

Chinese Mainland Tax Guide 2024

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Investment Basics

Currency

Renminbi (RMB) or Yuan (CNY)

Foreign Exchange Control

The government maintains strict exchange controls, although the general trend has been toward a gradual liberalization of Chinese Mainland's foreign exchange markets and specific controls over companies and individuals.

Accounting Principles/ Financial Statements

Accounting standards similar to IFRS are mandatory for publicly held company listed in Chinese Mainland and certain other companies (e.g., banks) and have been widely applied to large and medium-sized enterprises established in Chinese Mainland.

Principal Business Entities

Chinese Mainland maintains a matrix of laws and regulations relating to business entities. The main entities are pure domestic enterprises, wholly foreign-owned enterprises, equity joint ventures, cooperative joint ventures, holding companies, domestic partnerships, foreign-invested partnerships, trust, branches, and representative offices. Branches of foreign companies are permitted for a limited number of industries (e.g., banks and insurance companies). An enterprise that is set up as a company may be established as a joint stock company or a limited liability company.

Taxation on Businesses

Overview

There are a wide range of taxes and surcharges levied in Chinese Mainland on businesses. In the section of "Taxation on Businesses", we focus on businesses that are companies.

- Income tax: enterprise income tax (EIT), applying to both domestic and foreign-invested enterprises
- Turnover tax: value added tax (VAT), consumption tax and customs duty
- Other taxes and surcharges: real estate tax, land appreciation tax, stamp duty, environmental protection tax, resource tax, vehicle and vessel tax, etc.



Income tax

- EIT



Turnover tax

- VAT
- Consumption tax
- Customs duty



Other taxes and surcharges

- Real estate tax
- Land appreciation tax
- Stamp duty
- Environmental protection tax
- Resource tax
- Vehicle and vessel tax

Various tax incentives may be available, which will be introduced in details in following section of "Tax incentives".

Chinese Mainland has transfer pricing (TP), thin capitalization and controlled foreign company (CFC) rules, as well as a general anti-avoidance rule (GAAR).

Residence and Tax Basis

An enterprise is deemed to be resident in Chinese Mainland if it is established in Chinese Mainland or if its effective management is in Chinese Mainland. Effective management is defined as substantial and overall management and control over manufacturing and business operations, human resources, financial and property aspects of the entity.

- Resident enterprises: taxed on worldwide income;
- Non-resident enterprises: taxed on Chinese Mainland-source income and income effectively connected with their establishment (if any) in Chinese Mainland;
- Generally, profits of a resident enterprise's domestic

and foreign branches are included in the head office's income for tax purposes (special tax treatment may apply to enterprises incorporated in certain regions of Chinese Mainland); foreign tax paid on profits of foreign branches is allowed to credit the enterprise's tax payable; and

- Losses of a resident enterprise's foreign branches: not allowed to be offset against enterprise's domestic profits.

Rate

The statutory EIT rate is 25%. Special rates may apply to enterprises in certain industries, enterprises incorporated in certain regions of Chinese Mainland and engaged in

encouraged business activities, including but not limited to:



Notes:

1. Effective tax rate 5% is valid till 31 December 2027.
2. Reduced EIT rate 15% is valid till 31 December 2027.

Taxable Income

The taxable income of an enterprise is the amount remaining from its gross income in a tax year after the deduction of allowable expenses, non-taxable and tax-exempt items, and losses.

Income

Taxable income generally includes profits, capital gains and passive income, such as interest, royalties and rents. Dividends received from a foreign entity are generally included in taxable income. However, qualifying dividends received from another resident enterprise are tax exempt.

Deduction

Properly documented costs related to the generation of taxable income, are deductible unless the law specifically provides otherwise. Business-related interest is deductible if the amount is reasonable, but is subject to restrictions under the thin capitalization rules.

Depreciation

Depreciation generally is calculated on a straight-line basis and assets are subject to certain minimum depreciation periods. The minimum salvage value should be reasonably

determined by the taxpayers, according to the nature and condition of the fixed assets. Accelerated depreciation or an immediate deduction may be available for the following items:

Immediate Deduction

- Fixed assets with unit value not exceeding RMB5,000
- Instruments and equipment acquired on or after 1 January 2014 with unit value not exceeding RMB1 million and used solely for research and development (R&D) purposes
- Fixed assets (exclusive of houses and buildings) acquired during the period 2018 through 2027, with unit value not exceeding RMB5 million

Accelerated Depreciation

- Fixed assets affected by rapid advancements in technology or suffering from constant vibration or severe corrosion
- Software purchased from external parties
- Production equipment of integrated circuit manufacturing enterprises
- Instruments and equipment acquired on or after 1 January 2014 with unit value exceeding RMB1 million and used solely for R&D purposes
- Fixed assets acquired by manufacturing businesses on or after 1 January 2019
- Fixed assets (exclusive of houses and buildings) acquired during the period 2020 through 2024 by enterprises set up in the Hainan Free Trade Port, with unit value exceeding RMB5 million
- Fixed assets (exclusive of houses and buildings) acquired on or after 1 January 2021 by enterprises set up in the Guangdong-Macau In-Depth Cooperation Zone in Hengqin, with unit exceeding RMB5 million

Losses

Losses may be carried forward for:

- 5 years - for general cases
- 8 years - for tax losses incurred in 2020 for businesses severely affected by COVID-19 (e.g., transportation, catering, hospitality, travel and movie industries)

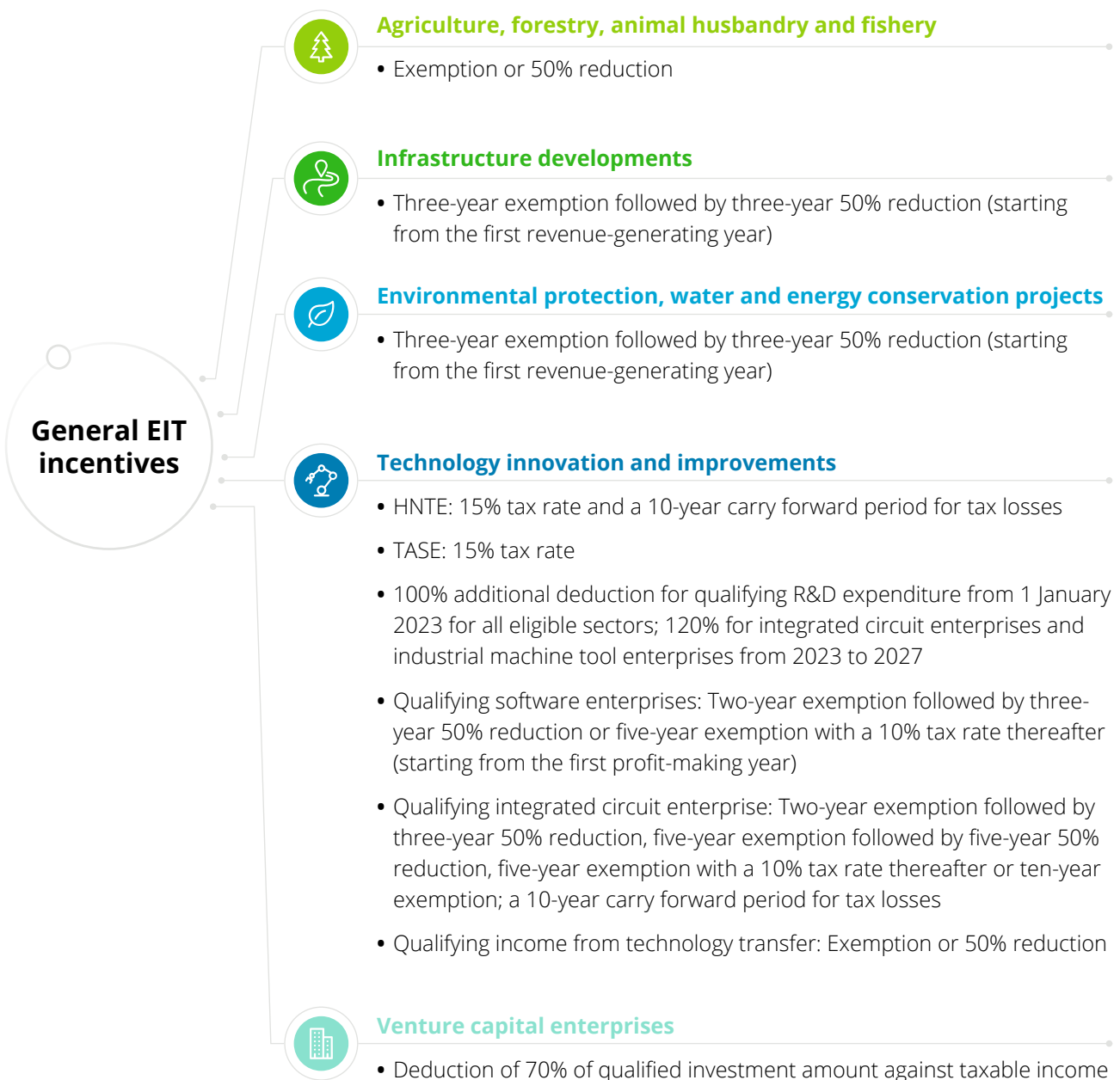
- 10 years - for qualifying HNTE, small and medium-sized technology enterprises and integrated circuit manufacturing enterprises with a linewidth of 130 nanometres or less
- 13 years - for qualifying HNTE and small and medium-sized technology enterprises in Nansha of Guangdong

The carry back of losses is not permitted.

Tax Incentives

General EIT incentives

Preferential EIT treatments are offered to the following encouraged activities and industries:



Specific areas with preferential tax treatments

Preferential tax treatments are provided in specific areas, including but not limited to:

Specific areas with preferential tax treatments

- 1 Minority autonomous areas**
 Autonomous areas may choose to reduce or exempt taxes for the portion of EIT paid by an enterprise located in a minority autonomous region and retained by the local government under the fiscal allocation scheme between the central government and local governments.
- 2 Special economic zones plus Shanghai Pudong New Area**
 For HNTes newly established in five special economic zones in Shenzhen, Zhuhai, Shantou, Xiamen and Hainan, as well as the Shanghai Pudong New Area, with effect from the first year to which manufacturing and operational revenue earned is attributable, income earned in such zones or area may be exempt for the first two years and may be taxed at half of the statutory rate of 25% for the third to the fifth years.
- 3 Western region**
 For enterprises engaged in encouraged industries that are established in the western region, EIT may be levied at a preferential rate of 15%.
- 4 Guangdong-Macau In-Depth Cooperation Zone in Hengqin, Qianhai Shenzhen-Hong Kong Modern Service Industry Cooperation Zone, Shenzhen Park of the Hetao Shenzhen-Hong Kong Science and Technology Innovation Cooperation Zone and Launch Areas of Demonstration Zone of All-round Cooperation Among Guangdong, Hong Kong SAR (hereinafter referred to as Hong Kong) and Macau SAR (hereinafter referred to as Macau) in Nansha**
 Enterprises in encouraged industries in these areas are entitled to a preferential EIT rate of 15%. EIT is exempt for foreign-source income from newly increased foreign direct investment by Hengqin enterprises in tourism, modern service, and high-tech industries. The maximum period of loss carry-over is extended to 13 years for HNTes and Small and Medium-sized Technology Enterprises in Nansha.
- 5 Shanghai Pilot Free Trade Zone (SPFTZ)**
 SPFTZ is a free trade zone which aims to create a largely free and open economy for the area – a competitive tax regime is not the principal focus of SPFTZ. However, in Lingang, a new area added to SPFTZ, qualified enterprises in certain key sectors may be entitled to a preferential EIT rate of 15% within five years from the date of establishment.
- 6 Hainan Free Trade Port (FTP)**
 Enterprises engaged in encouraged industries with substantive operations are entitled to a preferential EIT rate of 15%. EIT is exempt for foreign-source income from newly increased foreign direct investment by Hainan FTP enterprises in tourism, modern service, and high-tech industries.
- 7 Pingtan Comprehensive Experimental Area in Fujian**
 Enterprises in encouraged industries in the area are entitled to a preferential EIT rate of 15%.

Tax Treaties and Double Taxation Relief

Unilateral relief

If a resident enterprise derives income from a foreign jurisdiction, the resident is entitled to a tax credit for the foreign income tax actually paid on the income in that jurisdiction. Additionally, an indirect foreign income tax credit is also allowed. The total amount of credit is limited to the amount of China tax payable on the foreign income. The resident enterprise can elect to compute the credit limit on a "per jurisdiction" basis or an aggregate basis,

and the method cannot be changed within five years after the election is made. If the foreign income tax exceeds the limit, the excess may be carried forward for five years.

Tax treaties

Chinese Mainland has a broad tax treaty network. Chinese Mainland's treaties generally contain OECD-compliant exchange of information provisions.

Chinese Mainland Tax Treaty Network¹

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

* Chinese Mainland has signed tax arrangements with Hong Kong and Macau.

As from 1 January 2020, the application procedure to claim treaty benefits in Chinese Mainland by non-residents was greatly simplified. To claim treaty benefits, non-resident enterprises and individuals need to make a

self-assessment of their eligibility, file a declaration with Chinese tax authorities and maintain the supporting documents for future inspections.

¹ This table contains the tax treaties have been signed and effective as of 31 December 2023.

Anti-avoidance Rules

Transfer pricing

Related parties' transactions must comply with the arm's length principle. Where intercompany charges or fees do not reflect an arm's length arrangement, the tax authorities may make adjustments by reference to normal market rates or prices for similar services or goods. Tax authorities are entitled to make adjustments

retroactively on transactions between related parties that took place up to 10 years ago.

Chinese Mainland has adopted the "best method" approach for selecting a transfer pricing method, with no prioritization of methods.

Transfer pricing methods



Contemporaneous documentation requirements now encompass the three tier framework as set out in OECD's base erosion and profit shifting (BEPS) Action 13.

All the contemporaneous documentation must be submitted within 30 days upon tax authorities' request.

Master File

- A Chinese enterprise must prepare a master file for a tax year in either of the following situations:
 - i. The enterprise has conducted cross-border related party transactions during the year, and the ultimate holding company of the enterprise has already prepared a master file; or
 - ii. The total amount of the enterprise's related party transactions in the year exceeds RMB1 billion.
- A master file must be prepared within 12 months after the group's ultimate holding company's fiscal year ends.

 **Local File**

- A Chinese enterprise must prepare a local file for a tax year in one of the following situations:
 - i. The amount of related party purchases/sales of tangible goods in the year exceeds RMB200 million;
 - ii. The amount of related party purchases/sales of financial assets or intangible assets in the year exceeds RMB100 million; or
 - iii. The amount of related party transactions (other than the above types) in the year exceeds RMB40 million.
- A local file must be prepared by 30 June of the subsequent tax year.

 **Special Issue File**

- A Chinese enterprise must prepare a special issue file for a tax year if the enterprise exceeds the thin capitalization ratio or implements any cost-sharing agreement in that year.
- A special issue file must be prepared by 30 June of the subsequent tax year.

Enterprises that have conducted related-party transactions with domestic related parties only are not required to prepare the master file, local file, and special issue file.

According to Bulletin 6 issued on 17 March 2017, where an enterprise engages in single manufacturing business, such as contract/toll manufacturing, or distribution or contract R&D activities for foreign related parties, it should in principle maintain a reasonable profit level. If it incurs a loss in a year, such enterprise is required to

prepare a local file for the loss year regardless of whether it has met the condition for preparing a local file.

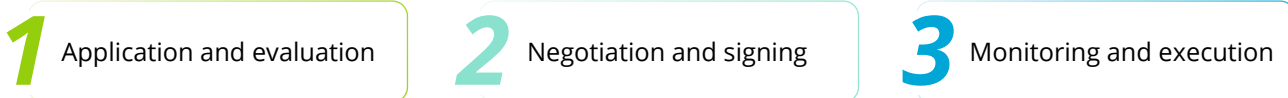
There are rules on cost-sharing agreements and advance pricing arrangements (APAs).

APAs can be unilateral, bilateral or multilateral, and are valid for three to five years. The APA process generally includes six phases shown below:



The State Taxation Administration (STA) issued Bulletin 24 on 7 July 2021. If certain requirements are met, taxpayers can use simplified procedures to apply for unilateral

APAs. The simplified procedures include three phases as shown below:



Thin capitalization

The thin capitalization rules operate to disallow a deduction for excessive interest expense with respect to related party financing. The debt-to-equity ratio is specified as 5:1 for financial institutions and 2:1 in all other cases. Interest expense exceeding the stipulated threshold is non-deductible in the current and subsequent periods, unless the enterprise can produce supporting documentation demonstrating that the financing is at arm's length, or if between two domestic enterprises, the effective tax rate of the borrowing entity is not higher than the rate of the domestic related party that receives the interest.

Country-by-Country reporting

Chinese Mainland introduced Country-by-Country (CbC) reporting obligations for qualifying groups following the recommendations of BEPS Action 13. CbC reporting forms are included as part of the annual income tax filing package for enterprises. CbC reporting forms are required for a resident enterprise that is:

- The ultimate parent of a multinational group with consolidated revenue over RMB5.5 billion; or
- Appointed by the multinational group as the filing entity for CbC reporting.

Regulations allow the Chinese tax authorities to request copies of the CbC report upon performing a transfer pricing audit where they cannot effectively obtain the CbC report from the relevant overseas tax authorities through an information exchange mechanism, or if the overseas ultimate holding company does not provide a CbC report to any country.

Chinese Mainland has signed the multilateral competent authority agreement for the automatic exchange of CbC reports.

Controlled foreign companies

A Chinese shareholder may be taxed on its proportionate share of undistributed profits of CFCs located in certain low tax jurisdictions where there are no valid business reasons for the decision not to distribute the profits. To be a CFC, the enterprise must be incorporated in a country or region where the effective tax rate is 50% or less than Chinese Mainland's statutory EIT rate (i.e., 12.5% or less). The 2019 Individual Income Tax (IIT) law introduces a CFC rule for individual taxpayers.

An enterprise can avoid application of the CFC rules if:

- The CFC is located in a "white list" country (Australia, Canada, France, Germany, India, Italy, Japan, New Zealand, Norway, South Africa, the UK and the US);
- The CFC's income is derived mainly from active business activities; or
- The annual profits of the CFC are lower than RMB5 million.

General anti-avoidance rule

Chinese Mainland's GAAR requires a bona fide business purpose for any commercial arrangement that has the effect of reducing, deferring or avoiding taxable revenue or taxable income. In the absence of such a purpose, the tax authorities have the power to disregard the arrangement and impose adjustment as the case may be. The 2019 IIT law introduces a GAAR provision for individual taxpayers.

Multilateral instruments

Chinese Mainland signed the OECD's Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting (the "BEPS Convention") on 7 June 2017. Chinese Mainland deposited an instrument of approval for the BEPS Convention with the OECD on 25 May 2022. This instrument also covers Hong Kong's bilateral treaties.

The BEPS Convention has entered into force in Chinese Mainland on 1 September 2022. Depending on Chinese Mainland's treaty partners' decision on whether to include the corresponding treaties to the scope of the BEPS Convention and whether to ratify, accept or approve the BEPS Convention, the BEPS Convention applies to 53 tax treaties of Chinese Mainland as of 31 December 2023. This number will change over time.

Albania	Egypt	Latvia	Qatar
Australia	Finland	Lithuania	Romania
Austria	France	Luxembourg	Russia
Bahrain	Georgia	Malaysia	Saudi Arabia
Barbados	Greece	Malta	Serbia
Belgium	Hungary	Mauritius	Seychelles
Bosnia and Herzegovina	Iceland	Mexico	Singapore
Bulgaria	Indonesia	Netherlands	Slovakia
Canada	Ireland	Norway	Slovenia
Croatia	Israel	Oman	South Africa
Cyprus	Japan	Pakistan	Thailand
Czech	Kazakhstan	Poland	Ukraine
Denmark	Korean	Portugal	United Arab Emirates
			United Kingdom

The major choices made by Chinese Mainland to the BEPS Convention are as follows:

Hybrid mismatches

Chinese Mainland made a reservation with respect to the entirety of Article 3 of the BEPS Convention for all of its

Covered Tax Agreements², that is Chinese Mainland has opted not to apply the provision regarding transparent entities. However, Chinese Mainland has accepted the modification of the Article 4 of the BEPS Convention, i.e., to adopt a new dual resident entity tiebreaker rule to replace the place of effective management test.

Prevent treaty abuse

To implement the BEPS minimum standard on preventing treaty abuse, Chinese Mainland accepted the modification to the preamble stated in the Article 6 of the BEPS Convention, that is to indicate that the intent for tax treaties is to eliminate double taxation without creating opportunities for nontaxation (or reduced taxation) through tax evasion or avoidance. Chinese Mainland also chose to apply Article 6(3), i.e., to choose to include the following preamble text with respect to its Covered Tax Agreements that do not contain preamble language referring to a desire to develop an economic relationship or to enhance co-operation in tax matters:

“Desiring to further develop their economic relationship and to enhance their co-operation in tax matters,”.

Chinese Mainland accepted Article 7 of the BEPS Convention and opted for the Principal Purpose Test (PPT). According to the PPT, treaty benefits that would otherwise be available could be denied where it is reasonable to conclude, considering all of the relevant facts and circumstances, that obtaining the benefit was one of the principal purposes of an arrangement or a transaction that resulted directly or indirectly in that benefit, unless it is established that granting the benefit in the circumstances would be in accordance with the object and purpose of the relevant provisions of the Covered Tax Agreement.

Chinese Mainland also has opted to insert the language of Article 8 of the BEPS Convention, which contains a “lookback” period of 365 days to determine the minimum shareholding period for substantial (i.e., at least 25%) shareholders to benefit from a lower withholding tax rate on dividends.

Avoidance of Permanent Establishment (PE) status

Chinese Mainland has decided not to make the proposed changes to the PE threshold, so there will be no outward changes in the PE provisions of Chinese Mainland’s treaty, but many of the proposed changes are consistent with how Chinese Mainland has long interpreted the PE provisions in practice.

Dispute resolution mechanism

The BEPS Convention implements the BEPS minimum standard for resolving disputes under a tax treaty. Chinese Mainland accepted mutual agreement procedure stated in the Article 16 of the BEPS Convention, but did not accept that a taxpayer is permitted to present its case to the tax authorities of either of the contracting states. Instead Chinese Mainland allows a taxpayer to present its dispute only to the tax authorities of the contracting state in which the person is a resident or national (in the event of a non-discrimination case) and then the referred tax authorities will implement a bilateral notification or consultation process.

Chinese Mainland has opted not to require mandatory binding arbitration.

² The term “Covered Tax Agreement” means an agreement for the avoidance of double taxation with respect to taxes on income (whether or not other taxes are also covered):

i) that is in force between two or more:

A) Parties; and/or

B) jurisdictions or territories which are parties to an agreement described above and for whose international relations a Party is responsible; and

ii) with respect to which each such Party has made a notification to the Depository listing the agreement as well as any amending or accompanying instruments thereto (identified by title, names of the parties, date of signature, and, if applicable at the time of the notification, date of entry into force) as an agreement which it wishes to be covered by this Convention.

Compliance and Administration

Tax year

The tax year is the calendar year.

Filing and payment



Provisional EIT returns

- Returns are to be filed within 15 days of the end of each quarter; and
- The advance tax payments are generally calculated according to the actual quarterly profits.



Annual EIT returns

- Annual filing and final settlement are to be performed within five months of the end of the tax year.



Late payment interests and penalty

- Late payment interests are imposed on a daily basis, at a rate of 0.05% of the amount of underpaid tax; and
- Penalties may be imposed in addition to the late payment interests.



An interest-based penalty

- An interest-based penalty may be imposed on the underpaid tax arising from transfer pricing, thin capitalization, CFC and GAAR adjustments.

In general, when a resident enterprise has branch offices registered in provinces different from where the head offices located, the enterprise should compute tax on a legal entity basis. However, the head office and the branches may be required to allocate the tax among them and make provisional EIT filings in their respective provinces.

Consolidated returns

Chinese Mainland generally does not permit the filing of consolidated returns; each enterprise must file a separate return.

Statute of limitations

3 years

- an underpayment of tax no greater than RMB100,000 due to the taxpayer's inadvertent error in tax computation (e.g., incorrect application of a formula)

5 years

- if the accumulated amount of underpaid tax greater than RMB100,000 due to the taxpayer's inadvertent error in tax computation

10 years

- underpayments of EIT arising from transfer pricing issues or arrangements without a bona fide business purpose

No limitations

- tax evasion

Tax authorities

Tax legislation and policy are developed jointly by the STA and the Ministry of Finance, with the STA and its provincial and municipal offices administering taxation policies. Local tax bureaus are responsible for the collection and administration of all taxes (other than import taxes and customs duty) and various non-tax fees and charges in their respective regions. The import-stage taxes (i.e., the VAT and consumption tax on imports) and customs duty are collected by customs authorities.

Rulings

Advance ruling procedures are not widely adopted in Chinese Mainland, although they have been piloted with respect to certain large enterprises as well as in some locations. Taxpayers normally consult their local in-charge tax officials on an unofficial basis when issues arise. The tax authorities may issue post-transaction rulings in special cases.



Withholding Taxes

Dividends

A 10% withholding tax on dividends paid to a non-resident company has applied since 2008. Dividends paid out of pre-2008 earnings are still exempt from withholding tax. The 10% withholding tax may be reduced under an applicable tax treaty.

Dividends paid to a non-resident individual are generally subject to a 20% withholding tax, unless the rate is reduced under a tax treaty. Dividends paid by Foreign Invested Enterprises (FIEs) to a foreign national may be exempt from income tax.

Interest

Interest paid to a non-resident company is generally subject to a 10% withholding tax, unless the rate is reduced under a tax treaty. Interest from certain loans made to the Chinese government or state banks is exempt from the withholding tax. A 6% VAT also applies to interest payments.

Interest paid to a non-resident individual is generally subject to a 20% withholding tax, unless the rate is reduced under a tax treaty.

Royalties

The withholding tax rate on royalties and fees paid to a non-resident company arising from the licensing of trademarks, copyrights and know-how and related technical service fees is generally 10%. Royalties are generally subject to a 6% VAT, except for payments made in connection with the use of technology, where an exemption may be granted.

Royalties paid to a non-resident individual are generally subject to a 20% withholding tax, unless the rate is reduced under a tax treaty.

Branch Remittance Tax

Currently, Chinese Mainland does not levy a branch remittance tax.

Taxation on Individuals

Residence

Basis

Individual income tax is levied on both Chinese and foreign individuals with varying allowances and tax is imposed on business income as well as employment income.

Each individual must file a separate return; joint filing is not permitted. Foreign individuals as well as Hong Kong, Macau and Taiwan (China) (hereinafter referred to as Taiwan) citizens shall register with the competent Chinese tax authorities as soon as they become liable to IIT.

Tax year

The tax year is the calendar year.

Domicile and residence

A domiciled individual is defined as an individual who habitually resides in Chinese Mainland due to his or her household registration status, family ties, and/or economic interests. In practice, foreign nationals as well as Hong Kong, Macau and Taiwan citizens, usually are considered non-domiciled individuals. However, it is still suggested reviewing one's domicile status on a case-by-case basis. A domiciled individual is treated as Chinese tax resident and a non-domiciled individual will become a Chinese tax resident of the year if he or she stays in Chinese Mainland for 183 days or more in the calendar year, otherwise the non-domiciled individual will be treated as non-resident. The days of entering and exiting Chinese Mainland will not be counted as Chinese Mainland days in counting the days above.

Taxable Income and Tax Rates

Domiciled individuals are subject to IIT on their worldwide income. Non-resident individuals are only subject to IIT on their Chinese Mainland-source income for that year. Certain Chinese Mainland-source income may be further exempt from IIT if the non-domiciled individual stays in Chinese Mainland for no more than 90 days in that year and relevant costs are not paid or borne by the Chinese entity. However, non-domiciled resident individuals' foreign-source income derived in that year is exempt from IIT to the extent the foreign-source income is paid and the cost absorbed by a foreign party, and provided it meets either of the following situations: 1) in any year of the preceding six consecutive years the individual has stayed in Chinese Mainland for less than 183 days; or 2) in any year of the preceding six consecutive years the individual was outside Chinese Mainland for a single trip of more than 30 days. The six-year clock began to run as from 2019, irrespective of how many years a non-domiciled individual had stayed in Chinese Mainland before 2019.

- **Taxable income is classified into 9 categories** and different categories are taxed separately. Below is one general summary of the income category and corresponding tax rate.

Income Category	Tax Rate
Salaries and wages income	Consolidated into one tax basket for resident Individuals, named "comprehensive income"
Remuneration for independent services	
Author's remuneration	
Income from royalties	
Income from business operation	Progressive tax rate from 5% to 35%
Income from lease of property	20%*
Income from interest and dividends	20%
Income from transfer of property	20%*
Incidental income	20%

*Note: If the property is real estate, there may exist local comprehensive tax rate or tax relief.

- **Comprehensive income** received by resident individuals is subject to progressive tax rates ranging from 3% to 45% with seven tax brackets as follows:

Annum Taxable Income	Tax Rate
Up to RMB36,000	3%
RMB36,000 – RMB144,000	10%
RMB144,000 – RMB300,000	20%
RMB300,000 – RMB420,000	25%
RMB420,000 – RMB660,000	30%
RMB660,000 – RMB960,000	35%
Over RMB960,000	45%

- **Tax on salaries and wages** derived by non-resident individuals is calculated on a monthly basis, with progressive tax rates ranging from 3% to 45% with seven tax brackets as follows. For non-resident individuals' **tax on remuneration for independent services, author's remuneration and income from royalties**, the same tax rates would apply and tax is calculated on a transactional basis.

Taxable Income	Tax Rate
Up to RMB3,000	3%
RMB3,000 – RMB12,000	10%
RMB12,000 – RMB25,000	20%
RMB25,000 – RMB35,000	25%
RMB35,000 – RMB55,000	30%
RMB55,000 – RMB80,000	35%
Over RMB80,000	45%



Deductions

Deductions are available, depending on an individual's residence and category of income.

- Resident individuals are entitled to a fixed annual standard deduction of RMB60,000; non-resident individuals are entitled to a fixed monthly deduction of RMB5,000 for salaries and wage income.
- Resident individuals' social security and housing funds contributions are deductible. These include payments to authority centrally managed housing funds, medical insurance, pension and unemployment insurance, which should be in accordance with relevant regulations and each of the deductions has a cap, relating to the income amount of the taxpayer.
- Resident individuals are entitled to seven additional itemized deductions for certain living expenses, if certain criteria are met, including infant and child care costs (for children under age three), education expenses for children; expenses for continuing education; health care costs for serious illnesses; either residential mortgage interest or housing rent; and expenses to support elderly parents. Each of these deductions would have a cap on a monthly or annual basis and the cap would differ according to an individual's specific situation.
- For remuneration for independent services, author's remuneration, and income from royalties, 20% of the gross income is deductible. For author's remuneration, a further 30% deduction on the reduced gross income is allowed. In other words, 44% of the gross amount of author's remuneration is deductible.
- Deduction of charitable donations (i.e., donations for purposes of education, alleviation of poverty, etc.) generally is capped at 30% of taxable income, although the cap could be lifted for certain items approved by the State Council.
- Qualified annuity, tax efficient commercial health insurance, tax deferred pension insurance and payment made by an individual to the qualified personal pension account are also deductible with certain cap set by relevant regulations.
- Before 1 January 2028, foreign individuals can enjoy the non-taxable benefits-in-kind (BIK) through reimbursement with sufficient documentation, which include housing costs; relocation expenses; meal and laundry expenses; reasonable home leave fares of 2 trips per annum for the employee (not including family members); Chinese language training expenses for the employee; and child education expenses. Practically, Hong Kong, Macau and Taiwan citizens can normally also enjoy the non-taxable BIK described above. Between the non-taxable BIK and the deduction of the itemized deductions for resident individuals as discussed above, resident individuals who are foreign nationals can choose only one. Although advanced approval of the tax authorities is not usually required for such BIK exemption (some tax authorities may require the registration of such scheme adopted), supporting documents and valid commercial invoices must be retained for the tax authorities' future review.
- The deduction for income from business operation has complex rules, which are similar to those rules applicable to companies.
- For income from lease of property and income from transfer of property, the deduction can include original cost and reasonable expenses.

Withholding Obligation

In most cases, an employer, legal entity or a person who pays taxable income to the individual is obliged to act as a withholding agent and is responsible for filing a tax return and remitting tax payments to the tax authorities on behalf of the individual. If there is no withholding agent, the individual is responsible for filing his/her tax return and paying the tax assessed.

The advance taxes to be withheld on comprehensive income for resident individuals are collected through the withholding of taxes, which are remitted to tax authorities by the withholding agent on a monthly or transactional basis.

Compliance

Withholding agents and individuals file tax returns to the tax authorities and make the tax payment to the state treasury within 15 days after the end of the month in which the income is derived.

If a non-domiciled individual is estimated to be a resident individual at the beginning of the year but subsequently becomes a non-resident for the tax year, he/she must report to the competent tax authority in a period from the date when he/she does not meet resident individual conditions to the time of 15 days after the end of the year, re-calculate the tax payable as a non-resident individual.

A late payment surcharge is imposed on a daily basis at a rate of 0.05% of the amount of underpaid tax. Penalties may be imposed in addition to the late payment surcharge.

Where a resident individual is dispatched to work overseas by a dispatching entity in Chinese Mainland, with salaries and wages income as well as remuneration for independent services paid or borne by the overseas entity, the dispatching entity may need to report the information of the dispatched person to its competent tax authority before 28 February of the following year.

Annual Self-declaration

Resident individuals are required to file an IIT annual reconciliation return for comprehensive income under certain circumstances such as that the annual cumulative tax amount withheld during the year is inconsistent with the individual's final tax payable amount. Within the period from 1 March to 30 June of the year after the year in which the income is derived, the concerned resident individuals should handle the tax declaration with the competent tax authority.

A resident individual is exempt from IIT annual reconciliation filing if 1) his or her total comprehensive income does not exceed RMB120,000*, or 2) the final tax owed for comprehensive income does not exceed RMB400*, or 3) the final assessed tax payable amount is less than the tax withheld during the year while the individual chooses to forego the tax refund.³ However, despite of the said exemptions, a taxpayer is still required to file an IIT annual reconciliation return, where the taxpayer under-declares comprehensive income or fails to declare comprehensive income in a tax year due to incorrect application of income categories or withholding agent fails to fulfill the withholding obligation pursuant to the law.

³ The first 2 circumstances where IIT annual reconciliation filing is exempt are so far available for tax year from 2019 through 2027.

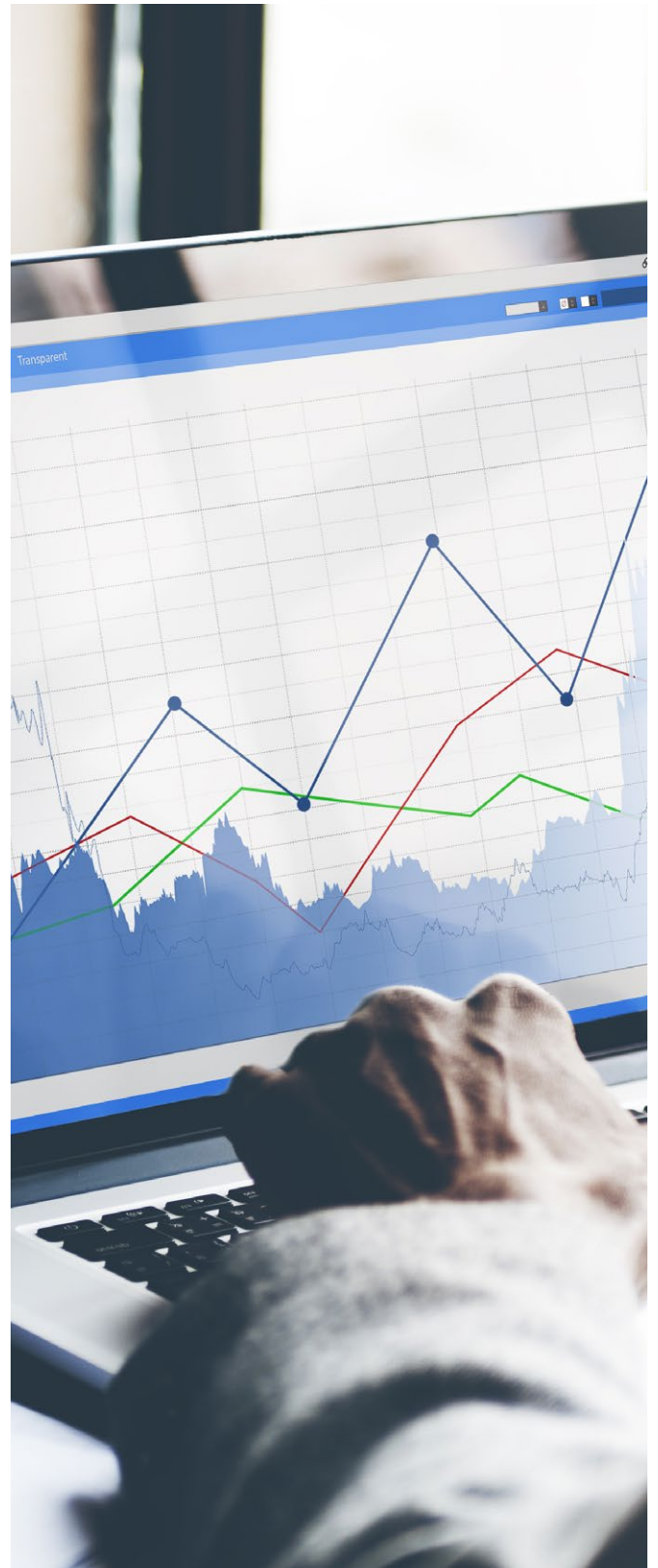
Foreign Tax Relief

If a resident individual has to pay tax on foreign-source income in another jurisdiction from which the income is sourced as well as in Chinese Mainland, the tax paid in the foreign jurisdiction may be used to offset the individual's Chinese Mainland IIT. However, the maximum amount of the offset may not exceed the IIT payable, as calculated in accordance with relevant laws and regulations.

Social Security Contributions

The employer is required to contribute approximately 16% of employee's basic payroll to the state-administered retirement scheme and also must contribute to a medical insurance fund, maternity insurance, unemployment insurance and work-related injury insurance. The contribution rates can vary across the country (e.g., total employer contributions can be up to around 28% of the employee's monthly salary in Shanghai). The employee is required to contribute a certain percentage of his/her monthly salary to the funds, subject to certain caps.

Foreign individuals as well as Hong Kong, Macau and Taiwan citizens working legally in Chinese Mainland (including locally hired individuals and those seconded from abroad to work in the Chinese Mainland) are required to participate in the same social security scheme as described above. Under the condition that one bilateral social security totalization agreement is applicable to the foreign individuals, or the Hong Kong, Macau and Taiwan citizens continue to maintain their social security in home location, the obligation to participate in corresponding Chinese Mainland social security scheme for the items covered in the relevant totalization agreement or specified in the relevant regulation could be exempted. However, the enforcement of above group individuals' participation in Chinese Mainland social security scheme may vary in different cities.



Value Added Tax and Other Taxes

Value Added Tax

Scope of taxation

VAT applies to most sales of goods, services and imports. Immovable property and most intangible assets are considered goods for VAT purposes.

VAT payers

There are two types of VAT payers, i.e., general VAT payers and small-scale VAT payers. A general VAT payer is allowed to credit input VAT against the VAT charged on its sales (i.e., output VAT) to compute the VAT due. Small-scale VAT payers compute VAT payable on sales at

a lower rate, but no credit of input VAT is allowed. Input VAT is the VAT charged on the goods or services supplied to a business and paid by the business to the suppliers of such goods or services.

A business is generally required to register as a general VAT payer if its sales in a 12-month period reaches the threshold of RMB5 million. A business whose sales do not reach the threshold may voluntarily register as a general VAT payer. However, a foreign company generally cannot register as a general VAT payer.

Tax rate

Taxable items	Applicable rate (for general VAT payers)
<i>General goods; processing, repair or replacement services; and leasing tangible and moveable assets</i>	13%
<i>Specified goods (e.g., food, books and utilities); immovable property/land use rights; services including transportation, postal service, basic telecommunications, construction, and leasing immovable property</i>	9%
<i>Intangible assets (excluding land use rights); and services including value-added telecommunications, financial services, lifestyle services⁴, and modern services⁵</i>	6%

Export of goods and provision of certain services (e.g., R&D/design services provided to overseas entities and fully consumed outside Chinese Mainland, international transportation services) may attract a zero rate of VAT, i.e., no VAT is charged on the sales with a refund of the relevant input VAT.

There are also some goods and services (e.g., childcare/medical/academic education service, construction service for projects located in foreign jurisdictions) which are exempt from VAT, i.e., no VAT is charged on the sales but without a refund or credit of the relevant input VAT.

⁴ Lifestyle services include cultural and sports service, educational and medical service, tourism and entertainment, catering and accommodation service, resident daily services, etc.

⁵ Modern services include R&D, IT, logistics auxiliary service, consulting, business support, etc.

Small-scale VAT payers are generally subject to a 3% VAT on their sales without a credit of the relevant input VAT. The rate is reduced to 1% for small-scale VAT payers during the period 1 March 2020 through 31 December 2027.

Start from 1 January 2023 to 31 December 2027, small-scale VAT payers are exempted from VAT if their total monthly sales have not exceeded RMB0.1 million.

Credit/refund of input VAT

To claim a credit of input VAT against output VAT, a general VAT payer must maintain relevant valid supporting documents (e.g., special VAT invoices).

If the amount of the input VAT exceeds that of the output VAT, the excess may be carried forward to the next period, or refunded for qualifying taxpayers.

Input VAT in respect of some goods and services are excluded from being creditable against output VAT, for example:



Goods and services acquired for purposes of private consumption or VAT-exempt activities



Loans, catering, entertainment and daily living services (e.g., housekeeping, senior caring, hairdressing, etc.)



Goods that have been lost, stolen or damaged due to improper management

Aiming to promote scientific and technological innovation and development, from 1 January 2023 through 31 December 2027, eligible integrated circuits enterprises and industrial machine tool enterprises are granted a 15% "super credit" of input VAT (i.e. an additional VAT credit), which is computed as 15% of the creditable input VAT; and eligible advanced manufacturing enterprises (i.e. manufacturing enterprises with HNTE status) are granted a 5% "super credit" of input VAT.

Administration

VAT returns of general VAT payers should normally be filed for each calendar month and submitted before the 15th day of the following month. A taxpayer that imports goods must pay tax within 15 days after the issuance of the tax payment certificate by the customs authorities.

VAT legislation

A draft VAT law is in the legislative process. Once the draft law is passed by the National People's Congress (NPC) of China and becomes effective, the law would replace the current Provisional Regulations on VAT. According to the latest draft VAT law published on 28 August 2023, the draft basically imports most of the current VAT rules aiming to provide a stable policy environment. However, the draft still introduces certain changes that may impact businesses, notably the removal of the restriction for the credit of input VAT from loan interest. An update draft is planned to be submitted for NPC review in December of 2024.

Tax Digitalization

Tax digitalization driven by STA

In 2015, the STA formulated its "Internet plus Taxation" action plan, built the electronic tax system using tax Big Data, and gradually began to process many different kinds of tax matters through the Internet. The "Internet plus Taxation" action plan outlines the tasks of inclusive taxation and "smart taxation" blueprint as a whole, and will generally build a smart tax ecosystem across the country.

In March 2021, General Office of the Communist Party of China Central Committee and General Office of the State Council of People's Republic of China issued the Opinions on Further Deepening the Reform of Tax Collection and Administration, taking "smart taxation" as the main focus of further deepening the reform of tax collection and administration in the new development stage. The Golden Tax Phase IV project focuses on the construction of "smart taxation", takes the reform of electronic invoices as a breakthrough, and is driven by big tax data to promote the construction of multi-dimensional, real-time collection, connection and aggregation of full tax related data. The construction background of the Golden Tax Phase IV project is changing from "Tax Monitoring and Management by VAT Invoice" to "Tax Management and Govern by data".

The administrative Measures of the People's Republic of China on Invoices ("Measures") was revised for the third time pursuant to the Decision of the State Council on Revising and Repealing Some Administrative Regulations on 20 July 2023. The new Measures established the legal effect of the electronic invoices.

E-invoicing

A VAT taxpayer can issue a special VAT invoice or a general VAT invoice for a VAT taxable activity.

- Special VAT invoices are usually obtained and used by VAT general taxpayers;
- VAT small-scale taxpayers who need to issue a special VAT invoice for a VAT taxable activity may apply to competent tax authorities to issue it on their behalf, or may voluntarily use the VAT invoice administrative system to issue it;
- Both general taxpayers and small-scale taxpayers can issue general VAT invoices; and
- The VAT amount indicated in the special VAT invoice is allowed to be used as input VAT to credit against output VAT of the purchaser. Except for certain cases, the VAT amount stated in general VAT invoices are generally not used for input VAT credit against output VAT.

On 30 November 2021, Chinese tax authorities in Guangdong, Inner Mongolia, and Shanghai announced that they would pilot a program for fully-digitalized electronic invoice (FDEI) in selected regions as from 1 December 2021. The STA has established a nationwide online platform to enable pilot taxpayers to issue, deliver, and validate FDEI at all times and free of charge. The pilot work of FDEI has been accelerated in the next half year of 2022 and 2023. As of the end of December 2023, there are 36 provinces/cities have been included into the FDEI pilot program. The pilot program aims to achieve "full digitalization" for the management of invoices, which could bring far-reaching changes to the daily operations of businesses.

Innovative highlights of FDEI:

- **Layout of invoices:** An FDEI may be in the form of electronic data without being converted to a specific page layout file (e.g., PDF or OFD format). If businesses choose to physically print FDEIs, they may determine the format at their discretion. In addition to the basic transaction elements required to be recorded in an FDEI, businesses also are allowed to add self-customized elements to the FDEI.
- **Issuing invoices:** Businesses must use special devices (e.g., special hardware, printers) to issue invoices. These devices are not required in the FDEI pilot program, where businesses may issue an FDEI simply through the online platform. The platform is expected to be enhanced further so that businesses may issue an FDEI through mobile applications in the future. Under the FDEI pilot program, the ceilings on the transaction price for a single invoice and the number of invoices that can be issued for a business during a single calendar month are replaced by a single ceiling on the total of transaction amounts of FDEIs issued by a business in a single calendar month. The ceiling is computed according to certain pre-set rules in the system based on certain factors, such as the business' tax compliance rating, risk grade, actual operation status, and etc.
- **Delivering invoices:** FDEI can be delivered through "tax digital accounts" under the new pilot program. The platform sets up a "tax digital account" for relevant pilot taxpayers. Whenever an FDEI is issued, it would automatically be delivered to the "tax digital account" of the recipient, who can read or download the invoice information from the account.
- **Status tracking:** For pilot taxpayers that have received FDEIs for their purchases, the platform allows them to mark the relevant status of the FDEIs, including whether an FDEI has been posted to their accounts for bookkeeping purposes. Meanwhile, for pilot taxpayers that have issued FDEIs for their sales, they also are able to track the status of FDEIs they issued through the platform, including whether an FDEI has been used by the recipient to support an input VAT credit.

The digitalized e-invoice brings a variety of benefits and impacts, including but not limited to the following:

- **Convenient issuance and delivery:** As traditional procedures are no longer applicable to the pilot taxpayers, they can now issue and deliver electronic invoices via the "tax digital accounts" automatically, closing in to materialize centralized invoice management.
- **Elevated requirements on internal risk management due to the credit system:** Pilot taxpayers are granted automatically with the single ceiling on the total monthly invoicing amount with dynamic adjustments based on the "credit +risk" management system and the taxpayers' business, invoicing and tax reporting status.
- **Customized invoice elements as a new approach for invoice management:** Businesses are allowed to add self-customized invoice elements on FDEIs, such as numbers or codes of contracts, orders, delivery notes, revenue center, etc., so as to meet internal management needs and enable free-flow and orderly exchange of business, finance, tax and invoice data.
- **Management of the entire lifecycle of an invoice:** The new feature to track whether an FDEI has been posted to pilot taxpayers' accounts for bookkeeping purpose urges businesses to accurately record the status of invoices in their internal systems and sync with the online platform.
- **Promotion of archiving electronic accounting files (e-archiving):** FDEI and e-archiving of accounting files are closely related and call for competent technology solutions that can satisfy the e-archiving requirements and facilitate their internal management. More invoice management solutions within the new eco-system of FDEIs, such as a nationwide online platform is accessible by any qualified businesses and third parties per the STA standards made public. This terminates the era of reliance on certain special software and devices and relevant suppliers under traditional administrative process.

E-filing of electronic accounting vouchers

On 15 May 2023, the Accounting Department of the Ministry of Finance issued the Notice on the Publication of Accounting Data Standards for Electronic Vouchers, and formulated nine categories of accounting data standards for electronic vouchers (trial version), such as VAT e-invoice (general e-invoice and special e-invoice), digitalized e-invoice; fully digitalized railway e-ticket, fully digitalized air transport e-itinerary; financial electronic bills, electronic non-tax income general payment documents; and bank electronic receipt, bank electronic statement. Valid and authentic electronic accounting vouchers have the same legal validity as hard copy accounting documents.

In addition, where an enterprise uses a hard copy of an electronic accounting voucher as the basis for bookkeeping and archiving for reimbursement purpose, its electronic accounting voucher should be saved simultaneously.

Enterprises may only use electronic accounting vouchers for reimbursement, bookkeeping and archiving if they satisfy all of the following criteria:

- The electronic accounting vouchers received were verified as lawful and authentic;
- The transmission and storage of electronic accounting documents is secure and reliable, and any tampering with electronic accounting documents can be discovered on a timely basis;
- The accounting system used is capable of accurately and completely reading and outputting electronic accounting vouchers, and completing financial accounting records, with necessary review and approval procedures in the system to prevent repeated entry of electronic accounting vouchers; and
- Archiving and management of electronic accounting vouchers shall be in compliance with the requirements set forth in the Administrative Measures on Accounting Archives, etc.



Other Taxes

Capital tax

Chinese Mainland does not levy capital duty.

Real estate tax

A real estate tax is imposed on the owner of property at a rate of 1.2% on the assessed value, or 12% on the rental value of leased property. This tax applies to entities, including FIEs, and individuals. A local land use tax is also levied at varying rates, depending on the size of the city or locale.

Deed tax

A deed tax is imposed on the transferee of real property. The deed tax is calculated as a certain percentage of the total value of the transferred real property at rates ranging from 3% to 5%.

Transfer tax

Chinese Mainland does not levy transfer tax.

Stamp duty

The stamp duty law was promulgated on 10 June 2021, with an effective date of 1 July 2022. Under the stamp duty law, stamp duty rate, ranging from 0.005% (for loan agreements) to 0.1% (for leasing agreements, property insurance contracts, warehousing and storage contracts) applies to prescribed contracts, written certificates of transfer of property rights, business account books and permits. The rate on share transactions is 0.1% for shares listed on a domestic stock exchange, which has been reduced by half since 28 August 2023.

Customs duty

Import duties are levied at both general and preferential rates. The preferential rates apply to imports originating from countries or regions that have signed agreements with Chinese Mainland containing reciprocal preferential

tariff clauses, and the general tariff rates apply to imports originating from all other jurisdictions. However, if the State Council Customs Tariff Commission grants special approval, preferential tariff rates may be applied to imports that otherwise would be subject to the general rates.

To encourage foreign investment, FIEs that meet certain requirements may be exempt from custom duties on the importation of machinery and equipment for self-use.

Environmental protection taxes

From 2018 Chinese Mainland started to collect environmental protection tax. Taxable pollutants are divided into four categories, atmospheric pollutants, water pollutants, solid waste and noise. Environmental tax is levied according to pollutant emission equivalent amount.

Consumption tax

Consumption tax applies to prescribed nonessential and luxury or resource-intensive goods (including alcohol, luxury cosmetics, fuel oil, jewellery, motorcycles, motor vehicles, petrol, yachts, golf products, luxury watches, disposable wood chopsticks, tobacco, certain cell and coating products), and it mainly affects companies involved in producing or importing these goods. The tax is calculated based on the sales value of the goods, the sales volume or a combination of the two. The proportional consumption tax rate is from 1% to 56% on the sales revenue of the goods. Exports are exempt. From 1 November 2022 Chinese Mainland started to collect consumption tax on electronic smoke cigarette.

Consumption tax returns generally should be filed each calendar month and submitted before the 15th day of the following month.

Urban construction and maintenance tax/education surcharge

The urban construction and maintenance tax and the education surcharge generally apply to entities and individuals that are subject to VAT or/and consumption tax. The two surcharges are calculated as a percentage of the VAT or/and consumption tax due. The rates of the urban construction and maintenance tax depend on the location of the taxpayer:

- 7% for urban areas;
- 5% for county and town areas; and
- 1% for other areas.

The national education surcharge is levied at a flat rate of 3% and the local education surcharge is applied at a flat rate of 2%.

Land appreciation tax

Gains on the sale of real property, net of development costs and/or relevant expenditures, are subject to the land appreciation tax (LAT). LAT applies to all types of land, construction and immovable property, including commercial, industrial and residential sites. The implementing regulations provide for a deduction of qualified financing expenses, related taxes, administration and selling expenses, with prescribed caps in different situations. An additional deduction equal to 20% of property development costs and land purchase costs is available to real estate development companies.

LAT is charged in four bands ranging from 30% to 60%, depending on the percentage of gain realized.

Resource tax

The natural resources tax is levied on enterprises and individuals engaged in the exploitation of taxable resources within the territory of and other sea areas under the jurisdiction of Chinese Mainland. The tax basis for the resource tax is the sales price for most categories of taxable resources (e.g., crude oil, natural gas and coal) and for other taxable resources, the tax is calculated based on the volume of products sold or self-used. The resource tax is payable to the local authorities at the place of production or exploitation. Water resource tax was introduced on a trial basis in several provinces in Chinese Mainland since 2016. Entities and individuals that directly extract water from natural bodies of water or extract ground water are taxpayers of the tax. As the next step of the tax reform, the scope of resource tax will further expand to natural resources, such as forest, grassland and mud flats etc.

Vehicle and vessel tax

Vehicle and vessel tax is generally imposed on owners or users of vehicles and vessels. The applicable tax rates can be decided by the local authorities within the range prescribed by the tax law.

Chinese Mainland Tax Guide 2024 is for the clients and professionals of the Hong Kong, Macau and Chinese Mainland offices of Deloitte China. The contents are of a general nature only and based on rules and regulations as of 31 December 2023. Readers are advised to consult their tax advisors before acting on any information contained in this guide. For more information or advice on the above subject or analysis of other tax issues, please contact:

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