Overview of Taxation in China
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Preface

This document is intended to acquaint investors with taxes levied in the People's Republic of China, helping them establish appropriate marketing and business strategies.

The information contained is based on the People's Republic of China Tax Laws. With limited space, this overview may not cover the subjects exhaustively. As the China’s tax laws are subject to amendment from time to time, the interpretation and execution of laws and regulations by each local taxation authorities are varied. Before undertaking a tax planning and declaring taxes, please consult with a professional for advice.

The document is applicable only in Mainland China, except Hong Kong, Macau, and Taiwan.

Conpak CPA Limited
October 2019
Tax Overview

Tax categories in China

<table>
<thead>
<tr>
<th>Category</th>
<th>Taxes Included</th>
</tr>
</thead>
<tbody>
<tr>
<td>Turnover taxes</td>
<td>Value added tax, customs duty, and consumption tax</td>
</tr>
<tr>
<td>Income taxes</td>
<td>Corporate income tax and individual income tax</td>
</tr>
<tr>
<td>Property taxes</td>
<td>Real estate tax, deed tax, land appreciation tax, urban and township land-use tax, and arable land occupation tax</td>
</tr>
<tr>
<td>Others</td>
<td>Resource tax, stamp tax, urban construction and maintenance tax, motor vehicle acquisition tax, vehicle and vessel tax, vessel tonnage tax, and tobacco tax</td>
</tr>
</tbody>
</table>

Tax Collection
In China, tax collection is in the charge of the State Administration of Taxation (SAT), with local taxation bureaus responsible for their respective regions specified by the State Council.

Foreign invested Enterprises
With approval of departments such as Ministry of Commerce, foreign enterprises or individuals can invest in manufacturing enterprises, trading enterprises, equity joint ventures, contractual joint ventures, or representative offices in China.
Foreign Invested Industries
China favours foreign investment in such industries as manufacturing, wholesale and retail, leasing and commercial service, scientific research and technical service, agriculture, forestry, animal husbandry and fisheries, hydro-environment and public utility management, service organizations for elders, the handicapped and children, and certain culture, sports and entertainment industries.
Corporate Taxation

The value added tax (VAT), consumption tax, customs duty and corporate income tax are mainly levied towards enterprises.

Value Added Tax
VAT is a type of turnover tax levied on the value added to a product arising from the production, circulation and labour service.

Coverage
VAT is collected from “general taxpayers” and “small-scale taxpayers”.

General Taxpayers
Annual turnover of more than RMB 5,000,000

Small-scale Taxpayers
Annual turnover of not more than RMB 5,000,000

Tax Declaration
Tax Rate
The VAT rate is 6%, 9%, 13% for general taxpayers and 3% for small-scale taxpayers.

Assessable Period
The assessable period for tax payment is usually one month or one quarter. The specific period shall be determined by the competent tax authority according to the amount of tax payable.
Export Refund
General taxpayers who have obtained the right of import and export may enjoy export tax rebates if they export the duty-free goods or the goods under export restriction and prohibition as specified in the tax law. Small-scale taxpayers are not entitled to export tax rebates.

Incentive Items
If the total monthly sales amount of a small-scale taxpayer does not exceed 100,000 yuan (for small-scale taxpayers whose assessable period is one quarter, if the quarterly sales amount does not exceed 300,000 yuan, the same below), or if the total monthly sales amount is less than 100,000 yuan after deducting the sales amount of real estate occurring in the current period, the VAT shall be exempted.

Where a general VAT payer sells the integrated circuits or software products produced by itself, the policy of tax refund upon collection applies to the part exceeding 3% of actual tax burden.

Agricultural products, grain and oil, coal gas and chemical fertilizers shall be taxed at the rate of 10%.

Consumption Tax
Consumption tax is levied on specified categories of consumer goods in the form of an ad valorem tax, specific tax, or a combination of them. The ad valorem tax rate ranges between 1% and 56%.

The goods subject to the consumption tax include tobacco, alcoholic beverages, high-end cosmetics, jewelries, small-and-medium-sized automobiles, luxury watches, yachts and etc.

Customs Duty
Customs duty is levied by the Customs on the importation and exportation of goods.

Coverage
Customs duty is collected from consignees of imports, consigners of exports, and purchasers of imported goods.

Assessment Method
In general, customs duty is imposed in the form of either ad valorem tax or specific tax.
Under the ad valorem system: Tax amount payable = Customs value × Customs duty rate
Under the specific tax system: Tax amount payable = Quantity of goods × Unit tax amount

Incentive Policies
1. A foreign invested enterprise is exempt from customs duty for the machinery and equipment imported for its own use provided the enterprise comes as a participant of projects sponsored by the Chinese government.
2. The machinery, equipment and other goods are exempt from customs duty if they are imported but exported after a period of time. Such goods can be generally retained for six months (which may be extended to 12 months), with a security for the tax payable in certain cases.
3. Raw materials are exempt from customs duty and VAT if they are imported for processing of imported and incoming materials.
4. Goods entering and leaving free trade zones may be exempt from customs duty and VAT under certain circumstances.
**Corporate Income Tax**

Corporate income tax is levied on proceeds from sale of goods, provision of labour services, transfer of property, equity investment such as dividends and bonuses, interests, rentals, royalties, acceptance of donations, and others.

**Tax Resident Enterprise and Non-tax Resident Enterprise**

Corporate income tax is collected from tax resident enterprises (TREs) and non-tax resident enterprises (non-TREs). TREs are subject to corporate income tax on their global presence while non-TREs bear income tax only on China sourced income. Enterprises registered in China are all TREs. Foreign invested enterprises with management in China may also be regarded as TREs.

Income sources and tax collection principles are as follows:

<table>
<thead>
<tr>
<th>Income Source</th>
<th>Tax Collection Principle</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sale of goods</td>
<td>The corporate income tax is levied based on where a transaction is done.</td>
</tr>
<tr>
<td>Provision of labour services</td>
<td>The corporate income tax is levied based on where a labour service is delivered.</td>
</tr>
</tbody>
</table>
| Transfer of property                   | • The corporate income tax is levied on transfer of immovables based on the location of the immovables.  
                                           | • The corporate income tax is levied on transfer of movables based on the location of the enterprise transferring the movables.  
                                           | • The corporate income tax is levied on transfer of equity investments based on the location of the enterprise to which the equity investments are transferred. |
| Dividend and other equity investment   | The corporate income tax is levied based on the location of the enterprise that receives the investment.  |
| Interests, rentals and royalties       | The corporate income tax is levied based on the location of the enterprise making payment. |
| Others                                 | The corporate income tax is levied as required by the Ministry of Finance and the SAT.      |

**Tax Declaration**

**Tax Rate**

The corporate income tax rate is 25%.
Assessable Period
1. Corporate income tax is paid in advance (as assessed by taxation bureaus) on a monthly or quarterly basis, and is settled in the year end to the extent that the balances will be paid to either side as the case may be.
2. A tax year starts from 1 January to 31 December.
3. An enterprise shall declare its annual corporate income tax regardless of whether it is profiting or losing within a tax year.

Assessment of Taxable Income
If an enterprise fails to submit complete and accurate documentation of its costs and expenses, taxation bureaus are authorised to assess the taxable income pursuant to relevant laws. In this case, the taxable income is calculated by multiplying its income with the assessed profit percentage. The assessed profit percentage may vary depending on the industry in which the enterprise operates and is usually between 3% and 30% for TREs and between 15% and 50% for non-TREs.

Aggregation Application
1. Where a resident enterprise establishes a branch, the branch shall pay the quarterly enterprise income tax in advance to its local tax bureau, and the annual final settlement of enterprise income shall be paid by the head office on a consolidated base.
2. Where a resident enterprise establishes a subsidiary, the subsidiary’s quarterly tax payable and annual final settlement of enterprise income shall be completed independently by the subsidiary at the place of establishment.
3. Non-TREs with more than one establishment in China may select one major establishment for consolidated tax filing and payment upon approval by competent taxation bureaus.

Incentive items

<table>
<thead>
<tr>
<th>Incentive Items</th>
<th>Incentive Policies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income from treasury debts and interests</td>
<td>Exemption</td>
</tr>
<tr>
<td>Dividend and other equity investment proceeds</td>
<td>Exemption</td>
</tr>
<tr>
<td>Small and thin-profit enterprises*</td>
<td>20%</td>
</tr>
<tr>
<td>High-tech enterprises strongly supported by the Chinese government</td>
<td>15%</td>
</tr>
<tr>
<td>Qualified non-profit organisations</td>
<td>Exemption</td>
</tr>
<tr>
<td>Agriculture, forestry, animal-husbandry and fishery projects</td>
<td>Exemption or 50% reduction</td>
</tr>
<tr>
<td>Public infrastructure projects*</td>
<td>Exemption for the first three years and 50% reduction for the following three years, commencing as of the date of its first-time business revenue</td>
</tr>
</tbody>
</table>

Notes:
* Small and thin-profit enterprises: the annual taxable income shall be less than 3 million yuan, the number of employees shall not exceed 300, and the total assets shall be 50 million yuan. During the period from 1 January 2019 to 31 December 2021, the income tax for a small-sized meager-profit enterprise shall be calculated at progressive rates. If the annual taxable income does not exceed 1 million yuan, the enterprise income tax shall be paid on 25% of the taxable income at the rate of 20%; if the annual taxable income exceeds 1 million yuan but does not exceed 3 million yuan, the
enterprise income tax shall be paid on 50% of the exceeding part at the rate of 20%.

Public infrastructure includes harbours, wharfs, airports, railways, highways, urban public transportation, electric power supply, and water resources utilisation projects.

Environmental protection and energy/water conservation projects include sewage disposal, refuse disposal, comprehensive development and utilisation of methane, technologies innovation for energy-saving and emission reduction, and seawater desalination projects.

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<table>
<thead>
<tr>
<th>Incentive Items</th>
<th>Incentive Policies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Environmental protection and energy/water conservation projects**</td>
<td>Exemption for the first three years and 50% reduction for the following three years, commencing as of the date of its first-time business revenue</td>
</tr>
<tr>
<td>Income from qualified transfer of technologies</td>
<td>Exemption towards the income of not more than RMB 5 million and 50% reduction towards the portion except the RMB 5 million income within one tax year</td>
</tr>
<tr>
<td>Software enterprises</td>
<td>From the profit-making year on, the enterprise shall be exempted from taxation in the first two years, and from the third year to the fifth, the enterprise income tax shall be paid on half of the taxable income at the rate of 25%</td>
</tr>
<tr>
<td>Integrated circuits design enterprises</td>
<td>From the profit-making year on, the enterprise shall be exempted from taxation in the first two years, and from the third year to the fifth, the enterprise income tax shall be paid on half of the taxable income at the rate of 25%</td>
</tr>
<tr>
<td>Government-sponsored enterprises in underprivileged areas</td>
<td>From the profit-making year on, the enterprise shall be exempted from taxation in the first two years, and from the third year to the fifth, the enterprise income tax shall be paid on half of the taxable income at the rate of 25%</td>
</tr>
<tr>
<td>Government-sponsored enterprises for the development of western regions</td>
<td>Levy rate as low as 15% from 1 January 2011 to 31 December 2020</td>
</tr>
</tbody>
</table>

Allowable Deductions
Costs, expenses, taxes, damages and charitable donations (tax-deductible up to 12% of the total annual profits)

Non-allowable Deductions
1. Dividends and other equity investment proceeds paid to the investors
2. Payment for corporate income tax
3. Late fee for tax payment
4. Pecuniary punishment, fines, and losses of properties confiscated
5. Disbursements for donations other than those specified
6. Non-advertising and non-charitable sponsorship disbursements
7. Unverified reserve disbursements
8. Other disbursements unrelated to the obtainment of income
Assets Disposal

An enterprise’s expenditures for acquiring assets include capital expenditures and revenue expenditures.

- Capital expenditures are allotted to purchase or produce durables with a service life of more than one year, such as those allotted for fixed assets and intangible assets. These expenditures may be deducted from the total income of subsequent periods by stages, and partial assets may be deducted by depreciation. Minimum depreciation periods for different kinds of assets are: 20 years for houses and buildings, 10 years for machinery and other production equipment, 5 years for tools and furnishings, and 3 years for electronic equipment.

- Revenue expenditures are those bringing benefits in the current period (generally within one year), such as administrative expenses and financial expenses. These expenditures are deducted from the total enterprise income in a lump sum as costs.

Affiliates

Recognition of Affiliates

An enterprise is deemed as an affiliate of another one if there is any of the following relationships between the two:

- An enterprise holds 25% or more shares of the other;
- A shareholder holds a total of 25% or more shares in each enterprise;
- An enterprise’s loan funds from the other enterprise accounts for 50% or more of its own funds, or 10% of an enterprise’s loan funds are guaranteed by the other enterprise;
- More than half of senior executives or one managing director is appointed by the other enterprise;
- An enterprise can only normally run with privileged rights (including industrial property right and proprietary technology) provided by the other enterprise;
- The raw materials and spare parts (including price and transaction conditions) required by an enterprise are controlled or supplied by the other enterprise;
- An enterprise’s sale of products or goods (including price and trading conditions) is controlled by the other enterprise; and
- There is a material controlling association of production, operation and transaction between two enterprises, including a family relationship.

Payments to Affiliates

Costs arising from cooperative development and transfer of intangible assets between an enterprise and its affiliates, or from cooperative provision and receiving of labour services, shall be subject to apportionment on an arm’s length basis for the calculation of taxable income. The enterprise can provide taxation bureaus with pricing principles and calculation methods for transactions with its affiliates, and the taxation bureaus can make an advance pricing arrangement with the enterprise after negotiating and confirming with the enterprise.

Allowable Deductions and Non-allowable Deductions

1. Service fees paid to affiliates and charged at arm’s length may be deducted.
2. Other payments to affiliates, such as royalties, are also deductible provided that the charges are paid at arm’s length.
3. Internal management fees are not deductible.
Documentation of Related Party Transactions
The taxation bureaus adopt stringent requirements on the submission of documentation of related party affairs. Taxpayers are required to file annual related party transactions reports as part of their annual corporate income tax return package on or before 31 May of each year. In addition, enterprises are required to prepare current-period documentation in readiness for inspection by the taxation bureaus at any time.

Cost Sharing
If the taxation bureaus assess that the costs arising from common development and transfer of intangible assets by an enterprise and its related parties, and from common provision and receiving of labour services are shared on an arm’s length basis, these costs may be deducted upon approved.

Controlled Foreign Companies
If a foreign company is established and controlled by a Chinese company in low-tax countries/regions with a tax burden rate of less than 12.5%, its undistributed profits may be taxed in China as if they have been distributed to the parent company in China.

Corporate Restructuring
A corporate restructuring transaction includes debt restructuring, share acquisition, assets acquisition, merger and spin-off, and gains or losses shall be recognised generally when the transaction takes place. A restructuring transaction meeting certain prescribed conditions are eligible for concessionary treatment that the recognition of gains or losses arising from the transaction may be deferred, and the resulting tax liabilities may be effectively deferred.

Other Tax Treatments
(Unless otherwise specified, the following expenditures are tax-deductible)

Interest on Loans
Interests on loans an enterprise obtains from financial institutions are deductible based on actual payment in the current year. Interests on loans from non-financial enterprises and social organisations are deductible provided they do not exceed the amount calculated using the current loan rate applied to the same category of financial enterprises.

Lease Expenses
Expenses on lease of fixed assets are deductible as follows:
1. Monthly operating lease expenses are deductible in the current period; and
2. For finance lease expenses, the portion that constitutes the value of finance leased fixed assets (including book value, attorney fee, installation and debugging costs, and stamp tax) may be subject to depreciation and staged deduction.

R&D Expenses
For R&D expenses that do not form intangible assets and are included in current profit and loss, an extra of 75% of the R&D expenses are deductible upon actual deduction; for R&D expenses that form intangible assets, 175% of the costs of intangible assets are amortised.
Entertainment Expenses
60% of the actually incurred entertainment expenses are deductible but the deduction shall not exceed 0.5% of the sales income of the current year.

Advertising and Business Promotion Expenses
Advertising and business promotion expenses are deductible up to 15% (30% for certain industries) of the sales income of the current year. Any excess amount is allowed to be deducted in the following years.

Wages and Salaries
Labour remunerations paid by an enterprise to its employees are deductible in the current period, including basic wages, bonuses, allowances, overtime wages, year-end bonuses, and other expenses related to employment.

Salaries Paid to the Handicapped
100% of the actual salaries paid to handicapped staff are additionally deductible.

Employee Benefits
Employee benefits expenses are deductible up to 14% of the total wages and salaries.

Employee Education Expenses
Employee education expenses are deductible up to 8% of the total wages and salaries. Any excess amount is allowed to be carried forward to and deducted in the following tax years.

Employee Social Security Insurance
Social Security Insurance (including pension insurance, medical insurance, unemployment insurance, work-related injury insurance and maternity insurance) and housing provident fund paid by an enterprise or its employees are deductible.

Commercial Insurance Premiums for Individuals
The commercial health insurance with Tax Priority Identification Code paid by an enterprise for its employee or individual shareholder is deductible before taxes for a maximum of 2,400 yuan per year, while the exceeding part is non-deductible.

Property Insurance
An enterprise’s property insurance is deductible.

Special Funds
Special funds collected by an enterprise for environmental protection are deductible. Special funds used for other purposes other than the original purpose are not deductible.

Asset Loss
Asset loss (including bad debt loss) may be deductible, provided that supporting documents are submitted to the tax bureaus before or during final settlement of annual income tax.

Loss Carried Forward
Tax losses incurred by an enterprise may be carried forward for a period of up to 5 years, subsequent to the year of the loss. The time limit of carry-over of losses for high-tech enterprises and technology-based small and medium-sized enterprises may be extended from 5 years to 10 years.
Individual Taxation

Individual Income Tax

China levies individual income tax on the following incomes:

- The income derived from sources within and outside China by an individual who has domicile in China or who has no domicile but has resided in China for a total of 183 days in a tax year.
- The income derived within China by an individual who has neither domicile nor residence in China, or who has no domicile and has not resided in China for a total of 183 days in a tax year.

Coverage

- Income from wages and salaries
- Income derived from remuneration for personal services
- Income derived from remuneration for manuscripts
- Income derived from royalties
- Income derived from business operations
- Income from interests, dividends and bonuses
- Income from lease of property
- Income from transfer of property
- Contingent income
Allowable Deductions
Deductible items include basic deduction, special deduction, special additional deduction and other items, specific as follows:

- The basic deduction is 60,000 yuan per year
- The special deduction includes: premiums of basic endowment insurance, basic medical insurance, unemployment insurance and other social insurance and housing fund
- The special additional deductions include: the expenses of children’s education, continuing education, treatment for serious disease, housing loan interest or housing rent, support for the elderly and others
- Other deductions include subsidies for official-use cars and communications that fall within the prescribed standards

Assessment Method

- Taxable income = Annual income - CNY 60,000 - Special deduction items - Additional special deduction items - Other deduction items
- Tax amount payable = Taxable income × Applicable tax rate – Quick calculation deduction

The individual income tax shall be calculated at a progressive rate ranging from 3% to 45% on the individual’s comprehensive income.

<table>
<thead>
<tr>
<th>Monthly Taxable Income (RMB)</th>
<th>Tax Rate (%)</th>
<th>Quick Calculation Deduction (RMB)</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;= 3,000</td>
<td>3</td>
<td>0</td>
</tr>
<tr>
<td>(3,000, 12,000]</td>
<td>10</td>
<td>210</td>
</tr>
<tr>
<td>(12,000, 25,000]</td>
<td>20</td>
<td>1,410</td>
</tr>
<tr>
<td>(25,000, 35,000]</td>
<td>25</td>
<td>2,660</td>
</tr>
<tr>
<td>(35,000, 55,000]</td>
<td>30</td>
<td>4,410</td>
</tr>
<tr>
<td>(55,000, 80,000]</td>
<td>35</td>
<td>7,160</td>
</tr>
<tr>
<td>&gt; 80,000</td>
<td>45</td>
<td>15,160</td>
</tr>
</tbody>
</table>

Incentive Items
The following individual incomes are exempt from individual income tax:
- Money awarded by provincial-level government units and higher, foreign organisations and international organisations;
- Interests arising from treasury debts and financial bonds issued by China;
- Subsidies and allowances distributed according to the unified regulations of China;
- Welfare benefits, pensions for the disabled or for the family of the deceased and relief payment;
- Insurance compensation;
- Income which shall be exempt from tax under international conventions to which the Chinese government is a member or agreements which the Chinese government has signed; and
- Income which is approved to be exempt from tax by the Ministry of Finance of the State Council.
Upon approval, individual income tax may be reduced under any of the following circumstances:
- Income of the disabled, the widowed lonely old people and the families of martyrs;
- Relief income for those suffering heavy losses caused by serious natural calamities; and
- Other tax reductions approved by the Ministry of Finance of the State Council.

Individual Income Tax for Foreigners
If an individual, who has no domicile in China, has resided in China for a total of 183 days in a tax year, but has not continued such residence in 6 consecutive years, the individual’s income derived from sources outside China and paid by entities or individuals outside China shall be exempted from individual income tax after being filed with the competent tax authorities; if the individual has left China for more than 30 days at one time in the year in which the individual has resided in China for a total of 183 days, the successive years shall be counted anew.

If an individual, who has no domicile in China, has not resided in China for a total of 90 days in a tax year, the part, paid by overseas employer and not borne by the employer’s organization or place in China, of the individual’s income derived from sources in China shall be exempted from individual income tax.

Individual income tax may be exempted for foreigners under any of the following circumstances:
- Housing allowances, food allowances, relocation fees, and laundry charges;
- Domestic and overseas reasonable travel allowances;
- Home-leave expenses, language-training expenses, and education expenses for children that are approved by local tax authorities;
- Wages and salaries of qualified foreign experts; and
- Lump-sum income from winning welfare lottery or sports lottery of up to RMB 10,000.

During the period from 1 January 2019 to 31 December 2021, foreign residents may choose to enjoy the above tax-free subsidy policy or special additional deduction (both cannot be enjoyed at the same time and once made, the choice cannot be changed within one tax year).
Property Taxation

Real Estate Tax
Real estate tax is levied on the owners, users or custodians of houses and buildings. For self-use houses, the real estate tax is collected at 1.2% of the original value (actual payment for houses and relevant taxes at acquisition) of houses minus 10% to 30% amount; for rented houses, the real estate tax is collected at 12% of the rental value.

Deed Tax
Deed tax is levied on immovables whose ownership is transferred and paid by transferees. The taxable scope covers on the purchase or sale, gift or exchange of land use rights or houses. Local deed tax rates are determined by all provincial governments according to local actual situations and range from 1% to 5%.
Land Appreciation Tax
Land appreciation tax is levied on land value appreciation amount realised from transfer of real estate with compensation. It is collected based on the following ladder (in four levels) rates, depending on the balance between the land value appreciation amount and the deductible amount:

<table>
<thead>
<tr>
<th>Balance between the Land Value Appreciation Amount and the Deductible Amount</th>
<th>Tax Rate</th>
<th>Quick Calculation Deduction Coefficient</th>
<th>Amount of Land Appreciation Tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance ≤ 50%</td>
<td>30%</td>
<td>0%</td>
<td>Tax amount = Land value appreciation amount × 30%</td>
</tr>
<tr>
<td>50% &lt; balance ≤ 100%</td>
<td>40%</td>
<td>5%</td>
<td>Tax amount = Land value appreciation amount × 40% – Deduction × 5%</td>
</tr>
<tr>
<td>100% &lt; balance ≤ 200%</td>
<td>50%</td>
<td>15%</td>
<td>Tax amount = Land value appreciation amount × 50% – Deduction × 15%</td>
</tr>
<tr>
<td>Balance &gt; 200%</td>
<td>60%</td>
<td>35%</td>
<td>Tax amount = Land value appreciation amount × 60% – Deduction × 35%</td>
</tr>
</tbody>
</table>

Allowable deductions include:
1. The amount spent on obtaining the land use right;
2. Costs of real estate development and construction;
3. Taxes in connection with the transfer of real estate;
4. Evaluated prices of old houses and buildings; and
5. Others.

Urban and Township Land-use Tax
Urban and township land-use tax is levied on taxpayers who utilise land within the specified area of cities and counties. It is calculated on a yearly basis and paid by stages. Tax amount payable = Area of used land × Applicable tax amount standard. The applicable tax amount standard is calculated by RMB 0.6 to RMB 30 per square meter depending on the size of a city.

Arable Land Occupation Tax
Arable land occupation tax is levied on enterprises or individuals who build houses or carry out non-agricultural construction on arable lands. It is collected in a lump sum and calculated based on the space of area actually occupied by a taxpayer multiplied by a fixed tax amount per square that is determined by the local government.
Other Taxation

**Resource Tax**
Resource tax is levied on the exploitation of natural resources. The exploitation of crude oil, natural gas, coal, rare earth and etc. is subject to resource tax on a sales turnover basis; the exploitation of other natural resources including clay, gravel and etc. is subject to resource tax on a volume basis. The ad valorem duty rate ranges 1% to 20% and is on a unit tax basis.

**Stamp Tax**
Stamp tax is levied on various contracts, title transfer certificates, business account books, license certificates and other certificates signed in business activities, with a tax rate ranging from 0.003% to 0.1%.

**Urban Construction and Maintenance Tax**
Urban construction and maintenance tax is imposed on taxpayers of VAT and consumption tax for the urban construction and maintenance. It is charged at three different rates depending on the locations of taxpayers, 7% for urban areas, 5% for county areas, and 1% for other areas.

**Motor Vehicle Acquisition Tax**
Motor vehicle acquisition tax is levied on purchase of cars, motorcycles, agricultural vehicles and certain types of trucks. It is collected at 10% of the taxable value of taxable vehicles. Taxable price = Customs value + Customs duty + Consumption tax

**Vehicle and Vessel Tax**
Vehicle and vessel tax is of a fixed amount and levied on all vehicles and vessels within China on a yearly basis. Transport vehicles are taxed according to dead weight, passenger vehicles and motorcycles are taxed at purchase, and vessels are taxed according to net tonnage.

**Vessel Tonnage Tax**
Vessel tonnage tax is levied by the Customs on any vessel entering and leaving a port inside the territory of China. The tax rates are categorized into ordinary rate and preferential rate depending on the vessel nationality. Tax payable = Net tonnage × Applicable tax amount standard

**Tobacco Tax**
Tobacco tax is levied on purchase of tobacco within the territory of China, with a tax rate of 20%.
Non-taxable Items

Expenses other than the above taxes collected by the taxation bureaus are as follows:

**Educational Surcharge**
Educational surcharge is 3% of the amount of VAT and consumption tax payable by a taxpayer.

**Cultural Undertaking Development Levy**
Enterprises and individuals engaged in entertainment and advertising industries shall pay cultural undertaking development levy which is 3% of the sales amount including tax.

**Fund for the Disposal of Waste Electrical and Electronic Products**
The fund for the disposal of waste electrical and electronic products is levied by the Chinese government for the purpose of recycling waste electrical/electronic products. Taxpayers include manufacturers of electrical/electronic products, and consignees or agents of import electrical/electronic products within the territory of China. The fund is collected on an ad valorem basis and varies with products.

Expenses collected by the local competent labour and social insurance department are as follows:

**Social Security Insurance**
Social Security Insurance covers basic pension insurance, basic medical insurance, work-related injury insurance, unemployment insurance and maternity insurance. Given the difference in living standards between cities, the social security insurance payment proportion used in one city may not apply to other cities. The social security insurance is borne by enterprises and individuals respectively.
**Housing Provident Fund**

Different cities adopt different payment and deposit proportions of housing provident fund. The housing provident fund is jointly borne by enterprises and individuals.
### Tax Treaties/Agreements

China has signed international tax treaties/agreements with some countries and regions to avoid double taxation. Foreign tax relief (for PRC tax residents) and exemption or reduction in PRC tax (for foreign tax residents) may be offered.

**Tax treaties/agreements exist with the following 110 countries and regions:**

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<th>Albania</th>
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<td>Botswana</td>
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Our Taxation Services in China

As a provider of diversified accounting services, Conpak CPA has a deep understanding of China’s taxation system and relevant laws and regulations. We have been providing enterprises with a wide variety of effective taxation and business solutions that fit into their business presence and operating status quo. Below is a brief description of these solutions.

Taxation Program Design for Market Entry
Put forward advice in enterprise architecture and assist in developing taxation programs for market entry.

Taxation Due Diligence Reviews for Mergers, Acquisitions and Restructuring
Evaluate taxation-related risks of enterprises and provide feasible tax saving advice.

Payroll and Individual Income Tax Services
Assist in setting up payroll systems; calculate compensation, and declare and pay employees’ individual income tax on behalf of enterprises.

Planning and Declaration of Foreigners’ Individual Income Tax
Develop made-to-measure compensation solutions for foreign employees who work in China, and assist in declaring and paying individual income tax.

Evaluation of Investment Architecture
Provide consulting services in respect of investment architectures and financing methods, helping enterprises maximise their returns.

Enterprise Taxation Planning
Adjust and optimise business and operation models, and develop optimal taxation planning solutions, helping reduce enterprises’ tax burdens.

Fixed Assets Taxation Planning
Assist in categorising and adjusting fixed assets, and provide tax and finance solutions.

Consulting in Importation and Exportation of Goods
Provide consulting services in customs duty and laws and regulations regarding importation and exportation of goods, and offer reasonable proposals.

Tax Controversy Resolution
Assist in resolving tax controversies between enterprises and Chinese taxation bureaus, including tax ruling application, tax audit defense, and negotiating tax solutions.
Transfer Pricing
Assess transfer pricing policies and related risks, assist in preparing documentation of transfer pricing, provide taxation suggestions, and help achieve Advance Pricing Agreements.

Tax Health Diagnosis
Perform a thorough check for taxation situations, identify accounting errors, detect tax omissions, evaluate existing or potential taxation risks, and provide feasible remedial measures and risk mitigation strategies.

Long-term Tax Advisory
Provide tax consulting, scheme design and implementation instruction services during operation, investment, financial management and various transactions on a yearly basis.
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About Conpak

Founded in Hong Kong, Conpak is a practicing accounting firm providing “one-stop” professional services. With support and trust from our clients, Conpak currently has offices in Hong Kong, Beijing, Shanghai and Shenzhen. The quality and standard of our professional services are highly recognised.

Focusing on the long-term growth of enterprises, we endeavour to devise the best tailor-made solutions for our domestic and overseas clients for their business development, ranging from auditing, accounting, tax advisory, company incorporation, corporate financing, IPO in Hong Kong, trademark registration, patent application, valuation services and etc. We also actively participate in community services such as charity, environmental protection and voluntary works to fulfil our social responsibilities.

The information contained herein is of a general nature and for general discussion. Endeavour has been made to provide timely and accurate information, but no guarantee can be made to ensure that the information is accurate and complete at all times. Anyone should seek appropriate professional advice before acting upon such information.

For more information, please visit www.conpak.com

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