

# How to start business in China

## - Taxation



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# Taxation in China

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# Agenda

## 1 ..... Basic Taxation Information

## 2 ..... Value-Added Tax

## 3 ..... Business Tax

## 4 ..... Consumption Tax

## 5 ..... Enterprise Income Tax

## 6 ..... Transfer Pricing

## 7 ..... Individual Income Tax

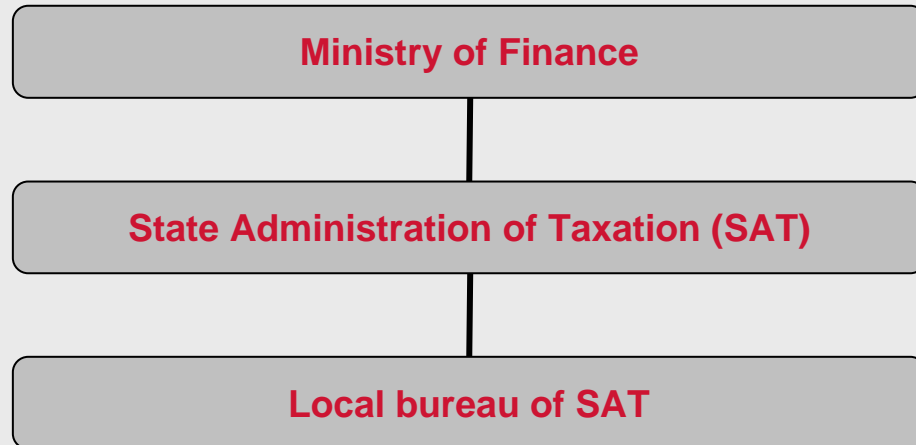
# 1. Basic Tax Information

## History

- China's current tax system is relatively new, having been developed only since the 1980's. Prior to that, China's tax system was concerned primarily with the taxation of domestic enterprises.
- With the introduction of the “open door” economic policies, the tax system was reformed and developed in order to levy taxes on foreigners, foreign enterprises and foreign investment enterprises. To attract foreigners and foreign companies to make investments in China, China issued a separate income tax law in 1991, which provided tax incentives and various favourable tax treatments.
- Due to unfair competition over the last years, the current new Enterprise Income Tax Law (EITL) come into effect on 1 January 2008. Foreign enterprises and domestic enterprises are be taxed finally under the same tax scheme.

# 1. Basic Tax Information

## Tax authorities



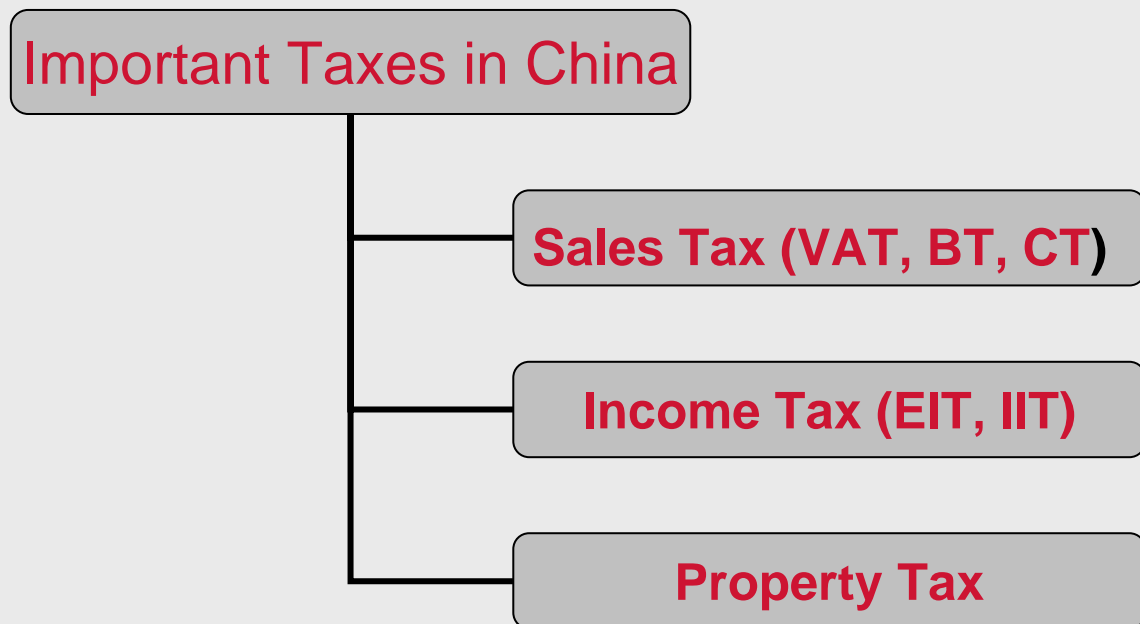
- The SAT and MOF are empowered to interpret the country's tax laws and regulations by the issuance of circulars.
- Responsible for tax policy and administration lies with the SAT.
- The SAT is responsible for formulating and coordinating tax policies and for supervising the work of local tax bureaus which are established as provincial and municipal levels.
- The MOF also continues to play a key role in developing tax legislation and policy.

# 1. Basic Tax Information

## Types of law

- Basic law
- Amendments
- Local regulations and rules

## Types of taxes



# 1. Basic Tax Information

- Taxpayer
  - Who is the taxpayer?
  
- Tax liability
  - What is taxable?
  
- Tax registration and declaration
  - How to register and declare the taxes?

# 1. Basic tax Information

## Taxpayer

- **Foreign Invested Enterprises (FIE)**
  - Foreign equity joint ventures
  - Foreign cooperative joint ventures
  - Wholly owned foreign enterprises
  
- **Foreign Enterprises (FE)**
  - Permanent establishment  
(e.g. Representative Office)
  - China sourced income  
(e.g. interest, rent, royalties etc.)



# 1. Basic tax Information

## Taxpayer

- **Foreign Individuals, mainly including:**
  - foreign private investors  
(e.g. shareholder of FIE)
  - foreign expatriates, working in China  
(e.g. employees of FIE)
  - foreign independent freelancer  
(e.g. independent engineer)

# 1. Basic Tax Information

## Tax Catalogue

- Taxes on turnover
  - Value added tax (VAT)
  - Consumption tax (CT)
  - Business tax (BT)
  - Customs duty on exports/ imports
- Taxes on income
  - Enterprise income tax (EIT)
  - Individual income tax (IIT)
  - ➔ adapted for FIE, FE
  - ➔ adapted for foreign individuals
- Taxes on property and transactions
  - Urban real estate tax
  - Stamp tax
  - Contractual tax (deed tax)
  - Vehicle and vessel usage tax
  - Land value-added tax
- Taxes / Dues on natural resources
  - Resources tax
  - Land usage due

# 1. Basic Tax Information

## Tax registration procedure

- Registration within 30 days since establishment;
- Opening registration, official invoice's registration, tax bank account opening of tax payment etc.;
- application of qualification of “General VAT tax-payer” (important procedure)

**Note: a Rep.-Office shall apply the tax-levying method**

## Periodic tax declaration procedure

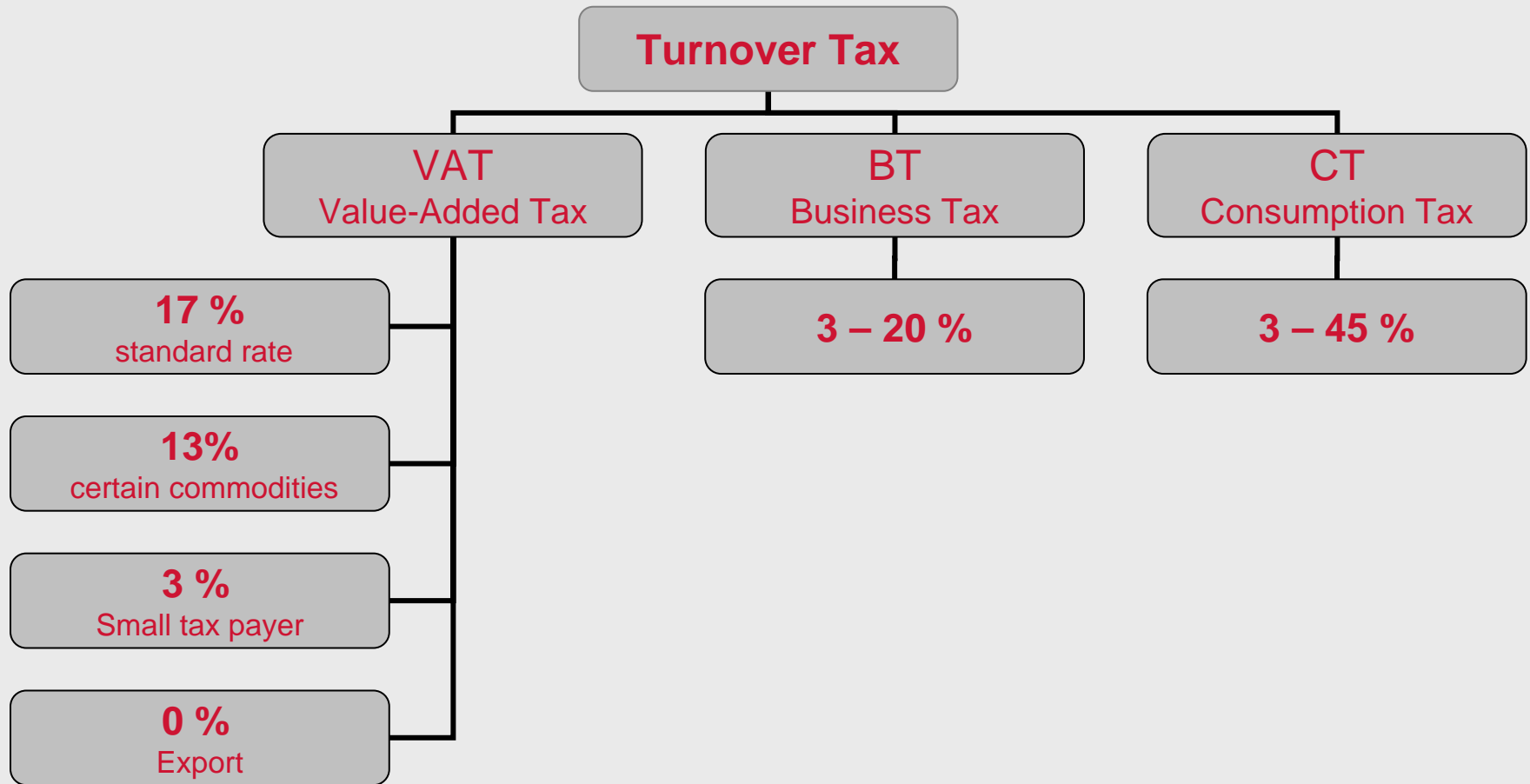
- monthly: VAT, BT, IIT, etc.;
- quarterly: pre-application of EIT;
- other taxes (e.g., land appreciation taxes, etc.) are due in second month after transaction

# 1. Basic Tax Information

## Annual tax declaration/ clearance

- EIT: within first 5 months with audited statutory financial statement;
- Verification of VAT tax-payer
- annual combinative inspection (AIC, SAFE, Customs house, etc.)
  
- Applications of changes on FIEs / Rep.-Office:
  - e.g., Registered capital, re-location, etc.
  - De-registration
  
- Interest rate on delaying declaration: 0.05% per day

## 2. Value-Added Tax



## 2. Value-Added Tax

### Scope

- Sales of goods  
(excluding transfer of intangible assets and real estate)
- Service of processing, repair and replacement  
(other services may subject to business tax)
- Import of goods into China

### Rate

- 17 %      standard rate
- 13%      for certain commodities  
(such as grains, cooking oil, running water etc.)
- 3 %      small-scale tax-payer enterprises

## 2. Value-Added Tax

### Classification of VAT taxpayers

#### Small scale VAT taxpayers

- annual sales less than
  - 500 TRMB for industrial enterprises
  - 800 TRMB for retail/ trading enterprises
- Tax payable = Sales turnover \* VAT rate 3%

#### General VAT taxpayers

- annual sales above
  - 500 TRMB for industrial enterprises
  - 800 TRMB for retail/ trading enterprises
- Tax payable = output VAT – input VAT
- Temporary qualification

## 2. Value-Added Tax

### Restricted VAT invoices systems

#### Input VAT

- VAT amount for purchasing commodities or receiving taxable services
- $\text{Input tax} = \text{Purchasing price} * \text{VAT rate}$
- Especially in China:
  - Subject to “special VAT invoices” received from suppliers/ on import
  - Input VAT of purchasing fixed asset is deductible from output VAT (Beginning 01.01.2009)

#### Output VAT

- $\text{Output tax} = \text{Sales turnover} * \text{VAT rate}$
- Tax rate: 17% for most commodities, 13% for special commodities



## 2. Value-Added Tax

### Export VAT refund

- 0% tax rate on output VAT
- Input VAT credit
  - based on refund rates
  - on materials purchased for the production of export goods is offset against the output VAT on domestic sales
- Refund rates
  - rang from 5% to 17% for different commodities,

**Note: Registration and application for export tax refund**

## 2. Value-Added Tax

### Trend of VAT policy reform

- “consumption-based VAT Transformation”

## 3. Business Tax

### Scope

- **Taxable services of**  
transportation, construction, finance, telecommunication, culture, entertainment, other services, etc.
- **Transfer of intangible assets**
- **Sales of immovable property (real estate properties)**
- **Whom provide labor services in areas that are not subject to VAT**

### Calculation

- **Business tax = sales turnover \* tax rate**
- **Tax rate of entertainment is 5 - 20%, others are 3% or 5%**
- **Business tax is included in prices**

### Declaration

- **monthly**

**Note: purchase business tax are NOT deductible  
from sale business tax or sale VAT**

## 3. Business Tax

### Changes

- Start 1 January 2009
- Change of definition “provision of labour services within China”
- Former regulation:
  - Labour service are rendered within China, service subject to BT
- New regulation:
  - Service-provider **or** service recipient is located in China, the service income shall be taxable for BT purpose in China,
  - Regardless the services being rendered onshore or offshore China

## 4. Consumption Tax

### Subject to consumption taxes

- **production, proceession and import of luxury consumer goods:**  
tobacco, alcoholic drinks or alcohol, cosmetics, skin or hair care products, jewellery, fireworks, gasoline, diesel, automobile types, motorcycles and motorcars etc..

### CT is calculated

- **according to quantity**
  - e.g. the tax rate for gasoline is RMB 0.2 per liter;
- **according to the price of the commodity**
  - e.g. the tax rate for cigars is 40%.
- **Products are applicable to VAT, including levied excise tax**
- **Tax rates range from 3% - 45% for different types of products**
- **Consumption tax wholly refunded, after export**

## 5. Enterprise Income Tax

### Rate

#### Standard rate

- Enterprise income tax rate: 25% (reduction 20 %)

#### Withholding tax rate

- Current status is a reduced rate
- e.g. Germany 10%
- check double taxation treaty of each country

## 5. Enterprise Income Tax

### Revision of the enterprise income tax

- Take effect 1 January 2008
- Impact on foreign investing companies

## 5. Enterprise Income Tax

### Previous regulations

- Two separate enterprise income tax laws, one for Chinese companies and the other one for foreign invested enterprises (FIE)
- Tax rate 33 %
- A lot of tax holidays for FIE, not for Chinese companies (tax burden between 15-24 %)
- Dividends from FIE from China to the investing foreign companies not taxable for dividend withholding tax



## 5. Enterprise Income Tax

### Consequences

- Lost tax holidays for FIE
- International “normal” tax rate of 25 %
- China developed from a low-tax-country to a “normal-tax-country” for investments

### Solutions

- Use New Tax advantages
  - High Technology
  - Agriculture
  - Environment friendly projects
  - etc.

## 6. Transfer Pricing

- Arms lengths' principle (e.g. market price)
- Annual declaration for affiliated transactions (e.g. mother and subsidiary company)
- APA advanced pricing agreement

## 7. Individual Income Tax

### Rate of wages / salaries

Item	Income range	Tax rate	Quick tax-deduction
1	Less than 500	5%	-
2	501 – 2,000	10%	25.00
3	2,001 – 5,000	15%	125.00
4	5,001 – 20,000	20%	375.00
5	20,001 – 40,000	25%	1,375.00
6	40,001 – 60,000	30%	3,375.00
7	60,001 – 80,000	35%	6,375.00
8	80,001 – 100,000	40%	10,375.00
9	More than 100,000	45%	15,375.00

**Note: Foreigner - monthly income deduction of 4,800 RMB**

## 7. Individual Income Tax

### Other taxable incomes (freelancer e.g.)

- income derived in the territory of China,
- such design, decoration, installation, law, accounting, consultancy, lecturing, etc.
- income is under RMB 4,000: taxable income after deducting RMB 800
- income is over RMB 4,000: taxable income after deducting 20%, use table below:

Income Taxable	Tax Rate
RMB 20,000 & less	20%
RMB 20,001 – RMB 50,000	30%
More than RMB 50,000	40%

## 7. Individual Income Tax

### Regulations for Foreigner

- Famous rule of “183 days”
- Deductible items for foreigners
  - Housing subsidies,
  - Food allowances,
  - Relocation expenses
  - Laundry fees
  - Traveling allowances with reasonable standard;
  - Home-visiting expenses (2 times/year)
  - Language training
  - Children’s education

**Note: reasonable standard expenditures, official invoice important**

