4.1 Major Tax Categories for FIEs and Foreigners

4.1.1 Value-Added Tax

As a type of turnover tax, value-added tax (VAT) is levied on the increased value of commodities at different stages of production or circulation, or on the value-added of commodities. All enterprises and individuals engaged in the sale or import of goods or the provision of processing, repair or maintenance services in China have to pay VAT.

(a) Taxpayer

In China, VAT payers are divided into general taxpayers and small-scale taxpayers on the basis of their operation scale and accounting and auditing system, with different methods of tax computation.

Small-scale taxpayers are taxpayers without a sound accounting and auditing system whose taxable value of sales is below the prescribed standards, namely Rmb1 million for taxpayers engaged in the production of goods or the provision of taxable services, and less than Rmb1.8 million for those engaged in wholesaling or retailing business.

General taxpayers mainly refer to enterprises whose annual taxable sales value exceeds that of small-scale taxpayers. Small production enterprises with a sound accounting and auditing system may be classified as general taxpayers. However, individuals, non-enterprise units, and enterprises that do not regularly engage in taxable operations are classified as small-scale taxpayers even if their annual taxable sales value exceeds the standards for small-scale taxpayers.

(b) Method of Computation

- Small-scale taxpayer

  VAT payable by small-scale taxpayers is calculated by a simple method on the basis of the sales value and the tax rate without offset or deduction for input VAT.

The applicable rate is 4% for commercial enterprises and 6% for other operations. The formula for the computation of VAT is as follows:

Tax payable = sales value x tax rate (4% or 6%)

VAT on consignment sale, sale of unredeemed goods by pawn shops and retail sale of duty-free goods by approved duty-free shops, is levied at a rate of 4% using the above simple method of computation regardless of whether it is paid by a small-scale taxpayer. For the sale of second-hand goods, VAT is levied at half of the tax rate of 4%.

- General taxpayer

The actual amount of VAT payable by general taxpayers is the excess amount of output VAT over input VAT. The formula for the computation of the tax payable is as follows:

Tax payable = current output VAT – current input VAT

Output VAT = sales value x applicable tax rate

If the current output VAT is smaller than the current input VAT, the amount that cannot be fully set off or deducted may be carried over to the following tax period.

- VAT on imported goods

VAT on goods imported by taxpayers is computed on the basis of the composite assessable value and the applicable tax rate without offset or deduction for input VAT. The formula for the computation of the tax payable is as follows:

Tax payable = composite assessable value x applicable tax rate

Composite assessable value = customs dutiable value + customs duty

For taxpayers importing taxable consumer goods, the consumption tax payable will be added to the composite assessable value.

(c) Taxable Items and Tax Rates

There are two VAT rates in China, a basic rate of 17% and a lower rate of 13%. The sale and import of the following commodities are subject to VAT at the lower rate of 13%: grains, edible vegetable oil, drinking water, heating, air-conditioning, hot water, coal gas, liquefied petroleum gas, natural gas, methane, coal products for domestic use; books, newspapers and magazines; feedstuffs, chemical fertilisers, pesticides, agricultural machinery, agricultural plastic sheeting; and other commodities as specified by the state.

(d) Export Tax Exemption and Rebate

China practices a zero tax rate on exports. There is no export-related tax. Subject to the types of products, tax payments made in respect of the stages preceding export will be partly or fully refunded.

(e) Special VAT Invoice

- General taxpayers may purchase special VAT invoices from the tax authorities. Small-scale taxpayers and non-VAT taxpayers may not purchase or use such invoices.
- General taxpayers selling taxable items must issue special VAT invoices to the buyer. However, for the sale of taxable items to consumers and the sale of duty-free goods or goods for export, no special VAT invoices have to be issued. It is also not mandatory to issue special VAT invoices for the sale of taxable items to small-scale taxpayers.
- Special VAT invoices that are not up to specifications may not be used to claim deduction or exemption for input VAT.

(f) Tax Liability and Payment Period

In the supply of goods or taxable services, the VAT liability arises on the day the taxpayer receives full payment for the transaction or obtains a payment voucher for the transaction. In the case of import goods, VAT for the transaction. In the case of import goods, VAT liability arises on the day of customs declaration.

The payment period may be one day, three days, five days, ten days, fifteen days or one month, to be determined by the competent tax authorities based on the amount of VAT payable by the taxpayer

4.1.2 Consumption Tax

Consumption tax is tax payable on the sales value or volume of taxable consumer goods sold in China by enterprises and individuals engaged in the production, subcontracted processing or importation of any of the following 11 items of goods: cigarettes, alcoholic drinks and alcohol, cosmetics, skin- and hair-care products, fine jewellery and precious stones, firecrackers and fireworks, gasoline, diesel oil, motor vehicle tyres, motorcycles, and small motor cars. It is levied on consumer goods on top of VAT.

Consumption tax is included in the transaction price and is only payable on the production, subcontracted processing and importation of taxable consumer goods. Since consumption tax is included in the transaction price, it is not payable in the subsequent stages such as wholesaling and retailing. The tax is ultimately borne by consumers.

(a) Taxpayer

Payers of consumption tax are enterprises and individuals engaged in the production, subcontracted processing and importation of taxable consumer goods.

(b) Taxable Items and Tax Rates

Consumption tax is payable on 11 taxable items at 25 different tax rates (tax amounts), ranging from 3% to 50%. It is levied by value (ad valorem tariff) or by volume (specific duty) at the production stage; but for white spirits made from cereal and potatoes, beer and cigarettes, they are subject to consumption tax under the combination of by volume and by value. Taxable consumer goods for export are exempt from consumption tax unless otherwise stipulated by the state.

(c) Method of Computation

- For tax payable by volume, the sales volume is used as the basis:

  Tax payable = sales volume x tax amount per unit

- For tax payable by value, the sales value is used as the basis:

  Tax payable = sales value (or import value) x tax rate

- For tax payable under the combination of by volume and by value:

  Tax payable = sales volume x tax amount per unit + sales value x tax rate

(d) Tax Liability and Payment Period

In the sale of taxable consumer goods, the consumption tax liability arises on the day the taxpayer receives full payment for the transaction or obtains a payment voucher for the transaction. In the import of goods, it arises on the day of customs declaration.

The consumption tax payment period may be one day, three days, five days, ten days, fifteen days or one month, to be determined by the competent tax authorities based on the amount of consumption tax payable by the taxpayer.

4.1.3 Customs Duty

Customs duty is levied by Customs on commercial commodities or articles entering or leaving China's national boundaries or customs territories.

(a) Taxpayer

Payers of customs duty on commercial commodities are consignees of imports and consignors of exports. The former have to pay import tariffs while the latter have to pay export tariffs. Payers of customs duty on articles include: incoming passengers carrying personal luggage and articles, service attendants on different modes of transport carrying personal articles, owners of gifts and personal articles that enter China through other means, and addressees of incoming personal mail.

(b) Tariff Rates

China adopts a two-column tariff for imports: a general rate and a preferential rate. The general tariff rate applies to goods from countries and regions that have not signed reciprocal tariff agreements with China, while the preferential tariff rate applies to goods from countries and regions that have signed such agreements with China. The current average import tariff rate of China is 10.4%. For exports, tariffs range between 0% to 20%.

(c) Dutiable Value

The dutiable value of imported goods in general is their CIF price while the dutiable value of exports is their FOB price.

(d) Method of Computation

Customs duty payable is calculated by multiplying the dutiable value and quantity of the goods imported or exported by the applicable tax rate or tax amount. The formula for calculating the amount of customs duty payable is as follows:

Duty payable = quantity of taxable import or export x unit dutiable value x applicable tax rate

or

Duty payable = quantity of taxable import or export x applicable standard tax amount

(e) Payment of Customs Duty

Taxpayers or their agents should make payment at designated banks within 15 days from the date of issuance of the customs duty payment notice by Customs.

4.1.4 Business Tax

Business tax is a kind of turnover tax levied on the revenue generated from the provision of taxable services, such as communications and transportation, construction, finance and insurance, posts and telecommunications, culture and sports, entertainment and other taxable services, as well as the transfer of intangible assets and the sale of immovable properties within the territory of China.

(a) Taxpayer

Payers of business tax are enterprises or individuals engaged in the provision of taxable services, transfer of intangible assets or sale of immovable properties in China.

(b) Taxable Items and Tax Rates

There are nine taxable items for business tax, ranging from 3% (for communications and transportation) to 20% (for entertainment).

(c) Method of Computation

The formula for computing business tax is as follows:

Tax payable = business turnover x applicable tax rate

(d) Tax Liability and Payment Period

The business tax liability arises on the day the taxpayer receives the full amount of business proceeds or obtains a payment voucher for the proceeds. The payment period may be five days, ten days, fifteen days or one month, to be determined by the competent tax authorities.

4.1.5 Income Tax on FIEs and Foreign Enterprises

(a) Object of Taxation

Foreign-invested enterprises (FIEs) and foreign enterprises have to pay income tax on their income derived from production, business operations and other sources within the territory of China.

As Chinese "residents", FIEs are required to bear full tax liabilities and pay income tax on all incomes derived from sources inside and outside China. However, foreign enterprises, which are not Chinese "residents", will only bear limited tax liabilities and pay income tax on incomes derive from sources inside China.

(b) Taxpayer

- FIEs established in China include Sino-foreign equity joint-venture enterprises, Sino-foreign contractual joint-venture enterprises and wholly foreign-owned enterprises.
- Foreign enterprises refer to foreign companies, enterprises and other economic organisations with establishments or venues engaged in production or business operations within China, as well as those which, though without establishments or venues in China, have incomes from sources within the territory of China.

(c) Taxable Items and Tax Rates

- FIEs and foreign enterprises that have establishments or venues in China have to pay corporate income tax of 30% and local income tax of 3% on their incomes from production and business operations and on profits (dividends), interest, rentals, royalties and other incomes derived from sources both inside and outside China that are effectively connected with such establishments or venues.
- Foreign enterprises that have no establishment or venue in China but derive profits, interest, rentals, royalties and other incomes from sources in China, or although they have establishments or venues in China the said incomes are not effectively connected with such establishments or venues, have to pay income tax of 10% on such incomes.

(d) Method of Computation

Tax payable = taxable income x applicable tax rate

Taxable income = total annual income – costs – expenses – losses

(e) Filing of Tax Returns

Income tax on FIEs and foreign enterprises is levied on an annual basis and paid in advance in quarterly instalments.

Taxpayers should file their quarterly income tax returns with the local tax authorities and pay the tax within 15 days as from the end of each quarter. They should file their annual income tax returns together with their final account statements within four months as from the end of each tax year, and make their final settlement within five months as from the end of the tax year. Any excess will be refunded and any deficiency will have to be paid.

For FIEs and foreign enterprises that have no establishment or venue in China but derive incomes from profits, interest, rentals, royalties and other incomes from sources in China, and for those that do have establishments or venues in China but derive incomes that are not effectively connected with such establishments or venues, the income beneficiary should be the taxpayer and the payer should be the withholding agent. The tax should be withheld from the amount of each payment by the payer. The withholding agent should, within five days, turn the amount of taxes withheld on each payment over to the State Treasury and submit a withholding income tax return to the local tax authorities.

4.1.6 Individual Income Tax

Individual income tax is levied on the incomes derived from sources both inside and outside China of individuals who have domicile in China, or although without domicile have resided for one year or more in China; and on the incomes derived from sources within China of individuals not domiciled or resident in China, or individuals not domiciled but have resident in China, or individuals not domiciled but have resided in China for less than one year.

(a) Taxpayer and Tax Liability

- Resident taxpayers refer to Chinese citizens and foreign nationals residing in China. They are individuals domiciled in China (who, by reason of their permanent registered address, family or economic interests, habitually reside in China); or foreign nationals, overseas Chinese, and Hong Kong, Macau and Taiwan compatriots who have resided in China for a calendar year in a tax year. Resident taxpayers have unlimited tax liabilities and have to pay individual income tax to the Chinese government on incomes from global sources.
- Non-resident taxpayers refer to foreign nationals, overseas Chinese and Hong Kong, Macau and Taiwan compatriots who are neither domiciled nor resident in China; or foreign nationals, overseas Chinese and Hong Kong, Macau and Taiwan compatriots who are not domiciled in China and have resided in China for less than a calendar year in a tax year. Non-resident taxpayers have limited tax liabilities and are required to pay individual income tax to the Chinese government only on incomes from sources inside China.

(b) Taxable Items, Tax Rates and Deduction Standards

- Income from wages and salaries

  Income from wages and salaries is taxed at progressive rates ranging from 5% to 45%.

Level	Monthly Taxable Income (Rmb)	Tax Rate	Allowable Deduction (Rmb)
1	500 or less	5%	0
2	Portion from 500 to 2,000	10%	25
3	Portion from 2,000 to 5,000	15%	125
4	Portion from 5,000 to 20,000	20%	375
5	Portion from 20,000 to 40,000	25%	1,375
6	Portion from 40,000 to 60,000	30%	3,375
7	Portion from 60,000 to 80,000	35%	6,375
8	Portion from 80,000 to 100,000	40%	10,375
9	Portion from 100,000 upwards	45%	15,375

Taxable income: For people working in China, the taxable income is the balance of their monthly income after deducting Rmb800 (the allowable deduction may be increased by the local tax bureaus depending on the living standard of each city). For personnel recruited from outside China, the taxable income is the balance of their monthly income after deducting Rmb4,000.

Method of computation: Monthly tax payable = monthly taxable income x applicable tax rate – allowable deduction

- Income from remuneration for labour service

Income from the remuneration for labour service is taxable on each payment. For remuneration received in each payment of less than Rmb4,000, a deduction of Rmb800 is allowed for expenses and the remaining amount is taxed at 20%. For each payment of Rmb4,000 or more, a deduction of 20% is allowed for expenses and the remaining amount is the taxable income. That part of taxable income not exceeding Rmb20,000 will be taxed at 20%; that part of taxable income exceeding Rmb20,000 but less than Rmb50,000 will be taxed at 30%; while that part of taxable income exceeding Rmb50,000 will be taxed at 40%. In other words, remuneration for labour service is taxed at the three progressive rates of 20%, 30% and 40%

- Income from author's remuneration

  Income from author's remuneration is taxable on each payment. For remuneration received in each payment of less than Rmb4,000, a deduction of Rmb800 is allowed for expenses. For each payment of Rmb4,000 or more, a deduction of 20% is allowed for expenses and the remaining amount is the taxable income. Tax payable is computed at a rate of 20%, with a further deduction of 30%.

  Taxable income = income from taxable item – Rmb800
  (or income from taxable item x 20%)

  Tax payable = taxable income x 20% x (1 – 30%)

- Income from royalties and property leasing

  Such income is taxable on each payment. For remuneration received in each payment of less than Rmb4,000, a deduction of Rmb800 is allowed for expenses. For each payment of Rmb4,000 or more, a deduction of 20% is allowed for expenses. The remaining amount will be taxed at 20%.

  Taxable income = income from taxable item – Rmb800
  (or income from taxable item x 20%)

  Tax payable = taxable income x 20%

- Income from transfer of property

  Income from the transfer of property is taxed at a rate of 20%.

  Taxable income = income from transfer of property – original value of property – reasonable expenses

  Tax payable = taxable income x 20%

- Income from interest, dividends and bonuses, contingent income and other income

The applicable tax rate is 20%.

Tax payable = income from each payment x 20%

(c) Filing of Tax Returns

Tax returns may be filed by taxpayers themselves or by withholding agents.

4.1.7 Land Appreciation Tax

Land appreciation tax is levied on units and individuals on incomes derived from the transfer of state-owned land-use rights, buildings and their attached facilities, and are assessed at a prescribed tax rate on the basis of the appreciation amount derived by the taxpayer from the transfer of real estate.

(a) Taxpayer

Taxpayers of land appreciation tax are units and individuals who transfer state-owned land-use rights, buildings and their attached facilities and derive income from such transactions.

(b) Tax Rates and Deductible Items

- Appreciation amount

  The appreciation amount is the balance of proceeds received by the taxpayer on the transfer of real estate, after deducting the sum of deductible items.

- Deductible items

  Deductible items for the transfer of state-owned land-use rights include amounts paid for the acquisition of land-use rights, costs and expenses for the development of land, taxes and fees related to the transfer of real estate, and other deductible items as stipulated by the Ministry of Finance.

  Deductible items for the transfer of new properties and buildings include amounts paid for the acquisition of land-use rights, costs and expenses for the construction of new buildings, taxes and fees related to the transfer of real estate, and other deductible items as stipulated by the Ministry of Finance.

Deductible items for the transfer of used properties and buildings include the assessed value of the properties and buildings, the land price paid for the acquisition of land-use rights, expenses as stipulated by the state, taxes and fees payable during the transfer stage, and other deductible items as stipulated by the Ministry of Finance.

- Tax rates

Land appreciation tax is levied at progressive rates at four levels:

Appreciation amount	**Tax Rates**
Not exceeding 50% of the sum of deductible items	30%
Exceeding 50% but below 100% of the sum of deductible items	40%
Exceeding 100% but below 200% of the sum of deductible items	50%
Exceeding 200% of the sum of deductible items	60%

(c) Filing of Tax Returns

Taxpayers should file their tax returns together with the necessary documents to the tax authorities at the place where the real estate is located within seven days of the signing of the real estate transfer agreement. The necessary documents include the real estate title deed and land-use right certificate, land transfer or real estate sale and purchase agreement, real estate evaluation report and other relevant documents.

4.1.8 Urban Real Estate Tax

All real estate owned by FIEs and foreign nationals is taxed at the rate of 1.2% after making a one-off deduction of 10%-30% of the original value of the property, or at the rate of 12% of rental income. Urban real estate tax is assessed annually and paid in instalments.

4.1.9 Stamp Duty

Documents subject to stamp duty include contracts or documents in the nature of a contract in regard to purchase and sale transactions, contracted processing, survey and design contracts for engineering and construction, contracted construction projects, property leasing, goods transportation, warehousing, loans, property insurance, technical contracts; documents of transfer of property title; business account books; certificates and licences; and other documents determined by the Ministry of Finance to be taxable.

4.1.10 Vehicle and Vessel Usage Licence Tax

Users of vehicles and vessels are subject to payment of vehicle and vessel usage licence tax. Tax on vessels and trucks is levied according to tonnage, while tax on passenger cars is levied according to the type of vehicle or the number of seats.