THE PEOPLE'S REPUBLIC OF CHINA

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0- SYNOPTIC TABLE: TAXATION OF RESIDENTS AND NON-RESIDENTS

	RESIDENTS NON-RESIDENTS
CORPORATE INCOME TAX	25% -20% - 15% 25% - 10% Tax relief available
TAXES ON CAPITAL GAINS	Included in taxable income and taxed at the same rate
WITHHOLDING TAXES Dividends Interest Royalties	 10% 10% 10%
PERSONAL INCOME TAX	3% - 45%
OTHER TAXES Stamp duty Consumption tax House property tax Urban and township land use tax	 Differen rates From 3% to 56% according to the product 1.2% of the value of the building or 12% on the annual rent income Applied according to size and value of the land
VAT	0%, 3%, 5%, 6%, 9%, 13%
LOSSES Carried forward Carried back	 Up to 5 years; up to 10 years for high-tech enterprises Not applied
DEPRECIATION Fixed assets Intangible assets	 Buildings:20 years Machinery and production equipment: 10 years Electronic equipment:3 years Minimum 10 years

INTRODUCTION

Before 2008, different income tax regimes were applied to foreign investment enterprises (FIEs) and local investment enterprises (LIEs). On 16 March 2007, the National People's Congress of China passed the Enterprise Income Tax Law of 2007 (EITL). Effective 1 January 2008, the EITL unified the tax rate, tax incentives and expense deduction rules for LIEs and FIEs.

The reform is the most significant tax reform in China since the turnover tax reform in 1994, and brought major changes to China's enterprise income tax regime. Today, the system rationally divides the collection and allocation of central taxes, local taxes, and taxes shared by the central and local governments, thus abolishing most remnants of double taxation. Moreover, the EITL introduced for the first time the concepts of resident and non-resident taxpayers. If a corporate entity is registered in China, or is effectively managed in China, it is considered a resident taxpayer of China.

1- AN OUTLINE OF COMPANY LAW

BUSINESS ENTITY	MAIN TRAITS	FORMATION	GOVERNANCE
State-owned enterprise	It is a limited liability company whose organization, internally, is authorized by the state for the socialist production and distribution of goods. Management and ownership are separate and independent from each other. Management can be entrusted to a natural person, a group or another company.		It is not a government agency but rather a separate legal entity that is managed independently. The government is not responsible for the company's liabilities except for the investments it has made there.
Collectively owned enterprise	It is a commercial organization collectively owned by workers and managed according to socialist principles. It must submit the return and pay income tax.		It is a legal person separate from the workers who own it. The workers are not responsible for the company's liabilities except for the investments they have made there.
Stock cooperative enterprises	It is a business organization in which workers and a political subdivision (e.g. city, state, etc.) jointly contribute to capital and shares. The joint stock cooperative company is managed partly according to the socialist principles of joint work and the distribution of profits based on the work done, and partly according to the principle that the distribution of corporate profits is proportionate to share ownership.		It is a legal entity separate from its owners and is civilly liable, must file the tax return and pay the related income tax.
Jointly operated enterprises	It is a business organization in which two or more local businesses jointly invest capital according to the principles of equity and mutual benefit. It is a legal entity separate from its owners and is civilly liable. China recognizes four types of jointly managed enterprises: state, collective, state-collective and others. In a jointly managed state-owned enterprise, the owners are state-owned enterprises. In a jointly managed collective enterprise, the owners are collectively owned enterprises. In a jointly managed collective state enterprise, the owners are a mix of state enterprises and collective enterprises. In other jointly managed enterprises, the owners are a mix of private enterprises and state-owned enterprises or collectively owned enterprises, or both.		Running a jointly owned enterprise depends on the nature of the enterprise. A jointly managed enterprise must file the return and pay the related taxes.

BUSINESS ENTITY	MAIN TRAITS	FORMATION	GOVERNANCE
Limited liability company	In general, there is no minimum capital, except for certain types of companies (banks, investment fund management companies, insurance companies, insurance brokers, labor companies, direct sales companies, etc.). Contributions can be made both in kind and in cash, but the latter must correspond to at least 30% of the total capital of the company.	The shareholders draw up a statute and, once the company name has been approved, submit an application signed by the chairman of the Board of Directors and addressed to the Administration for Industry and Commerce.	
Company limited by shares	In general, there is no minimum capital, except for certain types of companies (banks, investment fund management companies, insurance companies, etc.). Contributions can be made both in currency and in goods, but in the case of industrial property or non-patented technology, the value cannot exceed 20% of the nominal share capital. The fiscal year runs from 1 January to 31 December and the company books must be audited by public accounting companies.	The shareholders draw up a statute and, once the company name has been approved, submit an application signed by the chairman of the Board of Directors and addressed to the Administration for Industry and Commerce.	
Public company	A joint stock company, which has certain requirements, can issue shares to the public and transform itself into a public company. The issue of shares to more than 200 investors is considered a public offering. A public company is taxed in the same manner as a limited liability company		
Partnership	A partnership is a business organization in which two or more owners (partners) have agreed, under the terms of a partnership agreement, to associate for the purpose of jointly carrying out business activities. Partners may have legal liability for the debts and obligations of a partnership, depending on the nature of the partnership and the status of the partners. There are two types of partnerships allowed in China: general partnerships and limited partnerships.		
Sole proprietorship	A sole proprietorship consists of a sole entrepreneur, who is the owner of the sole proprietorship. A sole proprietorship is not a legal person and the sole proprietor is subject to unlimited liability for the debts and obligations of the company.		
Foreign ***investment*** *enterprises (FIEs)*	They are companies owned by one or more foreign investors. Generally, they are separate entities for tax purposes, are subject to corporate income tax and submit the tax return. Foreign investors in China can set up equity joint venture companies, cooperative joint venture enterprises with Chinese partners, wholly foreign-owned enterprises, foreign joint-stock companies, foreign investment trading firms, and foreign-invested investment companies.		

2- WHEN CHINESE COMPANIES CAN BE CONSIDERED RESIDENT OR NON-RESIDENT?

Before 2008, different income tax regimes were applied to foreign investment enterprises (FIEs) and local investment enterprises (LIEs). On 16 March 2007, the National People’s Congress of China passed the Enterprise Income Tax Law of 2007 (EITL). Effective 1 January 2008, the EITL unified the tax rate, tax incentives and expense deduction rules for LIEs and FIEs.

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3- BUSINESS AND NON-BUSINESS ACTIVITIES (ADMINISTRATIVE OFFICES, LIAISON OFFICES, PURCHASING OFFICES, ETC.)

A foreign company that is lawfully registered in its country of domicile and has a sound business reputation is allowed to seek approval from the Ministry of Commerce to engage in limited indirect business activities through a representative office. An RO is a limited duration office that may perform business liaison activities, product introduction, market research and technical information exchanges. They are not legal entities and their liabilities are assumed by their parent organisation. They are not allowed to engage in business activities, other than business liaison activities, and are not able to invoice clients.

It is not an entity for tax purposes and all expenses are recorded in the books of the parent company.

4- WHICH FOREIGN LOCAL UNITS CAN BE OPENED IN CHINA: SECONDARY ESTABLISHMENTS, BRANCHES, SUBSIDIARIES OR PERMANENT ESTABLISHMENTS?

A foreign company in the banking or insurance sector, or in certain other special cases, which is lawfully registered in its country of domicile, is allowed to seek approval to engage in business in China through a branch office. A branch is not a legal entity separate from the foreign company, which is legally liable for the debts and obligations of the branch.

A PE is a place of economic activity that totally or partially carries out the company's business. A company that carries out an activity through a PE is subject to tax, to the extent that the profits are attributable to that permanent establishment.

In the event that a non-resident carries out business in China through an organization or place of business, corporate tax is paid on the Chinese income recorded by that organization or place of business as well as on foreign source income related to them.

5- CALCULATING TAXABLE INCOME

Taxable income is gross revenue minus non-taxable income, exempt income, allowable deductions and permitted loss carry-overs.

Gross revenue refers to the sale of goods, the provision of labour services, the transfer of property, equity investments, interest, rents, royalties, donations and any other revenue not specifically excluded from gross revenue.

Non-taxable income refers to fiscal appropriations, governmental administration charges and funds, and other income as determined by the State Council of China to be non-taxable.

Exempt income refers to income from interest on government bonds, certain equity investment income and income of qualified non-profit organisations

Costs, expenses, taxes and losses that are actually incurred are generally deductible. Trading profits computed according to accounting rules may need to be adjusted for charitable contributions, entertainment and promotional expenses, capital expenditures, management fees, salary, insurance and welfare payments, bad debt and doubtful debt allowances, start-up costs, foreign exchange losses, inventory adjustments, royalties, interest payments, technology development expenditure, tax-related penalties and fines, penalties for illegal activity, and asset losses.

6- TREATMENT OF LOSSES

Net losses incurred by enterprises engaged in production or business operations generally may be carried forward to offset future income for a period of 5 years - up to 10 years for qualified high technology companies. There is no limit on the amount of net losses that may be carried forward per year. No losses can be carried back.

7- IS INTEREST DEDUCTIBLE?

Interest paid or accrued within a taxable year of indebtedness is generally deductible for taxpayers on a cash or accrual basis respectively. Interest paid on loans from financial institutions is fully deductible, whereas interest on loans from non-financial institutions is deductible to the extent that the interest accrued or actually paid is no higher than that on similar loans from financial institutions.

Interest paid on equity capital is not deductible.

Interest paid to a non-resident is subject to withholding tax deducted at source at the rate of 10% on the gross amount. This withholding rate may be reduced or eliminated by treaty. No withholding tax is applied when the interest is paid to a China tax resident.

8- IS DEPRECIATION DEDUCTIBILITY ACKNOWLEDGED?

A taxpayer that purchases a business or income producing asset with a useful life of more than one year cannot deduct the full amount of the capital cost or expense in the year of purchase. Capital allowances in the form of depreciation of fixed assets and amortisation of specified intangible assets are available over prescribed periods. The amount of the capital allowance is based upon the depreciable value of the asset, the depreciation method used, and the asset's useful life.

Depreciation of a fixed asset commences on the month following the month of the purchase and ends on the month following the month when either the useful life of the asset for depreciation purposes ends, or the taxpayer ceases to use the asset in its production activities and other operations.

China's tax law prescribes the shortest useful life for each category of fixed assets. The shortest depreciation life for different categories of fixed assets is:

• houses and buildings — 20 years
• aeroplanes, trains, ships, machinery and other production equipment — 10 years
• apparatus, instruments, tools and furniture that relate to production or business operations — 5 years
• means of transportation other than aeroplanes, trains and ships — 4 years
• electronic devices — 3 years.

The cost of a purchased intangible asset can be amortised evenly over the contractual useful life of the asset. Where an intangible asset is internally developed or the useful life of the asset is not contractually stipulated, a minimum amortisation period of 10 years is applied.

Purchased goodwill is not amortisable, but is instead deductible in case of company transfer or liquidation.

9- WHAT TAX TREATMENT IS APPLIED TO RESIDENT COMPANIES?

The centralized economy of the past forced China to use a single taxation system, without there being the slightest connection with the economic activity of the subject.

Since 2008, after the entry into force of the Business Income Law, approved in March 2007 by the National People's Congress of China, the general rate is 25%, but companies with low profits, high-tech companies and some non-resident companies benefit from lower rates.

A tax rate of 20% is applied to thin-profit enterprises, that is, with annual taxable income of less than RMB 3 million, with fewer than 300 total employees and assets worth less than RMB 50 million.

Moreover, from 1 January 2019, the following tax reductions apply:

- Small businesses with monthly turnover under a certain limit are exempt from VAT. From 1 January 2023 to 31 December 2023, the exemption applies where monthly turnover is no more than RMB100,000.
- For thin profit enterprises with annual turnover below RMB 1 million, taxable income is reduced by 75% (87.5%, until 31 December 2022), resulting in an effective EIT rate of 5%.
- For thin profit enterprises with annual turnover between RMB 1 million and RMB 3 million, taxable income is reduced by 75%, until 31 December 2024.

High-tech companies benefit from the 15% rate. This category includes companies that meet certain requirements and possess intellectual property rights relating to their main products or services obtained through research & development, sale, donation, acquisition or granting of exclusive license for at least 5 years. In addition, the products or services must fall into certain well-defined categories (electronics, information technology, biology, pharmaceutical technology, aerospace technology, energy conservation technology, environmental and resource technology) and the percentage of profits used for research & development must be at least between 3% and 6%, depending on the annual turnover.
Chinese source income of non-resident enterprises that do not have a head office or an establishment in China, or whose income is not related to that head office or establishment, is taxed at the reduced rate of 10%.

10- ARE GROUP COMPANIES CONSIDERED SINGLE COMPANIES FOR FISCAL PURPOSES?

A company group consists of a parent company and its subsidiaries or branches. Corporate entities within a company group are not allowed to file and pay enterprise income tax on a consolidated basis unless otherwise specified by the State Council.
A resident enterprise must generally pay its income tax at the place where it is registered. If a resident enterprise is registered outside China, it must pay its income tax at the place of its effective management.
A non-resident enterprise must pay its income tax at the place where its Chinese establishment or place of business is located. If the enterprise has more than one establishment or place of business, its tax related to the establishments and places of business can be filed and paid on a consolidated basis upon approval from the tax authority.
The income tax of branches is filed by the parent enterprise on a consolidated basis. However, the parent enterprise pays only 50% of the total income tax payable, while its branches share the other 50% and pay such tax (such as VAT) locally.

11- WHAT TAX TREATMENT IS APPLIED TO FOREIGN LOCAL UNITS AND NON-RESIDENT COMPANIES?

A non-resident with an establishment or place of business in China must pay EIT on its China source income derived by that establishment or place of business and on its foreign source income which is effectively connected with that establishment or place of business.
A non-resident enterprise is liable for Chinese tax on its China source income. The China source income of a non-resident enterprise which does not have an establishment or a place of business in China, or the income of which is not effectively connected with such establishment or place of business, is taxed at the reduced rate of 10%.
A branch office of a foreign company is subject to EIT.
ROs are treated as independent tax entities, and they can be taxed on an income or expense basis. ROs that are the offices of a foreign government body, international organisation, non-profit institution or civil organisation are tax-exempt with the approval of the local tax bureau.
An LO is not an entity for tax purposes. All expenses of an LO are recorded in the books of the parent company.

12- ARE CAPITAL GAINS TAXED?

China does not levy a distinct capital gains tax on companies. Capital gains, including gains from transactions involving securities instruments (eg stocks, bonds, etc), are normally included in corporate taxable income and taxed at the applicable EIT rate. Capital gains from the transfer by foreign investors of their equity interest in FIEs are subject to withholding income tax at the rate of 10%.

13- WHAT TAX TREATMENT IS APPLIED IN CASE OF COMPANY LIQUIDATION?

A Chinese company may be dissolved where the term of business operations as prescribed by the articles of association of the company expires or any of the matters for dissolution as prescribed in the articles of association occur, the shareholders' meeting or the shareholders' assembly decides to dissolve the company, it is necessary for the company to be dissolved due to merger or split-up of the company, the company's business licence is cancelled or it is ordered to close down or to be dissolved according to law, or the company is decided by the people's court to be dissolved.

The term of a Chinese company must be specified in the approved articles of association. The term of an FIE is usually 10 to 30 years (starting from the day in which the business licence is issued), but in case of advanced technology projects and in projects involving large investments or long construction periods, the maximum term may be extended to 50 years. It is possible to obtain extensions by application to the authorities that approved the company's establishment.

If a company is dissolved for reasons other than merger or split-up, a liquidation panel must be formed within 15 days of the occurrence of the cause of dissolution.

Liquidation income is made of dividends and gains. Liquidation gains are first taxed as the normal corporate income at the 25% rate and then taxed as dividends when the net gains are distributed to investors. Dividend income distributed to individual investors is subject to 20% income tax. Dividend income is exempt from income tax if distributed to resident corporate investors, but generally is subject to withholding income tax if distributed to foreign investors

14- TRANSFER OR REPURCHASE OF SHARES: HOW ARE THEY TAXED?

The registered capital of an enterprise may not be reduced unless approved by the government authority that approved the formation of the enterprise. A reduction of capital is tax free.

A Chinese company is not allowed to redeem its shares except in particular situations.

When a company redeems its shares from an open market for the purpose of reducing its registered capital, the difference between the redemption price and the original issue price is treated as an increase or reduction of the equity instead of a gain or loss.

15- WHAT OTHER TAXES ARE APPLIED IN CHINA?

VAT

VAT is applied in China at different rates.

The 0% rate is applied to most export commodities, international transportation services (except rail transportation), R&D and design services for overseas enterprises.

The 3% rate is applied to small-scale VAT payers, public transportation services, leasing services and self-produced goods, such as electricity produced by small scale hydroelectric power plant, etc.

The 5% rate is applied to crude oil and natural gas exploited by Sino-foreign joint-venture and to the sale or leasing of real estate by small-scale VAT payers.

The 6% rate is applied to certain modern services, to telecommunication services, to the sale of intangible assets, to consumer and financial services.

The 9% rate is applied to food and vegetable oil for food use, running water, air conditioners, coal, gas, diesel, biogas for domestic use, books, newspapers, fodder, fertilizers, agricultural machinery and covers for agricultural purposes, other products specified by the State Council.
The 13% rate applies to processing, repair and replacement services, as well as to the sale or import of goods not included in the 0% or 9% group, and to leasing services for tangible personal assets.

Business tax (abolished)

From 1 May 2016, VAT completely replaced China's business tax, and the business tax ceased to exist.
It was applied to service providers and sellers of intangible assets and real estate, at variable rates depending on the type of activity and services rendered.

Consumption tax

Consumption tax is payable by producers, importers and subcontractors of certain goods. Rates vary depending on the product:

Tobacco	30 - 56%
Liquors and alcoholic beverages	10 -20%
Luxury cosmetics	15%
Refined oil products	RMB 1.2/1.52 per litre
Motorcycles	3 - 10%
Firecrackers and fireworks	15%
Jewellery and jade stone	5 -10%
Yachts	10%
Automobiles	1-40%

House property tax

House property tax is imposed on the beneficial owners of house properties used to generate income in urban areas, suburban areas, townships and in areas where industrial or mining businesses are located.
Two tax rates apply depending on how the property is used:

1. *House properties used by owners for their own business operations.* Tax is levied annually at a rate of 1.2% on the net value of the building after a deduction of 10% to 30% from its original value;
2. *House properties used for lease.* Tax is levied at a rate of 12% on the annual rental income, but the tax rate is reduced to 4% on rental income received by individual lessors of residential houses.

Residential houses owned by individual persons and not used for business are exempted from house property tax.

Urban and township land use tax

The urban and township land use tax is assessed on owners of the right to use urban and township land and it is calculated on the size of the land based on values that vary depending on the size of the city where the land is located. Between 2012 and 2022, a 50% exemption from urban and township land use tax applied for certain land used by logistics enterprises for bulk commodity storage facilities.

Resources taxes

It is paid by all natural or legal persons engaged in the exploitation of minerals, oil, natural gas, water or in the production of salt.

Vehicle purchase tax

Vehicle purchase tax is levied when a vehicle is purchased or imported. It includes all kinds of vehicles and the rates are applied according to the different cylinder capacities.

New energy vehicles are exempt from vehicle purchase tax from 1 January 2018 to 31 December 2023.

Vehicle and vessel tax

Organisations and individuals owning and using vehicles and/or vessels within China must pay vehicle and vessel tax.

Urban maintenance and construction tax

Any organisation or individual liable to consumption tax or VAT (or business tax until its abolition on 1 May 2016) is subject to urban maintenance and construction tax, which must be paid when those taxes are paid. The rates go from 1% to 7%, depending on the place of residence of the subjects.

Education surcharge

Education surcharge is assessed on the aggregate amount of VAT, business and consumption tax at the rate of 3% and paid simultaneously when those taxes are paid.

Land value appreciation tax

Organisations and individuals with returns from the transfer of use rights of state-owned land, buildings and other attachments are subject to the land value appreciation tax.

It is applied at progressive rates going from 30% to 60%.

Tonnage tax

Vessels entering Chinese ports are liable to tonnage tax from 1 January 2012.

Environmental protection tax

An environmental protection tax applies in China from 2018, at various rates for different types of pollutants.

Stamp duty

It is applied at different rates on different types of contracts, certificates or permits, stock certificate transactions.

Payroll tax and social security contributions

Employees and employers in China are required to pay contributions based on salary and wages for basic pension insurance, medical insurance, unemployment insurance, injury insurance, maternity insurance and a housing reserve fund.

Local property tax

Shangai and Chongqing municipalities impose an individual property tax, which is calculated on the value of certain properties.

16- DIVIDENDS, INTEREST AND ROYALTIES: HOW ARE THEY CONSIDERED AND TAXED?

Dividends or profits distributed by a resident enterprise to another resident enterprise are exempt from income tax if the income is derived from direct investment in the resident enterprise that distributes the dividends or profits.

Dividends or profits distributed to foreign investors are generally subject to 10% withholding tax, but this rate can be reduced by tax treaties.

Dividends and profit distributions are exempt from withholding tax if the income is derived from a resident enterprise and dividends and profit distributions are connected with the establishment or the place of business in China of the non-resident enterprise.

Interest paid to a non-resident is subject to withholding tax equal to 10% of the gross amount, unless otherwise provided by a tax treaty. No withholding tax is applied if interest is paid to a Chinese resident.

Dividends, interest, rents and royalties paid by foreign companies or individuals to companies resident in China or to Chinese branches of foreign companies are considered Chinese sources and therefore taxed in China and the tax applied by the foreign country on these types of income can be credited against Chinese tax.

17- HOW ARE CALCULATED STOCKS OR INVENTORIES?

Inventory at period-end can be accounted for by the specific identification, first-in first-out (FIFO) or weighted average methods. Last-in first-out (LIFO) and the moving average methods for inventory at period-end are not allowed.

18- HOW ARE RESIDENT INDIVIDUALS TAXED?

Tax liability criteria

Individuals are considered resident if they are domiciled in China or are staying in China for more than 183 days in a tax year.

Personal income tax is levied on resident individuals and non-resident individuals.

For individuals having no domicile in China and who reside in China continuously or cumulatively for less than 90 days in one tax year, that part of the individual's income from China which is paid by overseas employers is exempt from individual income tax.

Tax rates

Generally, for wages and salaries, the taxable income is the balance of monthly wages or salaries after deducting 5,000 yuan as expenses and other specified items (at present this includes basic pension insurance, medical insurance, unemployment insurance and housing reserves). The individual income tax payable is computed according to 7 progressive rates. The current tax rates are as follows:

Monthly taxable income Yuan	***Tax rate %***	***Quick deduction Yuan***
0 – 3.000	3	0
3,000 – 12,000	10	210
12,000 – 25,000	20	1,410
25,000 – 35,000	25	2,660
35,000 – 55,000	30	4,410
55,000 – 80,000	35	7,160
Over 80,000	45	15,160

The formula for computing the tax payable is as follows:

- Monthly taxable income = total monthly wages or salaries - 5,000 yuan - other deductible items
- Monthly income tax payable = monthly taxable income × applicable rate - quick deduction at each grade

Main deductions and reliefs

From 1 January 2019, the following tax reliefs are available: RMB 1,000 per month per each child for child education, plus further RMB 400 per month for further education; up to RMB 80,000 refund for medical expenses exceeding RMB 15,000; from RMB 1,000 to RMB 2,000 per month for elderly care.

Inheritance and gift tax

There is no inheritance or gift tax.

Pension, social security and national health policy

There has been a trend in Chinese policy to either encourage individuals to save for their own retirement or compel contribution to long-term savings plans intended to provide retirement benefits. This policy is implemented through tax concessions for contributions to retirement savings plans and concessional tax treatment of retirement benefits when they are finally paid out. The rate for employers is 16% of the total employee’s salary payments, whereas for the employees it it is not over 8.3% of the total salary payments.

There is no free universal medical coverage provided in China. Employers must take out medical coverage for their employees or contract with medical practices to provide medical treatment to employees. Such benefits are taxable to employees. Where an employer provides a medical allowance in cash to an employee, the allowance is taxable as salary regardless of whether medical expenses were incurred by the employee.

19- HOW ARE FOREIGN INDIVIDUALS TAXED? WHEN ARE THEY CONSIDERED RESIDENT?

Tax liability criteria

Individuals are considered resident if they are domiciled in China or are staying in China for more than 183 days in a tax year.

Personal income tax is levied on resident individuals and non-resident individuals.

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20- TERMS FOR TAX PAYMENTS: THE FISCAL YEAR IN CHINA
The standard tax period in China is the calendar year. A business cannot choose an alternative tax year.
EIT and local income tax are levied on an annual basis coinciding with the calendar year. The tax is collected in monthly or quarterly instalments which must be filed and paid within 15 days after the end of each month or quarter.
Corporate income tax payment is prepaid either monthly or quarterly within 15 days after the end of the period. An annual tax return is due together with a final payment by the end of May each year in respect of the previous year.
Failure to pay tax within the prescribed time limits may result in fines between 50% and 500% of the amount of tax unpaid, and an interest surcharge at the rate of 0.05% of the unpaid tax per day.

21- WHAT TAX INSPECTIONS ARE MADE?
The Chinese authorities have the right to investigate the financial affairs, accounting books and tax situation of enterprises. A taxpayer is obligated to disclose all relevant facts and information related to the audit and is required to retain tax-related data for 10 years.

22- CAN TAXPAYERS AGREE IN ADVANCE THEIR TAX TREATMENT?
The Chinese taxation system leaves central and local authorities considerable leeway in granting tax concessions to various forms of foreign investment. It is of the utmost importance that the tax treatment accorded to specific investment proposals be negotiated and documented prior to a foreign investor entering into contractual arrangements with the Chinese authorities.

23- WHAT EXCHANGE CONTROLS ARE CARRIED OUT?
Government regulations on foreign exchange are contained in the Regulations of the People's Republic of China on Foreign Exchange Administration. These regulations are used to establish foreign exchange controls and provide rules concerning exchange, debits and credits, receipts and payments, settlement of debt and the foreign exchange market.
In 2008, the government released new foreign exchange regulations, aiming to curb the influx of speculative capital or "hot money" into China. According to these regulations, each exporter of goods must open a "holding bank account" to receive overseas payments. The funds in this account can be converted into renminbi (RMB) only after the bank has cross-checked the amount received with the export value shown on the export declaration form.
FIEs are required to deposit all foreign exchange receipts with the Bank of China or another bank approved by the State Administration of Foreign Exchange Control (SAFE). All foreign exchange disbursements must be paid from an authorised foreign exchange deposit account.
Remitting profits abroad
Foreign investors may apply to remit abroad in foreign currency their net profits and other legitimate earnings by debiting the foreign exchange deposit account of the enterprise concerned.
An application for remitting profits abroad must be accompanied by appropriate evidence of the profit distribution (eg a directors' resolution), documentary evidence showing that all taxes

have been duly paid and the contracts containing stipulations in regard to the distribution of profits and earnings.
FIEs must apply to the SAFE for permission to transfer their foreign exchange capital abroad.

24- WHAT TAX RELIEFS AND INCENTIVES ARE GRANTED BY THE CHINESE GOVERNMENT?

Chinese tax incentives under the EITL

China's Enterprise Income Tax Law (EITL) and its implementation rules created new tax incentives in China. A period of transition is available for businesses that had been granted the repealed incentives before the promulgation of the EITL.

<u>Exemptions</u>

The following income is tax free under the EITL:

- interest from government bonds
- dividends distributed between resident companies or by resident companies to non-resident companies
- income from non-profit organizations.

Income from projects in agriculture, forestry, husbandry and fishery may be exempt from EIT with the approval of the tax authorities.

<u>Reduced rates</u>

Thin-profit enterprises, high and new technology enterprises, technologically advanced service enterprises and the China source income of a non-resident enterprise are subject to reduced rates.

<u>Regional exemptions and tax reductions</u>

Autonomous regions are allowed to provide exemptions and tax reductions for the regional portion of the EIT due from an enterprise. There are 5 autonomous regions in China. These are Guangxi Zhuang, Inner Mongolia, Ningxia Hui, Xinjiang Uyghur and Tibet.

<u>Extra deduction for R&D expenditure</u>

For R&D expenses incurred in the development of new technologies, new products or new production techniques, a 75% additional deduction may be granted if the expenses are not capitalised as intangible assets but are instead recorded directly in an enterprise's income statement for the current period. If the expenditures are capitalised as intangible assets, 175% of the expenditures can be amortised.

From 1 January 2021, an additional 100% deduction may be granted for R&D expenses incurred by manufacturing companies if the expenses are not capitalised as intangible assets but are instead recorded directly in an enterprise's income statement for the current period. If the expenditures are capitalised as intangible assets, 200% of the expenditures can be amortised.

<u>Extra deduction for encouraged employment</u>

Extra deductions may be granted for salaries paid to disabled employees and other employees that the state encourages enterprises to hire. For an enterprise hiring the disabled, the additional deduction is equal to 100% of the amount of salaries paid.

<u>Investment tax deduction and credit</u>

An enterprise that has invested in a small to medium-sized high and new technology enterprise for more than 2 years may deduct 70% of the amount invested from its taxable income.

<u>Accelerated depreciation or shortened useful lives</u>

Accelerated depreciation or shortened useful lives may available for certain fixed assets.

<u>Tax reduction for comprehensive resource utilisation</u>

An enterprise may deduct 10% of the revenue derived from the comprehensive utilisation of resources resulting in products that meet the requirements of the industrial policies of the state.

Incentives related to withholding income tax

Interest on loans made by international financial organisations to the Chinese government or state-owned banks of China is tax free. Interest on loans with preferential interest rates made by foreign banks to the state-owned banks of China is also tax free.

Chinese tax incentives for software industry and integrated circuit enterprises

Among the tax incentives provided there are VAT refunds, exemption or reduction of corporate tax, shortened depreciation of equipment.

Grandfathering arrangement

The EITL repealed the special tax incentives applicable to foreign investment enterprises (FIEs), but provided a transitional arrangement for enterprises that were taxed at lower rates or offered tax holidays before the promulgation of the new tax law.

The transitional arrangement applied only to enterprises that were granted a business licence prior to 16 March 2007.

Western regions

Companies located in one of the western regions of China and engaged in projects approved by the Council of State benefit from some tax breaks, including 15% corporate tax, between 2001 and 2030. To be eligible for the incentives, the company must derive at least 60% (70% before January 1, 2021) of the revenues from industry supported by the State Council.

Chinese tax incentives for the energy-saving industry

Companies providing energy-saving services are eligible for VAT exemptions and full corporate income tax exemptions in the first 3 years, and a corporate income tax rate of 12.5% for the second 3 years.

Chinese tax incentives for railway development

A 50% exemption from enterprise income tax (ie a reduction from 25% to 12.5%) applies on income from rail construction bonds issued between 2011 and 2018.

Tax incentives for local government bonds

Interest derived from local government bonds issued on or after 1 January 2012 is exempt from EIT and personal income tax.

Tax incentives for pilot free trade zones

China has 11 pilot free trade zones that benefit from tax breaks.

Tax exemption for certain foreign investors

Gains from the disposal of Chinese equities by certain QFIIs and R-QFIIs are exempt from Chinese corporate income tax from November 2014.

Shanghai-Hong Kong Stock Connect pilot scheme

From 17 November 2014, gains derived from the disposal of shares in the Shanghai Stock Exchange by Hong Kong entities or offshore entities through the Hong Kong Stock Exchange (under the Shanghai-Hong Kong Stock Connect pilot scheme) are exempt from Chinese corporate income tax and VAT.

Tax exemption for certain technology transfers

From 1 October 2015, income derived by Chinese resident companies from transferring the right to use non-exclusive licences of qualified technologies for no less than 5 years are exempt from EIT for the first RMB5 million, and taxed at half the standard rate for the remainder.

Tax exemption for certain investments in China's crude oil futures market

From 13 March 2018, income derived by certain qualified overseas institution investors from trading in China's crude oil futures market is exempt from enterprise income tax.

Tax exemption for interest from domestic bonds

From 7 November 2018 to 31 December 2025, interest income derived by foreign institutions from bonds acquired in the domestic bond market is exempt from enterprise income tax and VAT.

25- HAS CHINA SIGNED BILATERAL TAX AGREEMENTS WITH OTHER COUNTRIES? TABLE OF WITHHOLDING TAXES

We report the withholding taxes applied to the payments of dividends, interest and royalties received by the residents of the States that have signed tax treaties with China.

	Dividends %	*Interest* %	*Royalties* %
Non-treaty countries	10	10	10
Treaty countries			
Albania	10	10	10
Algeria	5/10	7	10
Armenia	5/10	10	10
Australia	10	10	10
Austria	7/10	7/10	6/10
Azerbaijan	10	10	10
Bahrain	10	5	10
Bangladesh	10	10	10
Barbados	5/10	10	10
Belarus	10	10	10
Belgium	5/10	0/10	7
Bosnia and Herzegovina	5	10	10
Botswana	5	0/7.5	5
Brazil	10	10	10
Brunei	5	10	10
Bulgaria	10	10	7/10
Cambodia	10	0/10	10
Canada	10	10	10
Chile	10	4/5/10	2/10
Croatia	5	10	10
Cuba	5/10	7.5	5
Cyprus	10	10	10
Czech Republic	5/10	0/7.5	10
Denmark	5/10	0/10	7/10
Ecuador	5	0/10	10
Egypt	8	10	8
Estonia	5/10	0/10	10
Ethiopia	5	0/7	5
Finland	5/10	10	7/10
France	5/10	0/10	10
Georgia	0/5/10	10	5
Germany	5/10	0/10	6/10
Greece	5/10	10	10
Hong Kong	5/10	7	5/7
Hungary	10	10	10
Iceland	5/10	10	7/10
India	10	0/10	10
Indonesia	10	10	10
Iran	10	10	10
Ireland	5/10	10	6/10
Israel	10	7/10	7/10
Italy	10	10	7/10
Jamaica	5	7.5	10
Japan	10	10	10
Kazakhstan	10	10	10
Korea	5/10	10	10
Kuwait	5	5	10

Kyrgyzstan	10	10	10
Laos	5	10	10
Latvia	5/10	0/10	7
Lithuania	5/10	10	10
Luxembourg	5/10	10	6/10
Macau	5/10	7	5/7
Macedonia	5	10	10
Malaysia	10	10	10
Malta	5/10	10	7/10
Mauritius	5	10	10
Mexico	5	10	10
Moldova	5/10	10	10
Mongolia	5	10	10
Montenegro	5	10	10
Morocco	10	10	10
Nepal	10	10	10
Netherlands	0/5/10	0/10	6/10
New Zealand	0/5/15	0/10	10
Nigeria	7.5	7.5	7.5
Norway	10	10	10
Oman	5	10	10
Pakistan	10	10	10
Papua New Guinea	10	10	10
Philippines	10	10	10
Poland	10	10	7/10
Portugal	10	10	10
Qatar	10	10	10
Romania	0/3	0/3	3
Russia	5/10	0	6
Saudi Arabia	5	10	10
Serbia	5	10	10
Seychelles	5	10	10
Singapore	5/10	7/10	6/10
Slovakia	10	10	10
Slovenia	5	10	10
South Africa	5	10	7/10
Spain	0/5/10	0/10	10
Sri Lanka	10	10	10
Sudan	5	10	10
Sweden	5/10	10	7/10
Switzerland	0/5/10	0/10	9
Syria	5/10	0/10	10
Tajikistan	5/10	8	8
Thailand	10	10	10
Trinidad and Tobago	5/10	10	10
Tunisia	8	10	5/10
Turkey	10	10	10
Turkmenistan	5/10	10	10
Ukraine	5/10	10	10
United Arab Emirates	7	7	10
United Kingdom	0/5/10	0/10	6/10
United States	10	10	7/10
Uzbekistan	10	10	10
Venezuela	5/10	5/10	10
Vietnam	10	10	10
Zambia	5	0/10	5
Zimbabwe	2.5/7.5	0/7.5	0/7.5

China has signed the following TIEAs based on the OECD model convention: Argentina, Bahamas, Bermuda, Virgin Islands, Cayman Islands, Isle of Man, Guernsey, Jersey, Liechtenstein and San Marino.