



# The People's Republic of China Tax Facts and Figures 2026





## Foreword

This booklet has been prepared to provide the reader with an overview of taxes levied in the People's Republic of China. The material contained in this publication was assembled on 30 June 2026 and, unless otherwise indicated, is based on information available at that time. It is not intended to cover exhaustively the subjects it addresses but rather to answer some of the important, broad questions that may arise for the reader. When specific issues arise in practice, it will be necessary to refer to the laws, regulations and interpretations of the PRC. Since the laws and regulations are still evolving and are not always uniformly interpreted, it is advisable to obtain appropriate professional advice.

If you would like more information on any of our services described on pages 37 to 40, please contact one of our specialists listed at the back of this booklet.

The commentary in this booklet does not cover taxes levied in Hong Kong or Macau, which became Special Administrative Regions of the PRC on 1 July 1997 and 20 December 1999 respectively. Hong Kong and Macau continue to retain their own tax systems and the taxes applicable in Chinese mainland do not apply in Hong Kong and Macau.



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# Overview

## An overview of PRC taxes

The People's Republic of China levies a wide range of taxes including income taxes (corporate income tax and individual income tax), turnover taxes (value added tax and consumption tax), taxes on real estates (land appreciation tax, real estate tax, deed tax, arable land occupation tax, and urban and township land-use tax) and other taxes such as stamp duty, custom duties, motor vehicle acquisition tax, vehicle and vessel tax, resource tax, environmental protection tax, urban construction and maintenance tax, vessel tonnage tax and tobacco tax.

There is no capital gains tax as such in the PRC. Gains on the sale of fixed assets are taxable as ordinary income.

## Tax administration

China's major tax laws are passed by the People's Congress, and the implementation regulations are formulated by the State Council. The Ministry of Finance (MOF) and the State Taxation Administration (STA) are delegated to provide interpretation and implementation of the tax laws and regulations. Meanwhile the STA is also responsible for supervising the enforcement of the tax collection at the local levels.

## Investment restrictions on foreign investors

According to <Foreign Investment Law of the People's Republic of China> and its detailed implementation rules, foreign investors (including foreign individuals, enterprises and other organisations) can directly or indirectly invest in China. The organisational form, structure and business activities of foreign investments shall be governed by China's Company Law and the Partnership Enterprise Law, etc. Foreign investors shall assess whether their investment projects are restricted, prohibited or encouraged in China before they make the investment decisions:

1

The "Negative List for Market Access (2025 Version)" is a set of measures that applies to both domestic and foreign investors. The restrictive measures for the restricted and prohibited sectors under this list are applicable to both domestic and foreign investors. For instance, approval is needed for both domestic and foreign investors for the construction of large theme parks; the investment in specific sectors such as lottery and porn sectors are prohibited to both domestic and foreign investors.

2

Foreign investors shall also follow the "Special Administrative Measures for Foreign Investment (2024 Version)", which lists out 29 sectors restricted and prohibited to foreign investment.

- 3 The “Encouraged Industry Catalogue for Foreign Investment (2025 Version)” sets out 619 sectors in the encouraged category for foreign investment nationwide and the catalogue of preferential industries for foreign investment in central and western regions. Foreign investment under the encouraged category may enjoy tax incentives including duty exemption on the imported equipment.
- 4 In principle, foreign invested projects that are not subject to the restrictive measures under the “Negative List for Market Access (2025 Version)” and the “Special Administrative Measures for Foreign Investment (2024 Version)” are only subject to the record-filing administration, which means that no pre-approval is required.

Other important aspects related to foreign investments include:

- 1 Foreign investment in the Pilot Free Trade Zones (PFTZs) shall follow the PFTZ Negative List, i.e. the “Special Administrative Measures for Foreign Investment in the PFTZs (2021 Version)”.
- 2 Foreign investment in the Hainan Free Trade Port (Hainan FTP) shall follow the Negative List for Hainan FTP, i.e. the “Special Administrative Measures for Foreign Investment in Hainan FTP (2020 Version)”.
- 3 Hong Kong, Macau and Taiwan investors shall also follow the “Special Administrative Measures for Foreign Investment (2024 Version)” and the “Encouraged Industry Catalogue for Foreign Investment (2025 Version)”. If there are more favorable measures under the “Closer Economic Partnership Arrangement (CEPA) between Chinese mainland and Hong Kong”, the CEPA between Chinese mainland and Macau, or the “Cross-Straits Economic Cooperation Framework Agreement”, the relevant investors may follow these specific agreements.

## Pilot Free Trade Zones

China has established twenty-two Pilot Free Trade Zones within designated areas of the following provinces and municipal cities: Shanghai, Guangdong, Tianjin, Fujian, Liaoning, Zhejiang, Henan, Hubei, Hainan, Shaanxi, Sichuan, Chongqing, Shandong, Jiangsu, Guangxi, Hebei, Yunnan, Heilongjiang, Beijing, Hunan, Anhui and Xinjiang.

# 01

## Corporate income tax law



## Concept of tax resident enterprise

Tax resident enterprise (TRE) is a concept in the corporate income tax (CIT) Law. TRE refers to an enterprise established according to the Chinese law or an enterprise established according to foreign laws but with its effective management located in China. A non-resident enterprise (non-TRE) is an enterprise that is set up in accordance with the laws of a foreign country and whose place of effective management is not located in China, and has an establishment and place (E&P) in China and receives incomes that have no actual connection to its China-based E&P; or does not have an E&P in China, but derives incomes sourced from China. TREs are subject to CIT on worldwide income while non-TREs only on China sourced income. Enterprises registered in China are always TRE. A foreign enterprise with effective management in China may also be regarded as a TRE.

## Tax rate for TREs

The standard CIT rate is 25%. Lower tax rates are available for qualified enterprises (please refer to “Tax incentive policies” on the next page).

## Tax rate for non-TREs

Non-TRE that have E&Ps in China generally applies a CIT rate of 25%. If a Non-TRE does not have an E&P, or the income obtained in China has no actual connection with the E&P it has established, 10% tax rate (also known as “withholding income tax”, WHT) shall apply. This WHT rate is applicable to dividend, interest, rental, royalty, and other passive income such as the gains from the sale or transfer of real estate property, land use right and shares in a PRC company.

WHT rates may be lower than 10% or exempted under a tax treaty. China's domestic CIT regulations have also provided preferential policies regarding dividend income:

- Dividends distributed by a FIE out of its pre-2008 profit are exempted from WHT.
- Since 2018, if a non-TRE shareholder uses dividends distributed from a China TRE to make direct investment into any non-prohibited project in China, if certain conditions are met, the non-TRE shareholder can enjoy a provisional WHT deferral treatment.
- From 1 January 2025 to 31 December 2028, if a non-TRE shareholder uses dividends distributed from a China TRE to make direct investment into China, the non-TRE shareholder is granted a tax credit that equals 10% (or the preferential dividend tax rate specified in the applicable tax treaty, if lower than 10%) of the reinvestment amount, provided that certain conditions are met (such as a minimum 5-year investment period, and the invested China TRE must engage in industries that fall under the national level encouraged industries catalogue, etc). The tax credit can be used to offset future WHT payable of the non-TRE shareholder deriving income (i.e. dividend, interest and royalty) from the same profit-distributing China TRE.

## Tax incentive policies

The CIT regime adopts the “predominantly industry-oriented, limited geography-based” tax incentive policy. Key emphasis is placed on “industry-oriented” incentives aiming at directing investments into those industry sectors and projects encouraged and supported by the State. The tax incentive policies mainly include:

### Reduced tax rate

A lower CIT rate is available for the following sectors/industries on a national basis:

- Qualified new/high tech enterprises are eligible for a reduced CIT rate of 15%. An enterprise has to fulfil a set of prescribed criteria and be subject to an assessment in order to qualify as a new/high tech enterprise.
- Encouraged designated key software enterprises and encouraged designated integrated circuits (IC) design enterprises are eligible for a reduced CIT rate of 10% after the first 5-year of CIT exemption.
- Qualified technology-advanced service enterprises are eligible for a reduced CIT rate of 15%. An enterprise has to fulfil a set of prescribed criteria and be subject to an assessment in order to qualify as a technology-advanced service enterprise.
- For qualified small and thin-profit enterprises, their annual taxable income up to 3 million yuan renminbi (CNY) (inclusive) are applicable to the effective CIT rate of 5% from 1 January 2023 to 31 December 2027.
- Qualified enterprises engaged in pollution prevention and control are eligible for a reduced preferential CIT rate of 15% from 1 January 2019 to 31 December 2027.



A lower CIT rate is available in specific regions for specific sectors/industries as follows:

- From 1 January 2011 to 31 December 2030, encouraged enterprises in the Western Regions are eligible for a reduced CIT rate of 15%.
- From 1 January 2014 to 31 December 2027, encouraged enterprises established in the Qianhai Shenzhen-Hong Kong Modern Services Industry Cooperation Zone are eligible for a reduced CIT rate of 15%.
- Encouraged enterprises established in the Guangdong-Macao Intensive Cooperation Zone in Hengqin with operational substance in Hengqin are eligible for a reduced CIT rate of 15%.
- From 1 January 2014 to 31 December 2025, encouraged enterprises established in the Pingtan Comprehensive Experimental Zone are eligible for a reduced CIT rate of 15%.
- From 1 January 2020 to 31 December 2027, encouraged enterprises registered in Hainan Free Trade Port with operational substance in Hainan are eligible for a reduced CIT rate of 15%.
- From 1 January 2022 to 31 December 2026, encouraged enterprises registered in the trial-run areas of Nansha with operational substance are eligible for a reduced CIT rate of 15%.
- From 1 January 2020, qualified enterprises engaged in substantial production or R&D activities in key industries such as integrated circuits, artificial intelligence, biomedicine, civil aviation, etc., in Lingang New Area of Shanghai Pilot Free Trade Zone are eligible for a reduced CIT rate of 15% for 5 years commencing from the date of establishment.
- From 1 January 2023 to 31 December 2027, encouraged enterprises registered in the specific enclosed areas of the Shenzhen Park in the Hetao Cooperation Zone with operational substance are eligible for a reduced CIT rate of 15%.



## Tax reduction and exemption

CIT may be reduced or exempted on income derived from the following projects:

| Projects/industries                                                                                                                                                                                                 | CIT incentive <sup>4</sup> | Valid period                                                                                                            |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------|-------------------------------------------------------------------------------------------------------------------------|
| Agriculture, forestry, animal-husbandry and fishery projects                                                                                                                                                        | Exemption or 50% reduction | All years as long as it is engaged in these projects                                                                    |
| Specified basic infrastructure projects <sup>1</sup>                                                                                                                                                                | 3+3 years tax holiday      | Starting from the first income-generating year                                                                          |
| Qualified new/high tech enterprises established in Shenzhen, Zhuhai, Shantou, Xiamen, Hainan and Pudong New Area of Shanghai newly established after 1 January 2008                                                 | 2+3 years tax holiday      | Starting from the first income-generating year                                                                          |
| Encouraged designated integrated circuit production enterprises or projects with a line-width less than 28 nm (inclusive), provided that its operating period exceeds 15 years                                      | Exemption for 10 years     | Starting from the first profit-making year for enterprises; Starting from the first income-generating year for projects |
| Encouraged designated integrated circuits production enterprises or projects that produce integrated circuits with a line-width of less than 65nm (inclusive), provided that its operation period exceeds 15 years  | 5+5 years tax holiday      | Starting from the first profit-making year for enterprises; Starting from the first income-generating year for projects |
| Encouraged designated integrated circuits production enterprises or projects that produce integrated circuits with a line-width of less than 130nm (inclusive), provided that its operation period exceeds 10 years | 2+3 years tax holiday      | Starting from the first profit-making year for enterprises; Starting from the first income-generating year for projects |
| Encouraged integrated circuits design/equipment/material/packaging/testing enterprises                                                                                                                              | 2+3 years tax holiday      | Starting from the first profit-making year                                                                              |
| Encouraged designated key integrated circuits design enterprises                                                                                                                                                    | Exemption for 5 years      | Starting from the first profit-making year                                                                              |
| Encouraged designated key software enterprises                                                                                                                                                                      | Exemption for 5 years      | Starting from the first profit-making year                                                                              |
| Encouraged software enterprises <sup>2</sup>                                                                                                                                                                        | 2+3 years tax holiday      | Starting from the first profit-making year                                                                              |
| Environment protection projects and energy/water conservative projects <sup>3</sup>                                                                                                                                 | 3+3 years tax holiday      | Starting from the first income-generating year                                                                          |
| Qualified energy-saving service enterprises                                                                                                                                                                         | 3+3 years tax holiday      | Starting from the first income-generating year                                                                          |
| Projects involving clean development mechanism                                                                                                                                                                      | 3+3 years tax holiday      | Starting from the first year during which the first disposal of certified emission reduction units takes place          |
| From 1 January 2021 to 31 December 2030, newly established encouraged enterprises in the impoverished areas of Xinjiang                                                                                             | 2+3 years tax holiday      | Starting from the first income-generating year                                                                          |
| From 1 January 2021 to 31 December 2030, newly established encouraged enterprises in the Kashgar Special Economic Zone and Horgos Special Economic Zone                                                             | Exemption for 5 years      | Starting from the first income-generating year                                                                          |

### Notes:

<sup>1</sup> Including harbour, wharf, airport, railway, highway, city public transportation, electric power, water resources utilisation projects, etc.

<sup>2</sup> Certified animation enterprises which produce self-developed animation products are eligible to enjoy the same CIT incentives as encouraged software enterprises.

<sup>3</sup> Including public sewage treatment, public refuse treatment, comprehensive development and utilisation of methane, technologies alteration for energy-saving and emission reduction, seawater desalination projects, etc.

<sup>4</sup> "2+3 years tax holiday" refers to first two years of exemption from CIT followed by three years of 50% reduction of CIT; similarly, "3+3 years tax holiday" refers to first three years of exemption plus three years of 50% reduction of CIT, and so on.

For income derived by a TRE from the transfer of qualified technology in a tax year, the portion that does not exceed RMB 5 million shall be exempted from CIT; and the portion that exceed RMB 5 million shall be allowed a half reduction of CIT.

CIT is exempted on dividend derived by a TRE from the direct investment into another TRE except for the case that the investment income is from stocks publicly traded on the stock exchanges and the holding period is less than 12 months.

CIT is exempted on income derived by non-profit-making organisations from engaging in non-profit-making activities.

Enterprises registered in the Hainan Free Trade Port and the Guangdong-Macao Intensive Cooperation Zone in Hengqin, and engaged in tourism, modern service, and high-tech industries are exempted from CIT on the income generated from overseas direct investment. The implementation period for Hainan Free Trade Port is from 2020 to 2027.

### **Reduction of revenue**

Where an enterprise uses resources specified by the State as its major raw materials to produce non-restricted and non-prohibited products, only 90% of the total income derived may be assessed as taxable total income.

### **Offset of certain venture capital investment**

For a venture capital enterprise that makes a direct equity investment in a non-listed small-to-medium sized new/high-tech enterprise or a start-up technology enterprise for more than 2 years, 70% of its investment amount may be used to offset against the taxable income of the venture capital enterprise in the year after the holding period has reached 2 years. Any portion that is not utilised in that year may be carried forward and deductible in the following years. Corporate partners of a venture capital in the form of a limited partnership are also eligible for such incentive.

### **Investment tax credit**

Enterprises purchasing and using plant and machinery specified by the State for environmental protection, energy and water conservation, or production safety purposes may claim 10% of the investment in such equipment to offset against its CIT payable.

From 1 January 2024 to 31 December 2027, enterprises investing in the digital and intelligent transformation of the above types of equipment are eligible for a tax credit of 10% of the expense incurred in the transformation provided that the expenses incurred do not exceed 50% of the original tax base of the equipment at the time of purchase. Any unutilised amount can be carried forward and creditable in the following five years.

## Tax deductions and other treatments

### Depreciation

Wear and tear allowances are granted on fixed assets and other capital assets used in the production of income. Production-nature biological assets are also classified as capital assets under the CIT regime and can also be depreciated. Generally the straight-line method of depreciation is allowed.

Depreciation on fixed assets and production-nature biological assets is computed beginning from the month following that in which the assets are put into use and ceasing from the month following that in which the assets are no longer used.

Minimum depreciation periods for different kinds of assets are specified as follows:

|                                                                                 |          |
|---------------------------------------------------------------------------------|----------|
| Buildings and structures                                                        | 20 years |
| Aircrafts, train, vessels, machinery, mechanisms and other production equipment | 10 years |
| Appliances, tools, furniture, etc,                                              | 5 years  |
| Means of transport other than aircrafts, trains and vessels                     | 4 years  |
| Electronic equipment                                                            | 3 years  |
| Production-nature biological assets in the nature of forestry                   | 10 years |
| Production-nature biological asset in the nature of livestock                   | 3 years  |

Shorter tax depreciation life or accelerated depreciation is allowed for particular types of fixed assets due to advancement of technology or suffering from constant vibration or severe corrosion. New fixed assets acquired by companies in manufacturing industries can be depreciated with shorter appreciation life or under accelerated depreciation method.

Where shorter depreciation period method is applied, the minimum depreciation period shall not be less than 60% of the minimum depreciation period as prescribed in the CIT Law; where accelerated depreciation method is applied, double declining balance method or sum-of-years-digits method may be used.

The following capital expenditure may be expensed-off in one lump sum in the year of acquisition:

- Newly acquired instruments and equipment for the purpose of R&D activities by all enterprises, and newly acquired instruments and equipment used in both R&D and operating activities by small-scale and thin-profit enterprises in manufacturing, Information transmission, software and information technology services, with unit value not exceeding RMB 1 million, may be expensed in one lump sum.
- From 1 January 2018 to 31 December 2027, newly acquired fixed assets, other than real estate properties, with unit value not exceeding RMB5 million may be expensed-off in one lump sum.
- Newly acquired fixed assets (excluding real estate properties) and intangible assets by enterprises in Hainan Free Trade Port and the Guangdong-Macao Intensive Cooperation Zone in Hengqin with unit value not exceeding RMB 5 million may be expensed in one lump sum. The implementation period for Hainan Free Trade Port is from 2020 to 2027.

## **Intangibles**

Intangible assets are amortised by the straight-line method over a period of not less than ten years or the stipulated time limit set out in the contract or agreement under which use of the intangible asset is made available.

Purchased goodwill is not deductible until the enterprise is entirely transferred or liquidated.

## **Payments to affiliates**

Management fee of stewardship nature are not deductible. Services fees paid to affiliates in China or overseas may be deductible only if the service fee is charged at an arm's length and beneficial to the service recipient. Royalties paid to affiliates in China or overseas may be deductible only if the royalties are charged at arm's length and commensurate with the economic benefit obtained by the payer of the royalties.

## **Interest on loans**

Interest on loans is generally deductible. For interest expenses on borrowings from non-financial institutions by a non-financial institution, the portion that does not exceed the commercial rate is deductible.

Interest of capital nature has to be capitalised and depreciated or amortised.

The deductions of interest paid to related parties are subject to the thin capitalisation rule under the CIT law (see further details described below).

## **Entertainment**

60% of the actually incurred entertainment expense is deductible but the deduction shall not exceed 0.5% of the sales or business income of that year.

## **Commercial insurance premiums for individuals**

Commercial insurance premium paid for employees and individual investors of an enterprise is not deductible unless it is paid for safety insurance for workers conducting special types of works.

## **Advertising and business promotion expenses**

Advertising expenses and business promotion expenses are deductible up to 15% (30% for certain industries) of the sales (business) income of that year unless otherwise prescribed in the tax regulations. Any excess amount is allowed to be carried forward and deductible in the following tax years.

**Asset loss**

Asset loss (including bad debt loss) may be deductible in the tax year during which such loss is incurred, provided that supporting documents are maintained for inspection by the in-charge tax bureau.

**Charitable donations**

Charitable donations are tax-deductible up to 12% of the annual accounting profit, and any excess amount in the current year can be carried forward and deductible in the following 3 years.

**Super deductions**

From 1 January 2023, 200% of the eligible R&D expenses incurred by enterprises are deductible; for R&D expenses that have formed intangible assets, the tax amortization shall be based on 200% of the cost of the intangible asset.

From 1 January 2023 to 31 December 2027, 220% of the eligible R&D expenses incurred by integrated circuit enterprises and enterprises manufacturing industrial mother machines are deductible; for R&D expenses that have formed intangible assets, the tax amortization shall be based on 220% of the cost of the intangible asset.

From 1 January 2022, 200% of funds contributed by enterprises to non-profit scientific and technological R&D institutions, higher education institutions, or governmental natural science funds for basic research purposes are deductible.

200% of the actual salary expenses paid to handicapped staff are deductible.

**Other non-deductible expenses**

Provisions for asset impairment reserves (e.g. bad debt provisions) and risk reserves are generally not deductible unless otherwise prescribed in the tax regulations. Financial institutions and insurance companies may deduct certain provisions and reserves subject to the caps specified in the relevant tax circulars.

Non-advertising in nature and non-charitable in nature sponsorship expense is non-deductible.

**Inventory valuation**

Inventory of commodities, finished products, work-in-progress, semi-finished goods and raw materials of an enterprise must be valued according to costs. In computing the cost of inventories that are sold or used for delivery, the enterprise may choose one of the following methods: first-in first-out, weighted average or specific identification.

**Loss carryovers**

Generally, tax losses incurred by an enterprise may be carried forward for a period of up to five years, subsequent to the year of the loss. For new/high-tech enterprises and small and medium sized technology enterprises, tax loss can be carried forward for ten years.

Tax loss of qualified integrated circuit production enterprises with a line-width less than 130 nanometers (inclusive) incurred within five tax years before the enterprise is shortlisted can be carried forward for ten years.

From 1 January 2022 to 31 December 2026, tax loss can be carried forward for 13 years for high and new technology enterprises (HNTEs) or technological small and medium enterprises (technological SMEs) registered in Nansha of Guangzhou, provided that the HNTEs or technological SMEs are engaged in the high-tech key industries in the Catalogue for CIT Preferential Treatments of Nansha.

**Treatment of dividends**

Dividends between TREs are not taxable except for the case that the dividend is from stocks publicly traded on the stock exchanges and the holding period is less than 12 months.

**Currency**

CIT is computed in renminbi (RMB) currency. Income in foreign currency is converted into RMB for tax payment purposes.

Exchange gains or losses are generally taxable or deductible regardless whether realised or unrealised unless otherwise prescribed by the tax regulations.

**Deemed taxable income**

If an enterprise cannot submit complete and accurate documentation of its costs and expenses to enable its taxable income to be calculated, the Chinese tax authorities may assess a taxable income. Normally, a deemed profit percentage is applied to its gross income or turnover. This deemed profit percentage will vary depending on the industry in which the enterprise operates and will usually be between 3% and 30% for TREs and between 15% and 50% for non-TREs.

**Foreign tax credit**

A TRE may credit against the PRC tax payable the foreign income tax already paid overseas in respect of income derived from sources outside the PRC based on a country-basket method or a comprehensive method. However, the creditable amount may not exceed the amount of income tax otherwise payable in the PRC in respect of the non-China sourced income.

## **Corporate restructuring**

Generally, gains (or losses) of all corporate restructuring (including debt restructuring, share acquisition, assets acquisition, merger and spin-off) shall be subject to CIT (deductible for CIT purposes) when the transaction takes place. Fair value shall be used to determine the gains or losses. Restructuring transactions meeting certain prescribed conditions are eligible for concessionary treatment, i.e. the realization of the gain arising from the corporate restructuring may be deferred wholly or partly to later years, and the resulting tax liabilities may be effectively deferred.

## **Special tax adjustment (anti-tax avoidance)**

The PRC CIT Law (Special Tax Adjustment) covers transfer pricing rules and advance pricing arrangements, and introduces relevant concepts for anti-avoidance. During 2016 to 2017, China STA enacted a series of public notices to renew the regulations in terms of reporting and documentation of the related party transactions, advance pricing arrangements, and the anti-avoidance investigations. These public notices reflected the requirements of Base Erosion and Profit Shifting (BEPS) Action Plans, and the Chinese tax authorities' position regarding anti-avoidance issues.

### **Related party transactions**

All enterprises are required to follow the arm's length principle in their revenue and capital transactions with related parties. The Chinese tax authorities pay special attention to transfer pricing practices. If a related party transaction is not compliant with the arm's length principle which results in the reduction of taxable income of the enterprise or its related party, the tax authorities shall have the authority to make adjustment using appropriate methods.

### **Reporting and documentation of related party transactions**

China adopts stringent requirements on filing and submission of related party information for transfer pricing enforcement. Enterprises are required to file annual related party transactions forms, as part of their annual CIT return package on or before the statutory filing due date which is 31 May of each year. Country-by-Country Reports and more overseas related party information are also required to be disclosed. In addition, enterprises are required to prepare transfer pricing documentation in place for inspection upon request by the Chinese tax authorities. The transfer pricing documentation includes a three-tier documentation, including master file, local file and special issue file. Enterprises meeting certain conditions can be exempted from such documentation requirement.

### **Cost sharing**

Cost sharing is allowed in respect of intangible assets developed and shared among related parties, and for the provision and receiving of common services (generally limited to group procurement and group marketing strategies). The costs borne by each participant shall be consistent with what an independent party would have borne for obtaining the benefits under comparable conditions. The arm's length costs can be deducted for CIT purposes. There is no need to submit cost sharing agreement for tax authorities' pre-approval, but a copy should be provided to Chinese tax authorities within 30 days upon conclusion (or change) of a cost sharing agreement.

### **Controlled foreign corporation rules (CFC Rules)**

A CFC is an enterprise established outside China by TREs or jointly established by TREs and Chinese individuals. CFC rules are introduced such that undistributed profits derived by CFCs without reasonable commercial purpose, located in low-tax jurisdictions with an effective income tax rate less than 12.5% may be taxed in China as a deemed distribution to the parent company in China.

### **Thin-capitalisation rule**

Thin-capitalisation rule is introduced to disallow interest expense arising from excessive related party loans. The safe harbour debt/ equity ratio for enterprises in the financial industry is 5:1 and for enterprises in other industries is 2:1. However, if there is sufficient proof to show that the financing arrangement is at arm's length, these interests may still be fully deductible even if the ratios are exceeded.

### **General anti-avoidance rules (GAAR)**

There is a GAAR provision allowing the Chinese tax authorities to make adjustment to taxable revenue or taxable income where business transactions are carried out without reasonable commercial purpose and with the main purpose of reduction, exemption or deferral of tax payments. If all other special tax adjustment measures have been exhausted, upon approval by the STA, the Chinese tax authorities may invoke general anti-avoidance investigation if they suspect that an enterprise undertakes any of the following transactions: abuse of preferential tax treatments, abuse of tax treaties, abuse of corporate structure, use of tax havens for tax avoidance purposes or other arrangements that do not have a reasonable commercial purpose.

### **Interest levy on tax adjustments**

Tax adjustments made by tax authorities under the special tax adjustment chapter may be subject to interest levy at the base rate for loans announced by the People's Bank of China plus an additional interest of five percentage points. The period for interest levy is from 1 June of the year following the tax year in which the transaction takes place to the day the underpaid tax is settled. For an enterprise which provides contemporaneous documentation and relevant information in accordance with relevant regulations, or for an enterprise which is exempted from the preparation of contemporaneous documentation in accordance with the relevant regulations but provides other relevant information upon request of tax authorities, the additional interest of five percentage points can be waived.



## CIT filing and payment

### Tax period

The tax year in the PRC is the calendar year.

### Combined CIT filing and consolidated CIT filing

TREs in China are not allowed to file combined returns on a group basis unless otherwise prescribed by the State Council. Up to now, the State Council has not yet issued any regulation to allow group combined CIT filing.

However, a non-TRE having two or more establishments in the PRC may select one main establishment or place for consolidated tax filing and payment if it meets all of the following requirements:

- All establishments or places of that non-TRE have completed the tax registration with their in-charge tax authorities and have obtained the taxpayer identification number (TIN).
- The main establishment or place must assume supervisory and management responsibility over the business of the other establishment(s); and it keeps complete accounting records and vouchers that can correctly reflect the income, costs, expenses, profits and losses of the other establishment(s).
- None of the establishments or places use deemed method to calculate CIT liability.
- All establishments or places can calculate its allocated tax liability and complete tax filing with its in-charge tax authority.

### Tax filing

Annual tax return has to be filed on or before 31 May following the end of a tax year (subject to local variation). Provisional reporting and payments have to be made on a monthly basis or quarterly basis which is determined by the in-charge tax authorities. Provisional payments shall be settled with 15 days following the end of each month/quarter.



# 02

## Individuals



## Individual income tax

Resident individuals are individuals with domicile in the PRC, or individuals without domicile who have resided in the PRC for a total of 183 days or more in a tax year. Resident individuals are subject to China individual income tax (IIT) on their worldwide income.

Non-resident individuals are individuals without domicile and who have resided in the PRC for less than 183 days in a tax year. Non-resident individuals are subject to IIT on their PRC sourced income only. Remuneration paid by foreign employers to individuals without domicile in the PRC is exempt from IIT if such individuals have resided in the PRC for no more than 90 days in a tax year, provided that the remuneration cost is not borne by any establishment or place in the PRC.

Starting from 2019, for non-China domiciled individuals who have resided in China for 183 days or more each year for no more than six consecutive years, upon record filing with tax authorities, the income derived outside the PRC and paid by overseas entities or individuals shall be exempted from IIT. Non-China domiciled individuals will be subject to IIT on worldwide income starting from the seventh year of residing 183 days or more in the PRC if there is no single absence of more than 30 consecutive days during any of the previous six years. If a non-China domiciled individual resides in the PRC for less than 183 days or spends more than 30 consecutive days outside of the PRC during any calendar year, the six-year count mentioned above can be reset.

Non-China domiciled individuals employed by foreign employers may reduce their IIT liability and be taxed based on the number of PRC working days if certain criteria are met.



## Individual income tax rates for comprehensive income

For resident individuals, income derived from employment, personal services, author's remuneration and royalties are combined as 'comprehensive income' and taxed on an annual basis at the following progressive rates ranging from 3% to 45%:

| Annual comprehensive taxable income* (RMB) | Tax rate % |
|--------------------------------------------|------------|
| 0 to 36,000                                | 3          |
| Over 36,000 to 144,000                     | 10         |
| Over 144,000 to 300,000                    | 20         |
| Over 300,000 to 420,000                    | 25         |
| Over 420,000 to 660,000                    | 30         |
| Over 660,000 to 960,000                    | 35         |
| Over 960,000                               | 45         |

\* For resident individuals, annual comprehensive taxable income is calculated by deducting the standard deduction of RMB60,000, specific deductions (i.e. contributions to social security schemes and housing fund according to government regulations), specific additional deductions and other allowable deductions.

## Non-resident Individuals

For non-resident individuals, income derived from employment, personal services, author's remuneration and royalties are not subject to comprehensive taxation but taxed by category on a monthly or transactional basis at the following progressive rates ranging from 3% to 45% :

| Taxable income per month or transaction* (RMB) | Tax rate % |
|------------------------------------------------|------------|
| 0 to 3,000                                     | 3          |
| Over 3,000 to 12,000                           | 10         |
| Over 12,000 to 25,000                          | 20         |
| Over 25,000 to 35,000                          | 25         |
| Over 35,000 to 55,000                          | 30         |
| Over 55,000 to 80,000                          | 35         |
| Over 80,000                                    | 45         |

\* For non-resident individuals, a monthly standard deduction of RMB5,000 is available in calculating the monthly taxable employment income.

## Employment income

For IIT purposes, taxable employment income refers to “wages, salaries, bonuses, year-end bonus, profit shares, allowances, subsidies or other income related to a job or employment”.

Certain employment benefits provided to foreign individuals may be specifically exempt from IIT if prescribed criteria are met (e.g. being supported by valid invoices, etc.). These include:

- reasonable housing costs borne by the employer;
- reasonable home leave fares of 2 trips per annum for the employee;
- reasonable relocation and moving costs in relation to commencement and/or completion of China assignment; and
- reasonable meals, laundry and language training costs, as well as children's education expenses in the PRC.

In general, cash allowance is fully taxable to an employee. Reimbursement of specific work-related expenses incurred by an employee (which may include entertainment, local transportation and communication costs, etc.) is generally not subject to IIT and administrative procedures for reimbursement should be in place and followed.

## Incomes other than employment income

### Business income

Income derived by individuals engaging in privately-owned businesses, sole proprietorship enterprises and partnerships registered in the PRC, or income from the operation of a business on a contract or lease basis are generally subject to IIT at progressive rates from 5% to 35%. The 35% marginal rate applies to annual taxable income (i.e. gross revenue less allowable costs, expenses and losses, etc.) over RMB500,000.

### Interest, dividend, income from transfer of property, rental income and contingent income

These incomes are generally taxed at a flat rate of 20%. Income eligible for specified preferential treatment may enjoy IIT reduction or exemption.

## Allowable deductions

### Specific additional deductions

The following expenses can be deducted as specific additional deductions when calculating taxable income for resident individuals who derive comprehensive income or business income:

- Child education
- Continuing education
- Major medical expense
- Mortgage interest or rental expense
- Elderly care
- Care expense for children under the age of 3

### Other deductions

There are specific and complex tax rules to address the deductions available for business income. Certain deduction caps are similar to those applicable to companies that are subject to corporate income tax.

In addition, for an individual who derives both comprehensive income and business income during the year, the annual deduction of RMB60,000, specific deductions, specific additional deductions and other allowable deductions can be deducted from either income category provided that no double deduction is claimed.

For income derived from personal services, author's remuneration and royalties, a deduction of 20% of the gross receipt is allowed. And a further deduction of 30% is allowable for author's remuneration.

The deduction for rental income is as follows:

- If the amount received in a month is not more than RMB4,000, a standard deduction of RMB800 is allowed;
- If the amount received in a month exceeds RMB4,000, a deduction equal to 20% of the gross receipt is allowed.

For transfer of property, the original cost plus reasonable expenses are deductible.

No deduction is allowed against interest income, dividend income or contingent income.

## Tax filing and payment

The IIT shall be withheld by the payer.

For resident individuals, employers should perform provisional IIT withholding on the employment income each month by adopting the “cumulative withholding method”. If the annual provisional tax withheld from comprehensive income is inconsistent with the final tax payable, resident individuals should perform annual IIT reconciliation filing with the in-charge tax authorities from 1 March to 30 June of the following year. Resident individuals can be exempted from the annual IIT reconciliation filing if certain criteria are met.

For non-resident individuals, employers should perform actual IIT withholding on the employment income on a monthly basis.

Withholding IIT returns should be filed and the IIT payable should be settled within 15 days following the end of each month.

## IIT self-reporting requirement

Individuals may be required to perform IIT self-reporting within the prescribed tax filing period. This requirement applies in cases such as when an individual is obligated to perform the annual reconciliation filing on comprehensive income, derives business income, receives foreign-sourced income, derives taxable income without a withholding agent or with no IIT withheld, cancels the Chinese household registration due to emigration, or when a non-resident individual derives employment income from two or more sources within the PRC.

## Anti-avoidance rules

The revised IIT Law that came into effect on 1 January 2019 introduced the anti-avoidance rules, providing a legal basis for tax authorities to perform tax adjustments for tax avoidance arrangements without justifiable reasons or reasonable commercial purposes. According to the anti-avoidance rules, circumstances that may lead to tax adjustments include:



### Transactions with related parties:

The transactions between the individual and his/her related parties does not comply with the arm's length principle, thus reducing the tax liability of the individual or his/her related parties without justifiable reasons.



### Controlled foreign companies:

An enterprise, which is controlled by resident individuals, or jointly controlled by resident individuals and resident enterprises, is established in a low-tax jurisdiction and does not distribute or reduces the distribution of its profits that should be attributed to the resident individuals without reasonable business needs.



### General anti-avoidance rules:

Individuals obtain improper tax benefits through other arrangements without reasonable commercial purposes.

# 03

## Other taxes



## Value-added tax (VAT)

The sale of goods, services, intangible properties, and immovable properties within China, as well as the import of goods are subject to VAT. For general VAT taxpayers, input VAT can be credited against output VAT.

The applicable VAT rate for general VAT taxpayers are set out in the following table.

| Industries                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | Applicable Tax Rate% |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------|
| Sales or importation of goods                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | 13                   |
| Sales or importation of necessity goods (such as agricultural products, water and gas, etc.) (Note)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | 9                    |
| Provision of repairs, replacement and processing services                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | 13                   |
| Tangible movable property leasing services                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | 13                   |
| Transportation services, postal services, basic telecommunications services, construction services, immovable property leasing services, sales of immovable properties, transfer of land use right                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | 9                    |
| Value-added telecommunications services, financial services, producer & consumer services (except for immovable properties leasing service), sales of intangible properties (except for land use right)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | 6                    |
| Exportation of goods;<br>Exportation of repair, replacement and processing services;<br>International transportation service and spacecraft transportation services;<br>Exported services that are completely consumed outside China, including: <ul style="list-style-type: none"> <li>Research and development services</li> <li>Energy performance contracting services</li> <li>Design services</li> <li>Production and distribution services for radio, film and television programs</li> <li>Software services</li> <li>Circuit design and testing services</li> <li>Information system services</li> <li>Process management services</li> <li>Offshore outsourcing services</li> </ul> | 0                    |
| Transfer of technology to overseas entities that is completely used outside China                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |                      |



For taxpayers which are eligible for the above zero rate, generally they may be entitled to a credit or refund of the input VAT incurred. The VAT refund rate for exported services is the same as the applicable VAT tax rate. For exported goods, the VAT refund rates range from 0% to 13%. There is a prescribed formula for determining the amount of refund, under which full refund of input VAT are not available to many exported goods and the exporter will suffer different degree of export VAT costs.

In addition, a few types of qualified exported services may be applicable to the VAT exemption treatment. In that respect, the relevant input VAT incurred cannot be credited or refunded.

Since 1 April 2019, China introduced the pilot VAT refund policy. Taxpayers who fulfil certain requirements can apply for a refund of the input VAT credit balance.

The rate for small-scale VAT payers is 3%. From 1 January 2023 to 31 December 2027, the VAT rate for small-scale VAT payers is reduced from 3% to 1%.

## **Consumption tax**

Consumption tax is levied on manufacturers and importers of specified categories of consumer goods, including tobacco, alcoholic beverages, high-end cosmetics, jewellery, fireworks, gasoline and diesel and certain petroleum products, motorcycles, automobiles, golf equipment, yacht, luxury watch, disposable chopsticks, wooden floorboard, battery and coating. The tax liability is computed based on the sales amount and/or the sales volume depending on the goods concerned.

## **Urban construction and maintenance tax**

Urban construction and maintenance tax is imposed at a certain rate on the amount of China's indirect taxes (i.e. VAT and consumption tax) payable by the taxpayer. Effectively, the taxpayers of indirect taxes are also the taxpayers of urban construction and maintenance tax. It is charged at three different rates depending on the taxpayer's location, 7% for urban areas, 5% for county areas, and 1% for other areas.

Urban construction and maintenance tax is not levied on VAT and/or consumption tax paid on imported goods and the sale of services/intangible assets by overseas entities/individuals.

## Educational surcharge

Educational surcharge is imposed at 3% on the amount of China's indirect taxes (i.e. VAT and consumption tax) payable by the taxpayer. Effectively, the taxpayers of indirect taxes are also the taxpayers of educational surcharge. Educational surtax is not levied on VAT and/or consumption tax paid on imported goods and the sale of services/intangible assets by overseas entities/individuals.

## Local educational surcharge

Local educational surcharge is levied at 2% on the amount of China's indirect taxes (i.e. VAT and consumption tax) payable by the taxpayer. Effectively, the taxpayers of indirect taxes are also the taxpayers of local educational surcharge. Local educational tax is not levied on VAT and/or consumption tax paid on imported goods and the sale of services/intangible assets by overseas entities/individuals.

## Land appreciation tax (LAT)

LAT is levied on certain gains realised from real property transactions at progressive rates from 30% to 60%, based on the "land value appreciation amount" which is the consideration received from the transfer or disposition of real property less the "total deductible amount".

For taxpayers engaged in a real estate development business, the "total deductible amount" includes:

- The amount spent on obtaining the land use right;
- Costs of real property development and construction;
- Finance expenses, such as interest, may be deducted in certain circumstances. Other real property development expense (i.e selling and administrative) are limited to 5% of the total amount expended to acquire the land use right and the costs of real property development and construction;
- Taxes in connection with the transfer of real property (generally stamp tax); and
- Additional deduction equal to 20% of the sum of the amount spent on obtaining the land use right and costs of real property development and construction is allowed.

For disposal of used properties, the deductible amount includes the assessed value of the used building and the taxes incurred upon the disposal.

## Customs duties

The Customs shall levy import and export customs duty on goods that are allowed to be imported into or exported based on relevant Customs regulation. Customs are authorised to collect VAT and consumption taxes at the time of importation.

The Consignee of imported goods, consignor of export goods, and owner of entry articles are parties held liable for paying customs duties.

The Customs Classification of import and export goods is the base for the Customs supervision, Customs taxation, and Customs statistics. In 2017, along with the revisions of the classified catalogue in “International Convention for Harmonised Commodity Description and Coding System” made by World Customs Organisation (WCO), a large scale adjustments have been made to China import and export tariff system.

Import duty is charged in ad valorem, in specific, compound, or sliding terms, etc. Ad valorem duty is charged based on the customs valuation of the goods. The dutiable value of the goods is multiplied by an ad valorem tariff rate to arrive at the amount of duty payable. Duty collection on ad valorem basis is the main taxation measure used by most countries including China. The dutiable value of import and export goods is the taxable value determined by the Customs to levy ad valorem duties on the import and export goods, which is the base to value and levy Customs duties payable of import and export goods and import-associated taxes.

Import duties are categorised as normal tariff rate, Most Favoured Nation (MFN) tariff rate, contractual tariff rate, preferential tariff rate, tariff-rate quota (TRQ) rate, and temporary tariff rate.

The Country of Origin of imported goods also plays a part in determining the applicability of a number of other trade policies such as: TRQ, preferential tariffs, anti-dumping duty, anti-subsidy duty, etc.

Duty Reduction or Exemption: import and export goods are reduced with or exempted from customs duties, import VAT and consumption tax according to state regulations. There are statutory, specific and temporary duty reduction or exemption.

The importation of raw materials under Processing Trade is bonded, and Customs duty, import VAT and consumption tax exemption is allowed on the part to be re-exported after processing.

For goods that enter into and exit from the Customs special supervision zone, import duties and import VAT and consumption tax are held over at the time of importation, which are to be exempted for exportation, or to be paid for sales from Customs special supervision zone to domestic markets.



## Stamp tax

All enterprises and individuals who conclude taxable documents or conduct securities trading in China, as well as enterprises and individuals who conclude taxable contracts outside China while the contacts are used in China are subject to stamp tax. Rates vary between 0.005% on loan contracts to 0.1% for property insurance contracts.

## Real estate tax

Real estate tax is a tax imposed on the owners, users or custodians of houses and buildings on an annual basis. The tax rate is 1.2% of the original value of buildings. A tax reduction of 10% to 30% is commonly offered by local governments. Alternatively, tax may be assessed at 12% of the rental value.

## Motor vehicle acquisition tax

Motor vehicle acquisition tax is a tax at a rate of 10% of the taxable consideration. It will be levied on any purchase, import, self-production, receipt as a gift or award, etc. of an automobile, a tramcar, a trailer, or a motorcycle with a gas displacement of over 150 milliliters within the PRC.

## Deed tax

Deed tax, generally at rates from 3% to 5%, may be levied on the purchase or sale, gift or exchange of ownership of land use rights or real properties. The transferee/assignee is the taxpayer.

## Vehicle and vessel tax

Vehicle and vessel tax is a tax that is levied on all vehicles and vessels within the PRC. A fixed amount is levied on a yearly basis. Transport vehicles are generally taxed on a fixed amount according to own weight, with passenger cars, buses and motorcycles being taxed on a fixed unit amount. Vessels are taxed on a fixed amount according to deadweight tonnage.

## Vessel tonnage tax

Vessel tonnage tax is levied on any vessel entering into a port inside the territory of the PRC from overseas and is collected by the customs authorities. The tax rates are categorised into preferential rates and ordinary rates depending on the nationality of the vessels. The tax payable is computed based on the net tonnage multiplied by the applicable tax rate that is determined depending on the net tonnage and the term of tonnage tax license.

## **Urban and township land-use tax**

Urban and township land-use tax is levied on taxpayers who utilize land within the area of city, country, township and mining districts. It is computed on an annual basis, based on the space of area actually occupied by a taxpayer multiplied by a fixed amount per square meter that is determined by the local governments.

## **Arable land occupation tax**

Arable land occupation tax is levied on companies and individuals who build buildings, structures or engage in non-agricultural development on arable land within PRC. It is computed based on the space of area actually occupied by a taxpayer multiplied by a fixed amount per square that is determined by the local governments and is settled in a lump sum.

## **Environmental protection tax**

The Environmental Protection Tax (EPT) Law became effective on 1 January 2018 and it is collected from enterprises that directly discharge taxable pollutants (i.e. air pollutants, water pollutants, solid waste and noise pollution) within the territory of China. EPT is calculated based on the volume of pollutants discharged, multiplied by the specific EPT tax amount.

## **Resource tax**

The exploitation of natural resources including crude oil, natural gas, coal, salt, raw metallic metals and non-metallic metals, etc. is subject to resource tax on a sales turnover or tonnage / volume basis. The range of tax rates are specified by the State Council. Resource tax is collected on the usage of water in 10 provinces and cities on a trial basis.

## **Tobacco tax**

Tobacco tax is levied on taxpayers who purchase tobacco leaves within the territory of the PRC. The tax is assessed at the rate of 20% on the purchasing value and shall be settled with the tax bureau at the place of the purchase.

## **Cultural business development levy**

Companies and individuals engaged in entertainment and advertising businesses shall pay cultural business development levy at 3% on the relevant income.

# 04

## Tax treaties / arrangements



Foreign tax relief (for PRC tax residents) and exemption or reduction in PRC tax (for foreign tax residents) may be offered under a tax treaty (or arrangement) to which the PRC is a party. Tax treaties may operate to reduce the amount of withholding income tax or CIT payable in the PRC by a foreign enterprise or a foreign individual. A tax treaty may also operate to reduce the amount of overseas withholding or income tax payable by a resident of the PRC. As of 30 June 2026, the tax treaties with the following 108 countries and 2 Special Administrative Regions (SAR) are effective.

|                                 |                |                     |                      |
|---------------------------------|----------------|---------------------|----------------------|
| Albania                         | Ecuador        | Luxembourg          | Seychelles           |
| Algeria                         | Egypt          | Macau SAR           | Singapore            |
| Angola                          | Estonia        | Macedonia           | Slovak Republic      |
| Argentina                       | Ethiopia       | Malaysia            | Slovenia             |
| Armenia                         | Finland        | Malta               | South Africa         |
| Australia                       | France         | Mauritius           | Spain                |
| Austria                         | Gabon          | Mexico              | Sri Lanka            |
| Azerbaijan                      | Georgia        | Moldova             | Sudan                |
| Bahrain                         | Germany        | Mongolia            | Sweden               |
| Bangladesh                      | Greece         | Montenegro (Note 2) | Switzerland          |
| Barbados                        | Hong Kong SAR  | Morocco             | Syria                |
| Belarus                         | Hungary        | Nepal               | Tajikistan           |
| Belgium                         | Iceland        | Netherlands         | Thailand             |
| Bosnia and Herzegovina (Note 1) | India          | New Zealand         | Trinidad and Tobago  |
| Botswana                        | Indonesia      | Nigeria             | Tunis                |
| Brazil                          | Iran           | Norway              | Turkey               |
| Brunei                          | Ireland        | Oman                | Turkmenistan         |
| Bulgaria                        | Israel         | Pakistan            | Ukraine              |
| Cambodia                        | Italy          | Papua New Guinea    | United Arab Emirates |
| Cameroon                        | Jamaica        | Philippines         | United Kingdom       |
| Canada                          | Japan          | Poland              | United States        |
| Chile                           | Kazakhstan     | Portugal            | Uzbekistan           |
| Congo, Rep. of                  | Korea, Rep. of | Qatar               | Venezuela            |
| Croatia                         | Kuwait         | Romania             | Vietnam              |
| Cuba                            | Kyrgyzstan     | Russia              | Zambia               |
| Cyprus                          | Laos           | Rwanda              | Zimbabwe             |
| Czech Republic                  | Latvia         | Saudi Arabia        |                      |
| Denmark                         | Lithuania      | Serbia (Note 2)     |                      |

Note 1: The Chinese government signed a tax treaty with the Federal Executive Council of the Assembly of the Socialist Federal Republic of Yugoslavia on December 2, 1988. After the dissolution of Yugoslavia, the above tax treaty will continue to apply to China and Bosnia and Herzegovina.

Note 2: The Chinese government signed a tax treaty with the Federal Government of the Federal Republic of Yugoslavia on 21 March 1997. On 4 February 2003, the Federal Republic of Yugoslavia was renamed Serbia and Montenegro. On 3 June 2006, Serbia and Montenegro was separated as the Republic of Serbia and the Republic of Montenegro. The above tax treaty continues to apply to China and the two countries.

# 05

## Foreign exchange administration



Foreign exchange transactions are administered by the State Administration of Foreign Exchange (SAFE) and its branches.

The regulatory administration on foreign exchange transactions by a FIE depends on whether the transaction is a current account item or a capital account item. Under the PRC Foreign Exchange Administration Regulations, current account items refer to ordinary transactions within the context of international receipts and payments, including balance of payments from trade, labour services, unilateral transfers, etc. Capital account items refer to items of increase or decrease in debt and equity due to inflow or outflow of capital within the context of international receipts and payments, including direct investment, all forms of loans, investment in securities, etc.

Generally, if a transaction falls under the category of current account items, a FIE can purchase and sell foreign currency through designated banks on the interbank foreign exchange trading system without prior approval of the SAFE. When a FIE has to make a payment in foreign currency, it can instruct its bank to pay from its foreign exchange account. In the meantime, it should provide supporting documents such as contracts, invoices and shipping documents to the bank.

Except for certain capital account transactions that require pre-approval by the State Administration of Foreign Exchange, many can be directly processed with the banks. However, from 2016, the Chinese government has enhanced the authenticity and compliance examination for certain foreign exchange transactions under the capital and current accounts so as to further regulate the foreign exchange market in China.

To speed up the process of RMB internationalisation, companies in China are now allowed to use RMB settlement when conducting cross-border trade with overseas companies. Since 2011, the Chinese governmental authorities have also released several rules allowing certain specified capital account transactions to be conducted in RMB.



# 06

## Our services and solutions



PwC offers a wide range of tax and business advisory solutions to companies with operations in the PRC. These include:

### **Accounting and payroll**

Provide a wide range of outsourced back-up services including accounting services, payroll services, company secretarial services, project management and other value-added services.

### **Common reporting standard**

Assist financial institutions, companies and individuals in analysing the impact of the requirements of automatic exchange of financial account information, provide solutions to ensure compliance and manage the relevant tax risks.

### **Corporate restructuring**

Advise on share transfers, transfers of businesses, reorganisations of the capital and assets of enterprises, and liquidations.

### **Corporate tax compliance**

Preparation and submission of corporate income tax and turnover tax returns.

### **Customs and trade solutions**

Assist in identifying import and export savings opportunities and compliance needs.

### **Distribution strategies**

Advise on strategies to optimize the opportunities in China's distribution market within the latest legal framework.

### **Domestic enterprise tax service**

Assist domestic enterprises in China in optimising tax efficiency and effectiveness and enhancing the value of the enterprise in response to their business demands in areas such as cross-border trading, outbound investment, initial public offering, stock incentive and merger and acquisition transactions, etc.

## **Financial services**

Advise enterprises and institutions in the financial services sector on tax issues relating to their domestic and cross-border financial transactions. Also provide solutions on tax exposures such as permanent establishment and transfer pricing, etc.

## **Foreign contractors**

Tax effective structuring for foreign contractors involving in China power plants and other infrastructure projects, contract reviews, registrations, tax bureau negotiations, compliance requirements.

## **Health check of PRC operations**

Diagnose compliance of PRC operations with relevant rules and regulations and suggest corrective actions and options to improve tax efficiency.

## **Indirect tax administration**

Assist in actively managing indirect tax processes and exploring indirect tax saving opportunities.

## **Market entry advice**

Assist in developing entry strategies and setting up entities and offices within China.

## **Mergers and acquisitions — due diligence reviews**

Perform a full-scope due diligence review or a specific procedures review of regulatory risks and tax exposures.

## **People and organisation services**

Help companies and high-net worth individual taxpayers to adapt the PRC Individual Income Tax regulations in the fast-changing environment; Navigate a comprehensive tax lifecycle involving tax return preparation, consultation and tax controversy discussion, etc.

## **Research and development services**

Help companies to obtain China R&D incentives, including tax incentives and other government incentives and maintain the China R&D incentives through being compliant with the relevant technology, accounting and tax requirements.

## **Structuring of investment and financing**

Advise on appropriate ownership structures and financing methods to maximise returns.

## **Tax controversy services**

Help clients proactively prevent, efficiently manage and favourably resolve tax controversies and disputes. Services offered include tax ruling application, tax policy formulation, tax audit defense, handling queries from tax authorities and negotiating tax settlements, etc.

## **Tax reporting and strategy**

Help build a tax function for the future by bringing together tax function design, technology and compliance with a holistic approach.

## **Tax technology**

Help companies to develop and implement a tax technology strategy to drive greater efficiency in data management, improve tax processes and manage risks enabling tax function to become a strategic business asset, adding value across the organisation.

## **Transfer pricing**

Perform a risk assessment review of transfer pricing policies and related exposures, reporting requirements, documentation of policies, tax consulting, obtaining Advance Pricing Agreements, etc.

## **US tax consulting service**

Provide a wide range of US tax compliance and consulting services to multinational companies.

## **Value chain transformation**

Help organisations optimise business, tax and legal operating models during value chain changes by providing integrated advisory, tax and legal services.



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## Our leaders

PwC China in Chinese Mainland, Hong Kong SAR and Macau SAR work together on a collaborative basis, subject to local applicable laws. Collectively, we have more than 13,000 people in total.

We provide organisations with the professional service in the areas of assurance, tax, deals and consulting, wherever they may be located. Our highly qualified, experienced professionals listen to different points of view to help organisations solve their business issues and identify and maximise the opportunities they seek. Our industry specialisation allows us to help co-create solutions with our clients for their sector of interest.

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