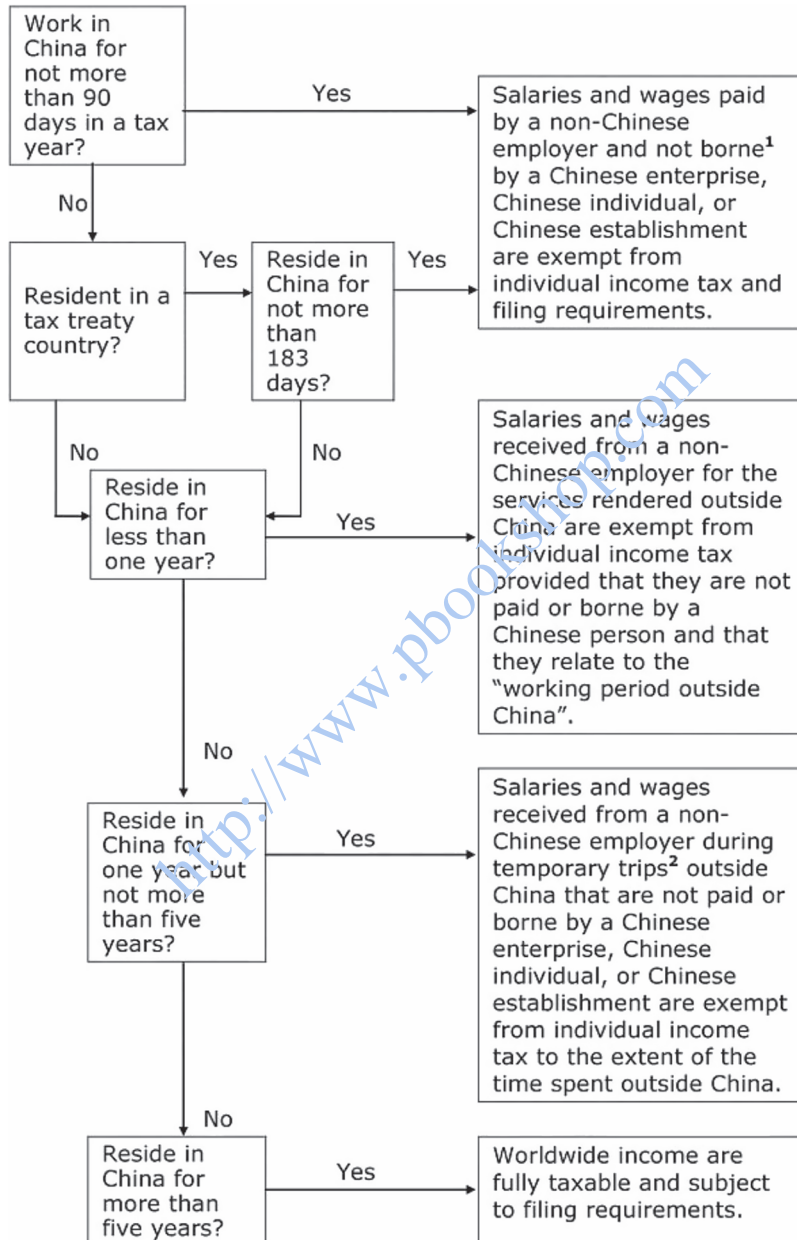
The business tax assessable period can be five days, 10 days, 15 days, one month or one quarter of a year. The actual assessable period of taxpayers was determined by the tax authority in-charge based on the amount of tax payable. If a fixed assessable period cannot be followed, taxpayers shall be taxed on a transactional basis. Taxpayers with the assessable period of one month or one quarter of a year shall report and pay tax within 15 days after the end of the period. For the assessable period of five days, 10 days or 15 days, tax shall be provisionally prepaid within five days after the end of the period, and a monthly return shall be filed for any balance of tax due within the first 15 days of the following month (see ¶15-550).

TAX FEATURES AT A GLANCE

¶2-210 Tax liability of individuals



¶2-220 Expatriate senior managers



Notes:

- (1) For a Chinese enterprise or Chinese establishment that either adopts the deemed profit method to calculate its enterprise income tax or is exempted from enterprise income tax because it does not derive any taxable income, the employee's income shall be deemed to be borne by the Chinese establishment or Chinese enterprise regardless of whether the salaries and wages are recorded in its books.
- (2) "Temporary trips" refer to not more than 30 days during a single trip or not more than a cumulative total of 90 days over a number of trips within the same tax year.

¶2-230 Taxable income, activities and goods

Taxable income

<i>Individuals</i>	<i>Enterprises</i>
<ul style="list-style-type: none"> • Wages/salaries • Bonuses • Allowances • Subsidies • Tax borne by employer • Certain benefits in kind • Other employment income • Production and business income • Contracting or leasing income • Independent contractors' service income • Director's fees 	<ul style="list-style-type: none"> • Income from production and business operations • Income from sale of commodities/products • Income from provision of labour services • Settlement of construction costs • Income from industrial operations • Income from transfer/assignment of properties • Interest income • Leasing income • Royalty income • Dividend income from private and listed shares and other distributions with respect to equity interests • Receipt from donations

<i>Individuals</i>	<i>Enterprises</i>
<ul style="list-style-type: none"> • Remuneration for manuscripts • Casual income • Royalties for use of patents, trademarks, copyrights, technology rights, etc • Interest, dividends, bonuses in connection with loan or share rights • Income from leasing buildings, land use rights, machinery and equipment, vehicles, vessels, etc • Income from assignment or transfer of marketable securities, buildings, land use rights, machinery and equipment, vehicles, vessels, etc • Contingency income (eg, winnings, awards, other occasional income) • Income from stock option exercise • Incomes from transfer of stock option • See ¶4-010 and following 	<ul style="list-style-type: none"> • Other earnings from inventory surplus of fixed assets, penalty income, payables released due to creditors' causes, excess of resources and cash, refund of education surcharge, income derived from deposits on packing materials, etc • See ¶4-420 and following

Taxable activities and goods

<i>Subject to VAT (see ¶13-110)</i>	<i>Subject to Consumption Tax (see ¶14-100)</i>	<i>Subject to Business Tax (see ¶15-100)</i>
<ul style="list-style-type: none"> • Sales of goods, including deemed sales of goods 	<ul style="list-style-type: none"> • Tobacco and cigarettes 	<ul style="list-style-type: none"> • Provision of labour services

<i>Subject to VAT (see ¶13-110)</i>	<i>Subject to Consumption Tax (see ¶14-100)</i>	<i>Subject to Business Tax (see ¶15-100)</i>
<ul style="list-style-type: none"> • Importation of goods • Processing services • Repair and replacement services • Transportation services • Postal services • Telecommunication services • Construction services • Financial services • Modern services (e.g. R&D, information technology, leasing, consulting, etc.) • Lifestyle services (e.g. culture and sports, catering, entertainment, etc.) • Sales of real estate • Sales of intangible assets 	<ul style="list-style-type: none"> • Liquor • Cosmetics • Pearls, jewels and jade • Firecrackers and fireworks • Golf balls and golf equipment • Luxury watches • Yacht • Disposable wooden chopsticks • Solid wood flooring • Refined oil products • Motorcycles • Motor cars • Batteries • Coatings 	<ul style="list-style-type: none"> • Transportation of passengers or cargo • Construction, installation, renovation, decoration, etc • Finance and insurance • Postal and telecommunication • Cultural and sports • Entertainment • Other services such as organisation of tours for travellers, agency, hotel and catering, warehousing, renting, advertising, etc • Assignment of intangible assets • Sales of immovable properties

¶2-240 Deductions for income tax purpose

<i>Individuals</i>	<i>Enterprises</i>
<ul style="list-style-type: none"> • Monthly deductions for expenses (fixed sum or percentage of income) • Additional fixed monthly deductions for non-domiciled taxpayers and resident taxpayers deriving wages outside China • Costs incurred for production or business income • Sales, administrative and financial expenses • Losses incurred in the course of production and business • Taxes and levies paid in the course of leasing • Repair expenses actually borne by the taxpayer on leased property • Basic endowment insurance, basic medical care insurance, unemployment insurance and housing fund borne by the entities 	<ul style="list-style-type: none"> • Production and operating costs • Sales, management and financial expenses • Taxes (i.e. consumption tax, urban preservation and construction tax, resource tax, land value added tax and education surcharge) • Losses (i.e. non-business expenditure, operational losses, investment losses and other losses) • Relevant and reasonable expenditures incurred in the manufacturing or business operating activities of enterprises other than costs, taxes, and losses • Wages and salaries paid to employees • Amounts provided to special funds by an enterprise for the purpose of environment protection and ecological restoration in accordance with relevant provisions of laws and regulations • Donations used for public welfare and relief purposes

<i>Individuals</i>	<i>Enterprises</i>
<ul style="list-style-type: none"> Deductions are available only against corresponding income for which expenses or losses were incurred (see ¶5-010 and following for details) 	<ul style="list-style-type: none"> Contribution to Social Insurance Funds (eg employee superannuation, Unemployment Insurance Fund, Disabled Employment and Protection Fund, Housing Fund, etc.)

¶2-250 Tax rates

Individual income tax

<i>Taxable income</i>	<i>Tax rate/s</i>
Wages, salaries and other employment income (without gross up)	Up to RMB1,500 3%
	RMB1,501–RMB4,500 10%
	RMB4,501–RMB9,000 20%
	RMB9,001–RMB35,000 25%
	RMB35,001–RMB55,000 30%
	RMB55,001–RMB80,000 35%
	RMB80,001 and above 45%
	See ¶8-040 for quick calculation formula
Production and business income (without gross up)	Up to RMB15,000 5%
	RMB15,001–RMB30,000 10%
	RMB30,001–RMB60,000 20%
	RMB60,001–RMB100,000 30%
	RMB100,001 and above 35%
	See ¶8-090 for quick calculation formula
Contracting and leasing income (without gross up)	Up to RMB15,000 5%
	RMB15,001–RMB30,000 10%
	RMB30,001–RMB60,000 20%
	RMB60,001–RMB100,000 30%

<i>Taxable income</i>	<i>Tax rate/s</i>
	RMB100,001 and above 35%
	See ¶8-100 for quick calculation formula
Income from personal services as independent contractor (without gross up)	Up to RMB20,000 20%
	RMB20,001–RMB50,000 30%
	RMB50,001 and above 40%
	See ¶8-110 for quick calculation formula
Remuneration for manuscripts	20% (with 30% reduction of tax payable)
Royalties	20%
Income from leasing properties	20%
Income from transfer or assignment of properties	20%
Interest and dividends	20% (for saving interest, a lower tax rate of 5% before 9 October 2008, and exempt from 9 October 2008 onwards)
Contingency income	20%

Enterprise income tax

<i>Taxable income</i>	<i>Tax rate/s</i>
Income of resident enterprises	25% 20% (for industrial enterprises with annual taxable profit not exceeding RMB300,000, number of staff not exceeding 100, and total assets not exceeding RMB30,000,000) 20% (for other enterprises with annual taxable profit not exceeding RMB300,000, number of staff not exceeding 80 and total assets not exceeding RMB10,000,000) 15% (enterprises recognised as state-encouraged high and new technology enterprises)

<i>Taxable income</i>	<i>Tax rate/s</i>
China-sourced income of non-resident enterprises without establishments in China	10% withholding tax
China-sourced income of non-resident enterprises with establishments in China where the income is not connected with the establishments	10% withholding tax

VAT

<i>Taxable activity/Classification</i>	<i>Tax rate/s</i>
<ul style="list-style-type: none"> • Sale of goods • Processing • Repair and replacement services • Importation of goods • Leasing of movable and tangible goods 	17% (basic rate)
<p>Sales and imports of:</p> <ul style="list-style-type: none"> • food grains and edible vegetable oils • tap water, heating, cooling, hot water, coal gas, liquefied petroleum gas, natural gas, methane gas and coal/charcoal products for residential use • books, newspapers and magazines • feed, chemical fertilisers, agricultural chemicals, agricultural machinery and plastic film for agricultural purposes and • other goods prescribed by State Council 	13% (reduced rate)
<ul style="list-style-type: none"> • Transportation • Postal services • Basic telecommunication services • Construction • Leasing of immovable properties • Sale of immovable properties • Transfer of land use rights 	11%

<i>Taxable activity/Classification</i>	<i>Tax rate/s</i>
<ul style="list-style-type: none"> • Sales of: • Electricity generated by small-scale hydro-electricity generating unit • Sand, soil and stone materials used in construction and construction material production • Brick, tile and lime made of sand, earth, stone materials and other minerals • Biological products which are made of microbes, metabolin of microbes, animal toxin, blood or organism of human beings or animals • Tap water • Concrete commodities (solely include cement concrete) • Value-added telecommunication services • Financial services • Other specified modern services • Sale of intangible assets other than land use rights 	6%
Small-scale taxpayers (tap water factory in some situations)	3%
<ul style="list-style-type: none"> • Export goods or specified services 	0%

Business tax

<i>Taxable activity</i>	<i>Tax rate/s</i>
Transportation by land, water, air and pipeline, loading/unloading and removal	3%
Construction, installation, repairs, decoration and other construction projects	3%
Finance and insurance	5%
Post and telecommunications	3%
Cultural activities and sports	3%
Entertainment including music halls, ballrooms, karaoke bars, music teahouses, billiard rooms, golf courses, bowling alleys and recreation rooms	5% to 20%

<i>Taxable activity</i>	<i>Tax rate/s</i>
Service industries including agency services, hotels, restaurants and catering services, tourist services, warehousing, rental and leasing services, advertising and other services	5%
Assignment of intangible assets including assignment of land use rights, patent rights, non-patented technologies, trademarks, copyrights and goodwill	5%
Sale of immovable properties including sale of buildings and other structures built on land	5%

Consumption tax

<i>Taxable goods</i>	<i>Tax rate/s</i>
Tobacco (cigarettes, cigars, cut tobacco)	11%–56% and/or fixed sum
Wines	10%–20% and/or fixed sum
Cosmetics	30%
Pearls, jewels and jade, including various ornaments made from gold, silver, pearls and jewellery and jade	5% or 10%
Firecrackers and fireworks	15%
Golf balls and golf equipment	10%
Luxury watches	20%
Yacht	10%
Disposable wooden chopsticks	5%
Solid wood flooring	5%
Refined oil products	Petrol: RMB1.52 per litre
	Diesel oil: RMB1.2 per litre
	Aviation fuel: RMB1.2 per litre
	Naphtha: RMB1.52 per litre
	Menstruum oil: RMB1.52 per litre
	Lubricant: RMB1.52 per litre
	Fuel: RMB1.2 per litre
Motorcycles	3% or 10% depending on engine cylinder capacity

<i>Taxable goods</i>	<i>Tax rate/s</i>
Motor cars	1%–40% depending on engine cylinder capacity
Batteries	4%
Coatings	4%

¶2-260 Tax return and payment deadlines

Individual income tax

<i>Individual income tax returns/forms</i>	<i>Person responsible for filing</i>	<i>Filing and payment deadline</i>
Tax Registration Form (one-off)	Taxpayer	Upon entry into China or becoming liable to tax
Individual Income Tax Withholding Return (monthly)	Withholding agent	Within seven days after the end of the tax month
Individual Income Tax Monthly Return	Self-reporting taxpayer	Within seven days after the end of the tax month
Individual Income Tax Annual Return	Taxpayer with income from sources outside China	Within 30 days after end of tax year
Individual Income Tax Annual Return (with annual income exceeding RMB120,000)	Taxpayer who has lived in China for one full year with annual income exceeding RMB120,000	Within three months after end of tax year
Individual Income Tax Monthly (or Per Project) Return for Contracting and Leasing Operations	Taxpayer obtaining regular contracting or leasing income	Within seven days after the end of the tax month, or within seven days after payment; final settlement shall be made within three months after the end of tax year
Individual Income Tax Annual Return for Contracting and Leasing Operations	Taxpayer obtaining contracting or leasing income on an annual basis	Within 30 days after the end of tax year

<i>Individual income tax returns/forms</i>	<i>Person responsible for filing</i>	<i>Filing and payment deadline</i>
Industrial and Commercial Sole Proprietor Income Tax Monthly Return	Taxpayer deriving production or business income	Within seven days after the end of the tax month
Industrial and Commercial Sole Proprietor Income Tax Annual Return	Taxpayer deriving production or business, to settle tax for a tax year	Within three months after the end of tax year
Individual Income Tax Monthly Return for Special Industries	Taxpayer deriving wages or salary from employment in a special industry to file provisional tax return on a monthly basis	Within seven days after the end of the tax month
Individual Income Tax Annual Return for Special Industries	Taxpayer deriving wages or salary from employment in a special industry, to finally settle tax for a tax year	Within 30 days after the end of tax year

Enterprise income tax

<i>Enterprise income tax returns</i>	<i>Person responsible for filing</i>	<i>Filing and payment deadline</i>
Enterprise Income Tax Quarterly Return	Resident enterprises	Within 15 days after the end of each quarter — 15 January, 15 April, 15 July and 15 October
Enterprise Income Tax Annual Settlement Return	Resident enterprises	Within five months after the end of tax year — 31 May
Enterprise Income Tax Withholding Return	Withholding agent who withholds tax from payments made to foreign enterprises	Within seven days of withholding the tax

VAT

<i>VAT returns</i>	<i>Person responsible for filing</i>	<i>Filing and payment deadline</i>
Value-added Tax Return (General Taxpayers)	Seller/provider of taxable goods and services	Within 15 days after the end of the month or taxable period
Value-added Tax Return (Small-scale Taxpayers)	Seller/provider of taxable goods and services	Within 15 days after the end of the month or taxable period

¶2-270 Special zones and cities

Some of the key special zones are listed below:

<i>Province, Municipality or Region</i>	<i>Special Economic Zones (SEZs)</i>	<i>Economic and Technological Development Zones (ETDZs)</i>
Anhui		Anqing, Chizhou, Chuzhou, Hefei, Huainan, Lu'an, Ma'anshan, Ningguo, Tongcheng, Tongling, Wuhu, Xuancheng
Beijing		Beijing
Chongqing		Changshou, Chongqing, Wanzhou
Fujian	Xiamen	Dongqiao, Dongshan, Fuzhou, Longyan, Quanzhou, Quanzhou (Taishang), Rongqiao, Xiamen Haichang, Zhangzhou, Zhangzhou (Zhaoshangju)
Gansu		Jiuquan, Lanzhou, Jinchang, Tianshui, Zhangye
Guangdong	Shenzhen Shantou Zhuhai	Guangzhou, Huizhou Dayawan, Nansha, Zengcheng, Zhanjiang, Zhuhai
Guangxi		China-Malaysia Qingzhou, Guangxi-ASEAN, Nanning, Qinzhougang
Guizhou		Guiyang, Zunyi
Hainan	Hainan	Hainan Yangpu

<i>Province, Municipality or Region</i>	<i>Special Economic Zones (SEZs)</i>	<i>Economic and Technological Development Zones (ETDZs)</i>
Hebei		Cangzhou Lingang, Qinhuangdao, Handan, Lanfang, Shijiazhuang, Tangshan Caofeidian
Heilongjiang		Binxi, Daqing, Hailin, Harbin, Harbin Limin, Mudanjiang, Shuangyashan, Suihua
Henan		Hebi, Hongqiqu, Kaifeng, Luohe, Luoyang, Puyang, Xinxiang, Xuchang, Zhengzhou
Hubei		Ezhou Gedian, Huangshi, Jingzhou, Wuhan, Wuhan Linkonggang, Shiyan, Xiangyang
Hunan		Changde, Changsha, Liuyang, Loudi, Ningxiang, Wangcheng, Xiangtan, Yueyang
Inner Mongolia		Bayannur, Huhhot, Hulunbeier
Jiangsu		Changshu, Hai'an, Haimen, Huai'an, Jiangning, Jingjiang, Kunshan, Lianyungang, Muiyang, Nanjing, Nantong, Rugao, Suqian, Suzhou Industrial Park, Taicanggang, Wujiang, Wuzhong, Xiangsheng, Xishan, Xushuguan, Xuzhou, Yancheng, Yangzhou, Yixing, Zhangjiagang, Zhenjiang
Jiangxi		Ganzhou, Jinggangshan, Jiujiang, Longnan, Nanchang, Nanchang Xiaolan, Pingxiang, Ruijin, Shangrao, Yichun
Jilin		Changchun, Changchun Automotive, Jilin, Songyuan, Siping Hongzui
Liaoning		Dalian, Dalian Changxingdao, Jinzhou, Lushun, Panjing, Shenyang, Shenyang Huishan, Tieling, Yingkou
Ningxia		Yinchuan, Shizuishan

<i>Province, Municipality or Region</i>	<i>Special Economic Zones (SEZs)</i>	<i>Economic and Technological Development Zones (ETDZs)</i>
Qinghai		Xining, Ge'ermu Kunlun
Shaanxi		Xi'an, Hanzhong, Shaanxi Hangkong, Shaanxi Hangtian, Yulin
Shanxi		Datong, Jincheng, Jinzhong, Taiyuan
Shandong		Binzhou, Dezhou, Dongying, Jiaozhou, Liaocheng, Linyi, Mingshui, Qingdao, Rizhao, Weifang, Weihai, Weihai Lingang, Yantai, Zhaoyuan, Zouping
Shanghai		Caohejing, Hongqiao, Jinqiao, Minhang, Shanghai Chemical Industry Park, Songjiang
Sichuan		Chengdu, Deyang, Guangan, Guangyuan, Mianyang, Neijiang, Suining, Yibin
Tibet		Lhasa
Tianjin		Beichen, Dongli, Tianjin, Tianjin Ziya, Wuqing, Xiqing
Xinjiang		Alaer, Ganquanpu, Korla, Kuche, Kuitun, Shihezi, Urumqi, Wujiaqu, Zhundong
Yunnan		Dali, Kunming, Mengzi, Qujing, Songming Yanglin
Zhejiang		Changxing, Cixi, Fuyang, Hangzhou, Hangzhou Bay Shangyu, Hangzhou Yuhang, Huzhou, Jiashan, Jiaxing, Jinhua, Lishui, Ningbo, Ningbo Daxie, Ningbo Shihua, Pinghu, Quzhou, Shaoxing Keqiao, Shaoxing Paojiang, Wenzhou, Xiaoshan, Yiwu

Bonded Zones

- Shantou
- Dalian
- Shanghai Waigaoqiao
- Guangzhou
- Shenzhen Futian
- Xiamen Xiangyu
- Qingdao
- Ningbo
- Zhuhai
- Haikou
- Zhangjiagang
- Fuzhou
- Tianjingang
- Shatoujiao
- Shenzhen Yantiangang

Bonded logistic parks

- Xiamen Xiangyu
- Fuzhou
- Shenzhen Yantiangang
- Guangzhou
- Suzhou
- Zhangjiagang
- Dalian
- Shanghai Waigaoqiao
- Qingdao
- Tianjin
- Ningbo

Other special areas

With a view to centralize and foster development of certain industries, encourage business development and promote growth of regional economy in specific locations, the State Council of the PRC has approved the establishment of some other special areas, such as Export Processing Zones, Border Economic Cooperation Zones, Qianhai Shengang Modern Services Co-operation Zone, Henqing New Area, Beijing Zhongguancun Science and Technology Park, etc. Preferential policies are generally awarded to support the specific needs of these special areas.

¶2-280 Tax treaty countries and withholding tax rates

List of treaty countries

- Albania
- Algeria
- Armenia
- Australia
- Austria
- Azerbaijan

- Bahrain
- Bangladesh
- Barbados
- Belarus
- Belgium
- Bosnia-Herzegovina
- Brazil
- Bulgaria
- Canada
- Croatia
- Cuba
- Cyprus
- Czech Republic
- Denmark
- Ecuador
- Egypt
- Estonia
- Ethiopia
- Finland
- France
- Georgia
- Germany
- Greece
- Hong Kong (Arrangement)
- Hungary
- Iceland
- India
- Indonesia
- Iran
- Ireland
- Israel
- Italy
- Jamaica
- Japan
- Kazakhstan
- Korea (Republic of)
- Kuwait
- Kyrgyzstan
- Laos
- Latvia
- Lithuania
- Luxembourg
- Macau (Arrangement)
- Macedonia
- Malaysia
- Malta
- Mauritius
- Mexico
- Moldova
- Mongolia
- Morocco
- Negara Brunei Darussalam
- Nepal
- Netherlands
- New Zealand
- Nigeria
- Norway
- Oman
- Pakistan
- Papua New Guinea

- Philippines
- Poland
- Portugal
- Qatar
- Romania
- Russia
- Saudi Arabia
- Serbia
- Seychelles
- Singapore
- Slovakia
- Slovenia
- South Africa
- Spain
- Sri Lanka
- Sudan
- Sweden
- Switzerland
- Syria
- Tajikistan
- Thailand
- Trinidad and Tobago
- Tunisia
- Turkey
- Turkmenistan
- Ukraine
- United Arab Emirates
- United Kingdom
- United States of America
- Uzbekistan
- Venezuela
- Vietnam
- Yugoslavia (Federal Republic of)
- Zambia

Tax treaties awaiting ratification

- Botswana
- Chile
- Germany (new)
- Russia (new)
- Uganda
- Zimbabwe

Withholding tax rates under tax treaties

The following rates of Chinese withholding tax apply to dividends, interest and royalties received by residents of the following countries under tax treaties concluded by China which have been ratified and are effective as at April 2016:

	<i>Dividends</i> ¹	<i>Interest</i> ^{2, 5}	<i>Royalties</i> ⁵ (general)	<i>Royalties</i> (use of equipment) ^{3, 5}
<i>Non-treaty</i> (see ¶7-020)	10	10	10	10
<i>Treaty country</i>				
Albania	10	0/10	10	10
Algeria	5/10	0/7	10	10
Armenia	5/10	0/10	10	10
Australia	15	10	10	10
Austria	7/10	0/7/10	10	6
Azerbaijan	10	0/10	10	10
Bahrain	10	0/5	10	10
Bangladesh	10	0/10	10	10
Barbados	5/10	0/10	10	10
Belarus	10	0/10	10	10
Belgium	5/10	0/10	7	7
Bosnia- Herzegovina	5	0/10	10	10
Brazil ⁴	15	0/15	15/25	15
Bulgaria	10	0/10	10	7
Canada	10/15	0/10	10	10
Croatia	5	0/10	10	10
Cuba	5/10	0/7.5	5	5
Cyprus	10	10	10	10
Czech Republic	5/10	0/7.5	10	10
Denmark	5/10	0/10	10	7
Ecuador	5	0/10	10	10
Egypt	8	0/10	8	8
Estonia	5/10	0/10	10	10
Ethiopia	5	0/7	5	5
Finland	5/10	0/10	10	7
France	5/10	0/10	10	6
Georgia	0/5/10	0/10	5	5

	<i>Dividends</i> ¹	<i>Interest</i> ^{2, 5}	<i>Royalties</i> ⁵ <i>(general)</i>	<i>Royalties</i> <i>(use of</i> <i>equipment)</i> ^{3, 5}
Germany	10/15	0/10	10	7
Greece	5/10	0/10	10	10
Hong Kong (Arrangement)	5/10	0/7	5/7	7
Hungary	10	0/10	10	10
Iceland	5/10/15	0/10	10	7
India	10	0/10	10	10
Indonesia	10	0/10	10	10
Iran	10	0/10	10	10
Ireland	5/10	0/10	10	6
Israel	10	7/10	10	7
Italy	10	0/10	10	7
Jamaica	5	0/7.5	10	10
Japan	10	0/10	10	10
Kazakhstan	10	0/10	10	10
Korea (Republic of)	5/10	0/10	10	10
Kuwait	0/5	0/5	10	10
Kyrgyzstan	10	0/10	10	10
Laos	5	0/5/10 ⁷	5/10 ⁷	5/10 ⁷
Latvia	5/10	0/10	7	7
Lithuania	5/10	0/10	10	10
Luxembourg	5/10	0/10	10	6
Macau (Arrangement)	5/10	0/7	7	7
Macedonia	5	0/10	10	10
Malaysia	10	0/10	10/15	10
Malta	5/10	0/10	10	7
Mauritius	5	0/10	10	10
Mexico	5	0/10	10	10
Moldova	5/10	0/10	10	10
Mongolia	5	0/10	10	10

	<i>Dividends</i> ¹	<i>Interest</i> ^{2, 5}	<i>Royalties</i> ⁵ (general)	<i>Royalties</i> (use of equipment) ^{3, 5}
Morocco	10	0/10	10	10
Negara Brunei Darussalam	5	0/10	10	10
Nepal	10	0/10	15	15
Netherlands	5/10	0/10	10	6
New Zealand	15	0/10	10	10
Nigeria	7.5	0/7.5	7.5	7.5
Norway	15	0/10	10	10
Oman	5	0/10	10	10
Pakistan	10	0/10	12.5	12.5
Papua New Guinea	15	0/10	10	10
Philippines	10/15	0/10	10/15	10
Poland	10	0/10	10	7
Portugal	10	0/10	10	10
Qatar	10	0/10	10	10
Romania	10	0/10	7	7
Russia	10	0/10	10	10
Saudi Arabia	5	0/10	10	10
Serbia	5	0/10	10	10
Seychelles	5	0/10	10	10
Singapore	5/10	0/7/10	10	6
Slovakia	10	0/10	10	10
Slovenia	5	10	10	10
South Africa	5	0/10	10	7
Spain	10	10	10	6
Sri Lanka	10	0/10	10	10
Sudan	5	0/10	10	10
Sweden	5/10	0/10	10	6
Switzerland	5/10	0/10	9	9
Syria	5/10	0/10	10	10

	<i>Dividends</i> ¹	<i>Interest</i> ^{2, 5}	<i>Royalties</i> ⁵ <i>(general)</i>	<i>Royalties</i> <i>(use of equipment)</i> ^{3, 5}
Tajikistan	5/10	0/8	8	8
Thailand	15/20	0/10	15	15
Trinidad and Tobago	5/10	0/10	10	10
Tunisia	8	0/10	10	5
Turkey	10	0/10	10	10
Turkmenistan	5/10	0/10	10	10
Ukraine	5/10	0/10	10	10
United Arab Emirates	0/7	0/7	10	10
United Kingdom	5/10/15	0/10	10	6
United States of America	10	0/10	10	7
Uzbekistan	10	0/10	10	10
Venezuela	5/10	0/5/10	10	10
Vietnam	10	0/10	10	10
Yugoslavia, Federal Republic of, (i.e. federation of the republics of Serbia and Montenegro)	5	0/10	10	10
Zambia	5	0/10	5	5

Notes:

- (1) Withholding tax at 10% rate is payable where profit/dividends are remitted to foreign investors of non treaty countries from foreign invested enterprises in China effective from 2008.
- (2) The exemptions for interest generally apply to one of the following:
 - (a) interest on loans made to the Chinese Government/Chinese State banks by international financial organisations; or

- (b) interest on loans made at a preferential rate to Chinese State banks by foreign banks.
- (3) Under many treaties the rates of withholding tax on royalties for the use of industrial, commercial/scientific equipment is 10%, but the taxable base is deemed to be 60% or 70% of the payment. The resulting effective withholding tax of 6% or 7% is shown above.
 - (4) The treaty with Brazil provides that a maximum rate of 25% may apply to trademark royalties. However, a maximum withholding rate of 10% applies to royalty payments to non-residents under Chinese domestic law.
 - (5) With effect from 1 January 2008, the PRC withholding tax rate on interest, rental and royalties, etc, is reduced to 10%. See ¶7-020.
 - (6) Under many treaties, the lower rates are used for withholding tax on dividends for a company (other than a partnership) which directly holds at least 10% or 25% of the capital of the company paying the dividends.
 - (7) The rate of 5% applies in the case of Laos, and the rate of 10% applies in the case of China.
 - (8) Some tax treaties, for example, Sino-Singapore treaty, had been revised to provide more preferential treatment while the anti-treaty shopping article had been incorporated.
 - (9) A new China and Hong Kong tax arrangement containing new withholding tax rates provisions on interest, dividends and royalties had been signed on 21 August 2006, and came into effect from 1 January 2007, and had replaced the previous arrangement signed on 11 February 1998 with more favourable treatments granted to those taxpayers conducting businesses in both Hong Kong and Mainland China.

Source: CCH International Tax Planning — Corporations.