International Tax
China Highlights 2020

Updated January 2020

Recent developments:

For the latest tax developments relating to China, see Deloitte tax@hand.

Investment basics:

Currency – Renminbi (RMB) or Yuan (CNY)

Foreign exchange control – The government maintains strict exchange controls, although the general trend has been toward a gradual liberalization of China's foreign exchange markets and specific controls over companies and individuals.

Accounting principles/financial statements – Accounting standards similar to IFRS are mandatory for publicly held companies listed in China and certain other companies (e.g., banks) and have been widely applied to large and medium-sized enterprises established in China.

Principal business entities – China maintains a matrix of laws and regulations relating to business entities. The main entities are pure domestic enterprises, wholly foreign-owned enterprises, equity joint ventures, cooperative joint ventures, holding companies, domestic partnerships, foreign-invested partnerships, trusts, branches, and representative offices. Branches of foreign companies are permitted for a limited number of industries (e.g., banks and insurance companies). An enterprise that is set up as a company may be established as a joint stock company or a limited liability company.

Corporate taxation:

Rates	
Corporate income tax rate	25%
Branch tax rate	25%
Capital gains tax rate	25%

Residence – A company is resident in China if it is established in China or if its place of effective management is in China. Effective management is defined as substantial and overall management and control over manufacturing and business operations, human resources, and financial and property aspects of the entity. A nonresident company also will be subject to tax in China if it has an "establishment" in

China or, if it does not have an establishment in China, if it derives income from China. The definition of an establishment is broad and does not include an exemption for an independent agent. If a nonresident company has an establishment in China, it will be subject to China tax on all income effectively connected with that establishment.

Basis – Resident companies are taxed on worldwide income, while nonresident companies are taxed on China-source income and income effectively connected with their establishments (if any) in China. Profits (losses) of a resident company's branches are included in the head office's taxable income for tax purposes. Branches of nonresident companies generally are recognized as establishments in China, and thus all income effectively connected with these establishments will be subject to Chinese income tax.

Taxable income – Taxable income is the amount remaining from gross income in a tax year after deducting allowable expenses and losses, nontaxable and tax-exempt items, and any prior-year loss carryforwards. All documented costs incurred in connection with operating activities on a reasonable and actual basis are allowable, except those specifically identified as nondeductible.

Rate – The standard enterprise income tax (EIT) rate is 25%. Special rates mainly apply to small-scale enterprises (20%, 10%, or 5% if certain requirements are met), enterprises with new/high-technology status (15%), advanced technology service enterprises that perform qualifying outsourcing services (15%), and enterprises incorporated in certain regions of China and engaged in encouraged business activities (15%). Special rates are available for certain other encouraged businesses (e.g., 15% for qualifying pollution prevention businesses from 2019 through 2021).

Surtax – There is no surtax.

Alternative minimum tax – There is no alternative minimum tax.

Taxation of dividends – An exemption applies for dividends paid by a resident company to another resident company (with certain limits). Dividends received from a foreign entity are included in taxable income and generally are subject to income tax at a rate of 25%, with a tax credit granted for foreign tax paid.

Capital gains – Gains and losses from the transfer of assets generally are combined with other operating income and taxed at the applicable EIT rate.

Losses – Losses may be carried forward for five years, which may be extended to 10 years for qualifying new/high-technology enterprises and small and medium -sized technology enterprises. The carryback of losses generally is not permitted.

Foreign tax relief – Foreign tax paid may be credited against Chinese tax on the same profits, but the credit is limited to the amount of Chinese tax payable on the foreign income. If the foreign tax credit exceeds the limit, the excess may be carried forward for five years. An indirect tax credit also is allowed when dividends are distributed to a resident company that holds directly or indirectly at least 20% of the foreign entity (within five tiers) deriving the underlying profits.

Participation exemption – There is no participation exemption.

Holding company regime – There is no holding company regime.

Incentives – The principal incentives include a 15% preferential tax rate applicable to new/high-technology enterprises and advanced technology service enterprises, and a 50% (which is increased to 75% for 2018, 2019, and 2020) super deduction for qualifying R&D expenditure.

Companies may claim an immediate deduction without depreciating the amount over the period of useful life for newly-acquired equipment purchased and used during the period 2018 through 2020, if the cost basis of the equipment does not exceed RMB 5 million.

Accelerated depreciation also is available for all manufacturing companies as from 1 January 2019.

A geographically-based incentive that is available to new/high-technology enterprises established as from 2008 provides for a two-year tax holiday, followed by three years at a 12.5% rate (in addition to the 15% rate that applies to all new/high-technology enterprises). Encouraged industries in certain regions (e.g., western China, Hengqin (Guangdong), Pingtan (Fujian), and Qianhai (Shenzhen)) can enjoy a reduced 15% EIT rate until 31 December 2020.

Tax exemptions and other forms of preferential treatment apply to the agriculture, forestry, animal husbandry and fishery sectors, software and integrated circuit industries, major infrastructure projects, certain environmental projects, and certain transfers of technology.

Compliance for corporations:

Tax year – The tax year is a calendar year.

Consolidated returns – The filing of consolidated returns generally is not permitted; each company must file a separate return.

Filing and payment – Companies must file a provisional income tax return with the local tax authorities within 15 days of the end of each quarter and pay quarterly installments of tax generally based on the profits for the quarter. An annual tax return and final settlement of the tax liability must be made within five months of the end of the tax year.

Penalties – A late payment surcharge will be imposed daily at a rate of 0.05% of the amount of underpaid tax. Penalties may be imposed in addition to the late payment surcharge. An interest-based penalty calculated at the basic RMB lending rate plus 5% applies where tax adjustments have been made based on China’s transfer pricing, thin capitalization, controlled foreign company, and general anti-avoidance rules.

Rulings – There generally is no advance ruling procedure, but the tax authorities can issue rulings in special cases. Taxpayers normally consult their local tax officials when issues arise. Advance pricing agreements may be concluded with the State Taxation Administration.

Individual taxation:

Rates

Individual income tax rate	Taxable income (RMB)	Rate
Annual comprehensive income (i.e., employment income, income from independent personal services, author's income, and royalties)	Up to 36,000	3%
	36,001 to 144,000	10%
	144,001 to 300,000	20%
	300,001 to 420,000	25%
	420,001 to 660,000	30%
	660,001 to 960,000	35%
	Over 960,000	45%

Annual business income	Up to 30,000	5%
	30,001 to 90,000	10%
	90,001 to 300,000	20%
	300,001 to 500,000	30%
	Over 500,000	35%
Dividends, interest, income from leasing of property, contingency income, and capital gains		20%

Residence – The individual income tax (IIT) law (that applies as from 1 January 2019) provides that an individual is a Chinese resident if he/she is domiciled in China, or if not domiciled in China, the individual stays in China for 183 days or more in a calendar year. The test for domicile in China generally is whether an individual is habitually residing in China due to his/her household, family, or economic situation.

Basis – According to the IIT law, a resident is subject to individual income tax on his/her worldwide income, while a nonresident is subject to personal tax only on China-source income. However, the implementing regulations to the new law include a "six-year rule" under which certain foreign-source income of a resident individual is exempt from Chinese IIT (i.e., a nondomiciled resident individual is exempt from Chinese IIT on foreign-source income that is paid by a foreign party unless the individual has stayed in China for 183 days or more in each calendar year of a six-consecutive-calendar-year period).

Taxable income – The IIT law consolidates several categories of income (employment income, income from independent personal services, author's income, and royalty income) into a single category called comprehensive income. Other taxable income includes business income, dividend income, interest income, income from the leasing of property, income from the assignment or transfer of property, and contingency income.

Rates – Seven progressive tax rates, ranging between 3% and 45%, are levied on comprehensive income. Dividends, interest, income from leasing property, income from the transfer or assignment of property, and contingency income are taxed at a rate of 20%. Interest on bank deposits and Chinese government bonds is exempt from IIT. Business income is taxed at progressive rates ranging from 5% to 35%.

Capital gains – Gains derived from the sale of property, net of relevant expenses and taxes, are subject to tax at a rate of 20%. Individuals generally are exempt from tax on gains from the sale of their sole private residence if they have occupied the residence for at least five years.

Deductions and allowances – Deductions and allowances are available, depending on the category of income. Residents are entitled to a fixed annual deduction of RMB 60,000. The IIT law allows resident individuals to claim six types of additional itemized deductions against their comprehensive income to compute IIT (i.e., education expenses for children, continuing education expenses, healthcare expenses for serious illnesses, residential mortgage interest, housing rent, and expenses to support elderly parents). Nonresidents are entitled to a fixed monthly deduction of RMB 5,000 for employment income. Twenty percent of the gross income from personal services and royalty income is deductible, and 44% of the gross amount of author's income is deductible. Other deductions include personal basic contributions (e.g., housing funds and certain medical insurance, pension, and unemployment insurance payments), qualifying charitable donations, etc.

Foreign tax relief – Foreign tax paid may be credited against Chinese tax on the same income, but the credit is limited to the amount of Chinese tax payable on the foreign income. If the foreign tax credit exceeds the limit, the excess may be carried forward for five years.

Compliance for individuals:

Tax year – The tax year is a calendar year.

Filing status – Each taxpayer must report IIT individually. Joint filing of spouses is not permitted.

Filing and payment – Comprehensive income derived by residents is assessed on an annual basis, with IIT collected through advance payments withheld and remitted to the tax authorities by the withholding agent (if any) on a monthly or transactional basis. The taxpayer must make a final reconciliation of any additional tax due at the time he/she files the annual tax return. The annual return is due between 1 March and 30 June of the year following the calendar year. IIT on employment income, income from independent personal services, author's remuneration, and royalty income derived by nonresidents also is withheld and remitted by the withholding agent (if any) on a monthly or transactional basis, but nonresidents generally are not required to file an annual tax return.

Withholding agents and individuals who file returns must submit the return to the tax authorities and pay the tax to the state treasury within 15 days following the end of the month when the income was derived. In most cases (other than where business income is derived), an employer or a person who pays taxable income to a taxpayer is required to act as a withholding agent and is responsible for filing a tax return and remitting the tax to the tax authorities on behalf of the individual. If there is no withholding agent, the individual must file his/her tax return and pay the tax assessed.

Penalties – A late payment surcharge will be imposed daily at a rate of 0.05% of the amount of underpaid tax. Penalties may be imposed in addition to the late payment surcharge.

Rulings – There generally is no advance ruling procedure, but the tax authorities can issue rulings in special cases. Taxpayers normally consult their local in-charge tax officials when issues arise.

Withholding tax:

Rates

Type of payment	Residents		Nonresidents	
	Company	Individual	Company	Individual
Dividends	0%	20%	10%	20%
Interest	0%	20%	10%	20%
Royalties	0%	20%	10%	3-45%
Fees for technical services	0%	20-40%	25%	3-45%

Dividends – A 10% withholding tax, which is lowered from a 20% statutory rate, is imposed on dividends paid to a nonresident company unless the rate is reduced under a tax treaty. As a measure to further promote foreign investment in China, the government has issued rules to provide a deferral of withholding tax on dividends and profits distributed to foreign investors and reinvested into China, with effect from 1 January 2017.

Interest – A 10% withholding tax, which is lowered from a 20% statutory rate, generally applies to interest paid to a nonresident company unless the rate is reduced under a tax treaty. A 6% VAT generally is imposed. Bond interest derived by foreign institutional investors from Chinese bond markets is exempt from both EIT and VAT for the period from 7 November 2018 through 6 November 2021.

Royalties – A 10% withholding tax, which is lowered from a 20% statutory rate, applies to royalties paid to a nonresident company unless the rate is reduced under a tax treaty. A 6% VAT generally is applicable but may be waived when royalties are paid for the transfer of qualified technology.

Fees for technical services – Technical service fees paid to a nonresident company are subject to the statutory EIT rate (i.e., 25%) on a net-profit basis to the extent the services are rendered in China, unless the tax is reduced under a tax treaty. A minimum 15% deemed profit rate is used where documents substantiating costs and expenses are unavailable. A 6% VAT generally will be levied if the recipient of the services is located in China.

Branch remittance tax – There is no branch remittance tax.

Other – See the "Individual taxation" section above for withholding tax (i.e., IIT withheld by payer) applicable to individual recipients.

Anti-avoidance rules:

Transfer pricing – China has transfer pricing rules and has adopted a broad definition of associated enterprises, with an emphasis on control. A related party can include an entity with significant control over the taxpayer's senior management, purchases, sales, production, and the intangibles and technologies required for the business. Accepted transfer pricing methodologies are the comparable uncontrolled price, resale price, cost plus, transactional net margin, profit split, and other methods that comply with the arm's length principle. Contemporaneous documentation is required (with certain exemptions) and cost sharing agreements may be used for developing intangible property or for shared services arrangements. A resident taxpayer that is the ultimate parent of a multinational group with annual consolidated revenue exceeding a threshold amount or that is appointed as the filing entity of a multinational group is required to file a country-by-country report. Advance pricing agreements are available. The 2019 IIT law introduces transfer pricing rules for individual taxpayers.

Interest deduction limitations – Excessive interest expense from related party financing is nondeductible for tax purposes. In general, if an entity's debt-to-equity ratio exceeds 2:1 (5:1 for financial institutions), the excess portion of interest expense will be nondeductible, unless contemporaneous documentation demonstrates the arm's length nature of the expense.

Controlled foreign companies – Resident companies must include in taxable income their relevant share of the undistributed profits of a CFC in certain cases. This rule applies to CFCs incorporated in low-tax countries where their effective tax rates are lower than 12.5%. The inclusion in income is not required in certain situations (e.g., where the annual profits of a CFC are lower than a threshold amount). The 2019 IIT law introduces CFC rules for individual taxpayers.

Hybrids – There are no anti-hybrid rules.

Economic substance requirements – China does not have economic substance legislation. However, economic substance is an important factor taken into consideration by the tax authorities in anti-avoidance investigations and in determining the beneficial owner status in granting relief under a tax treaty.

Disclosure requirements – Resident companies are required to disclose related party transactions in the annual tax return. There are other disclosure requirements for contracting or services provided by nonresident companies, certain foreign investments, etc.

Exit tax – There is no exit tax.

General anti-avoidance rule – A general anti-avoidance rule contained in the EIT law requires a bona fide business purpose for a business arrangement that has the effect of reducing, deferring, or avoiding taxable revenue or taxable income. In the absence of such a purpose, the tax authorities have the power to make adjustments going back 10 years. The 2019 IIT law introduces a similar general anti-avoidance rule applicable to individuals.

Value added tax:

Rates (as from 1 April 2019)	
Standard rate	13%
Reduced rate	0%, 3%, 5%, 6%, 9%

Taxable transactions – VAT applies to both the supply of goods and services (including services that previously fell within the scope of the business tax that no longer is imposed after 1 May 2016) and the import of goods.

Rates – VAT rates were further reduced in 2019 to provide relief to taxpayers in all sectors. As from 1 April 2019, the standard VAT rate is reduced to 13%, which applies to the supply of goods, the provision of processing, repair, or replacement services, and the leasing of moveable and tangible goods; a 9% rate applies to certain goods (e.g., certain foods, books, and utilities), transportation services, construction services, postal services, basic telecommunication services, leasing/sale of real estate, and land use rights; and a 6% rate applies to value-added telecommunication services, financial services, modern services (e.g., technology and innovation), and lifestyle services, and the sale of intangible assets other than land use rights. A transitional 5% reduced rate may apply to certain transactions involving real estate purchased on or before 30 April 2016. A 3% rate applies under the small-scale taxpayer scheme and to certain transactions involving used goods. Certain cross-border taxable activities and exports generally are zero-rated.

Registration – A Chinese company is required to register with the local tax authorities at the time of incorporation to have its status recognized. If the taxpayer is recognized as a general VAT payer, it may calculate VAT payable by crediting input VAT against output VAT. A foreign company generally is not recognized and registered as a general VAT payer.

Filing and payment – VAT returns generally must be filed each calendar month and submitted before the 15th day of the following month. Taxpayers importing goods must pay tax within 15 days after the issuance of the tax payment certificate by the customs authorities. Previously, the refund of unutilized input VAT generally was not allowed. However, a pilot program launched on 1 April 2020 allows eligible taxpayers in all industries to obtain a partial refund (with refund amount cap) of newly increased unutilized input VAT. A more favorable refund policy that applies as from 1 June 2019 allows taxpayers in certain manufacturing business to obtain the refund earlier (and without a cap).

Other taxes on corporations and individuals:

Social security contributions – The employer is required to contribute approximately 20% of basic payroll to the state-administered retirement scheme, as well as to medical insurance, maternity insurance, unemployment insurance, and work-related injury insurance funds. The total employer contribution can be up to 40% of the employee's base monthly salary, although the rates can vary throughout the country. The employee also is required to contribute a certain percentage of his/her monthly salary to the above funds.

There generally are limits on the total contribution payable if the employee's salary reaches a threshold set by the local authorities.

Foreign individuals legally working in China (including those locally hired and those seconded from abroad to work) generally are required to participate in the social security scheme unless an exemption applies under a bilateral social security totalization agreement. Both the employer and the employee must contribute to these schemes.

Payroll tax – There is no payroll tax.

Capital duty – There is no capital duty.

Real property tax – Real estate tax levied on land and buildings is paid by the owner of real estate at 1.2% per year on the original cost, less a variable allowance depending on the location, or at 12% per year on rental income (the rate may be reduced to 4% for the leasing of residential property by individuals); however, practices may vary across China since the rates are determined by the local authorities).

An urban land usage tax is imposed on the land area occupied at rates ranging from RMB 0.6 to RMB 30 per square meter. Other minor local levies may apply.

Transfer tax – Deed tax is imposed at rates between 3% and 5% on the total value of land use rights or building ownership rights when transferred. Land appreciation tax is imposed on gains realized on the transfer of real estate. The gain is calculated based on sales proceeds, less certain deductions, and the tax is charged in four bands ranging from 30% to 60%.

Stamp duty – Stamp duty at varying rates applies to contracts, agreements, and certain legal documents.

Net wealth/worth tax – There is no net wealth/worth tax.

Inheritance/estate tax – There is no inheritance/estate tax.

Other

Environmental protection tax

Environmental protection tax is collected on taxable pollutants (atmospheric pollutants, water pollutants, solid waste, and noise), which is based on the "pollution emission equivalent amount."

Consumption tax

Consumption tax applies to alcoholic beverages, luxury cosmetics, diesel fuel, fireworks, jewelry, motorcycles, motor vehicles, petrol, luxury watches, tobacco, golf equipment, yachts, etc., at rates ranging from 1% to 56% of the value of the goods. Consumption tax returns generally must be filed each calendar month and submitted before the 15th day of the following month.

Tax treaties: China has concluded over 100 tax treaties and arrangements. China signed the OECD multilateral instrument (MLI) on 7 June 2017.For information on China's tax treaty network, visit Deloitte International Tax Source.

Tax authorities: Ministry of Finance, State Taxation Administration

Contact:

Kevin Zhu
(kzhu@deloitte.com.cn)

Julie Zhang
(juliezhang@deloitte.com.cn)