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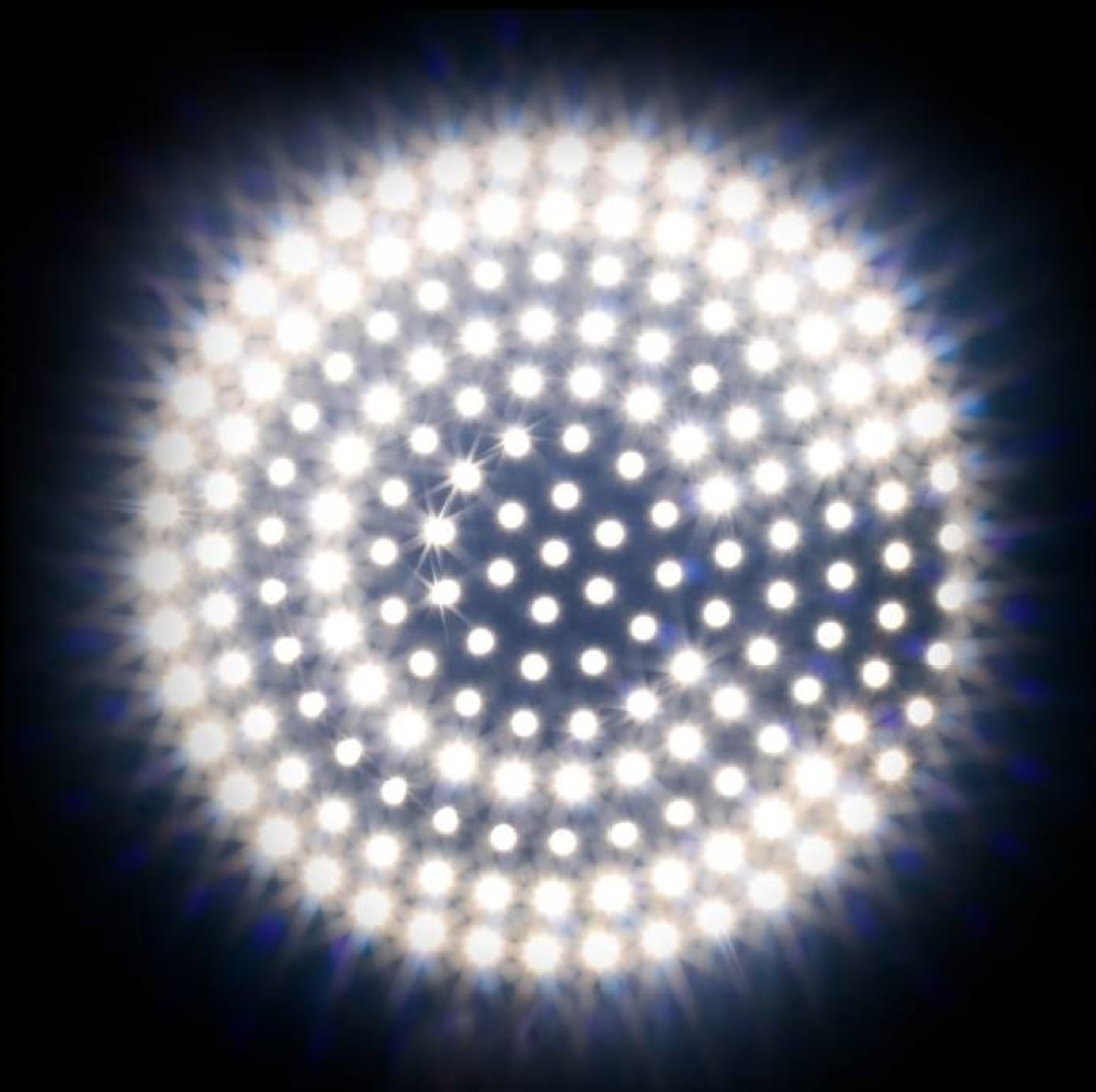

Taxation and Investment in China 2017

Contents

1.0 Investment climate

1.1 Business environment

China comprises 23 provinces, four “direct controlled” municipalities, five autonomous regions and two Special Administrative Regions (SARs) in Hong Kong and Macao. The National People's Congress (NPC) is the highest organ of state power and is empowered with the rights of legislation, decision, supervision, election and removal. The president, elected by the NPC, is the head of state, and the State Council (the Central People's government) is the highest organ of state administration. The premier, the head of the State Council, is nominated by the president, confirmed by the NPC and appointed and removed by the president.

The Communist Party has held power since the People’s Republic of China (PRC) was founded in 1949. Market reforms enacted over the past few decades have transformed the economy and raised the standard of living. Since the initiation of economic reforms in the late 1970s, China has become one of the world's fastest-growing economies. The industrial sector previously accounted for most of GDP, followed by the service sector and then agriculture, but the contribution of the service sector to GDP exceeded that of the industrial sector for the first time in 2013.

After joining the World Trade Organization (WTO) in 2001, China instituted a series of changes to its trade regulations to conform to WTO standards. Various economic sectors and certain industries gradually have been opened to foreign investment. To bolster the economies of the Hong Kong and Macao SARs, the central government signed a Closer Economic Partnership Arrangement (CEPA) with both SAR governments in 2003. The CEPA essentially is a free trade pact that exceeds WTO commitments and gives companies from the two SARs favorable tariff treatment in China before the same treatment is granted to other WTO members. The CEPA sometimes grants privileges that are not part of China’s WTO commitment.

Although the economy previously was dominated by state-owned enterprises (SOEs), domestic private enterprises and foreign investments have become the main driving force of economic development.

China has established a number of special economic zones (SEZs), economic and technological development zones (ETDZs), export processing zones and bonded warehouse zones to attract domestic and foreign investment and export activities. Various preferential policies, covering tax, foreign exchange, customs, investment, employment, etc., are provided to qualified enterprises or industries in these areas. The China (Shanghai) Pilot Free Trade Zone (Pilot FTZ) was launched in September 2013, with the aim to deepen reform and introduce policy innovations to establish advanced rules on trade and investment. Three additional pilot FTZs in Fujian, Guangdong and Tianjin were launched in April 2015, and seven new free trade zones began operating as from April 2017 in the provinces of Henan, Hubei, Liaoning, Shaanxi, Sichuan and Zhejiang, as well as Chongqing Municipality.

Although China is not a member of the OECD, it is an enhanced engagement country that collaborates with the OECD on a variety of policy issues.

OECD member countries

Australia	France	Korea (ROK)	Slovakia
Austria	Germany	Latvia	Slovenia
Belgium	Greece	Luxembourg	Spain
Canada	Hungary	Mexico	Sweden
Chile	Iceland	Netherlands	Switzerland
Czech Republic	Ireland	New Zealand	Turkey
Denmark	Israel	Norway	United Kingdom
Estonia	Italy	Poland	United States
Finland	Japan	Portugal	

Enhanced engagement countries			
Brazil	India	Indonesia	South Africa
China			

OECD accession candidate countries		
Colombia	Costa Rica	Lithuania

Price controls

China has abolished most price controls, with market forces now determining the prices of the majority of products traded. In general, prices remain controlled only for goods and services that are deemed essential.

Intellectual property

China has aligned its legislation with the minimum WTO requirements of the Trade-Related Aspects of Intellectual Property (TRIPs) protocol, which contains general standards for the enforcement of IP rights.

The Copyright Law and its implementation rules protect copyrighted works of foreigners that are first published in China or in countries that are members of the copyright protection treaty, of which China also is a member. The Copyright Law and its implementation rules protect copyrighted works of a foreigner who is a national or a resident of a country that has signed a bilateral or multilateral copyright protection agreement with China.

A copyright holder is entitled to seek civil compensation for copyright infringement in an amount equal to the infringer's illegal gains or the copyright holder's losses, including reasonable expenses incurred in protecting against the infringement (e.g. attorney's fees). Where the above calculation method is not available, a court has discretion to grant compensation at an amount not exceeding RMB 500,000.

The Patent Law conforms to international standards and protects a range of activities, including inventions, industrial designs and utility models. The amount of civil compensation for patent infringement may be determined based on the infringer's illegal gains, a multiple of royalties of the patent or the losses of the patentee, including reasonable expenses incurred in protecting against an infringement (e.g. attorney's fees). Where this calculation method is not available, a court has discretion to grant compensation in an amount ranging from RMB 10,000 to RMB 1 million.

The Trademark Law allows the authorities and courts to confiscate and destroy pirated products and equipment used for the manufacturing of such products. A trademark owner is entitled to seek civil compensation for trademark infringement in an amount equal to the illegal gain of the infringer, a multiple of the royalties of the trademark or the owner’s loss, including reasonable expenses incurred in legally challenging an infringement (e.g. attorney's fees). Where this calculation method is not available, a court has discretion to grant compensation in an amount not exceeding RMB 3 million. A trademark holder or its stakeholders that have evidence of infringement may apply for a court order to protect the property and prohibit the infringer from conducting any activities. Implementation rules clarify the procedure for foreign companies seeking to register trademarks in China.

In addition to the above civil liabilities, an infringement of IP rights also may be subject to administrative penalties (e.g. confiscation of illegal proceeds and/or the imposition of fines) and criminal liabilities.

With most of China’s legal framework meeting international requirements, China has shifted its focus to implementation and enforcement.

Patent disputes usually are settled through the courts, and technology licensing disputes are resolved through arbitration. The State Intellectual Property Office (SIPO) deals with patents, and the National Copyright Administration of China (NCAC) deals with copyrights and software. The Trademark Office, an agency under the State Administration for Industry and Commerce (SAIC), handles the registration, transfer and licensing of trademarks; the Trademark Review and Adjudication Board handles trademark-related disputes. Administrative decisions of the SIPO, the SAIC and the NCAC can be appealed through the court system.

Upon the application of an owner of IP rights who has sufficient evidence to prove an infringement and who provides security equivalent to the value of the goods, the customs authorities will provide border protection to trademarks, copyrights and patents that are related to imported/exported goods. Importers/exporters can register relevant IP rights with the customs authorities to better enjoy such protection.

1.2 Currency

The currency in China is the renminbi (RMB) or yuan (CNY).

1.3 Banking and financing

The People's Bank of China (PBOC) historically has acted both as a government organization in charge of overall financial supervision and as a national bank handling comprehensive banking businesses. The change began in 1978 when China enacted reforms and decided to convert its central planning economy to a market-based economy. The banking and financing system was transformed from central bank domination to a diversified and sophisticated network. Since then, the banking and financing sector has become a major contributor to economic growth. After China entered the WTO, it accelerated the pace of opening up its banking sector.

China has stock exchanges in Shanghai and Shenzhen. In addition to the main boards of the two stock exchanges, the Shenzhen stock exchange also launched a small and medium-sized enterprise (SME) board in 2004 and a growth enterprise board (ChiNext) in 2009. A national over-the-counter equities market (National Equities Exchange and Quotations) was established in 2013, aiming to promote development of SMEs.

1.4 Foreign investment

China welcomes foreign investment and it is bound under WTO rules to further open its industries to foreign investors. A significant structural change to the foreign direct investment regime was announced in 2004: the “Decision on Reforming the Investment System” transformed a system that allowed foreign investment only in specific, government-designated sectors. However, it does not supersede the old system, the centerpiece of which is the “Catalogue for Guiding Foreign Investment in Industries.”

The catalogue, revised from time to time, essentially divides China’s economy into four categories for foreign investment purposes: prohibited, restricted, permitted and encouraged. Projects in these categories are subject to different examination, approval and registration requirements. Projects categorized as “encouraged” face relatively less scrutiny, while those categorized as “restricted” are subject to stringent requirements and examination.

Prohibited foreign investments include projects that are harmful to state security or that impair the public interest; pollute the environment, are destructive to natural resources and detrimental to human health; or occupy excessive farmland and are unfavorable to the protection and development of land resources.

Restricted foreign investments include projects that are lagging technologically; are unfriendly to resources and the environment; involve the exploitation of specific minerals that are protected by the state; or are classified as industries that the government is opening up in phases.

Encouraged foreign investments, which comprise about three-fourths of the catalogue, mainly include the following:

- Projects related to new agricultural technology, construction and the operation of energy sources, transportation and the exploitation of raw materials for certain industries;
- Projects using new or advanced technology, including those that can improve product quality, save energy and raw materials, increase economic efficiency and alleviate domestic market shortages;
- Projects that meet international market demand to improve or add value to the industry;
- Projects that involve the integrated use of China’s resources or renewable resources, new technology or equipment for preventing and controlling environmental pollution;
- Projects related to certain modern services; and
- Projects that can develop the human and other resources of central and western China.

Projects not listed in the catalogue generally are classified as permitted.

In October 2016, the Chinese government simplified administration for foreign investment enterprises (FIEs) by replacing the previous "government approval" regime with an "online filing" regime for a number of routine corporate filings for FIEs, provided special restriction measures are not applicable. The scope of “special restriction measures” refers to the restricted and prohibited foreign investment industries from the catalogue, as well as encouraged industries that are subject to restrictions on shareholding structures and senior management under the catalogue. The new "online filing" regime shortens the processing time for most routine corporate filings, such as those relating to an establishment, division, merger, dissolution, capital increase/reduction, change of scope of a business, etc. to three working days upon a qualifying submission in the online system.

The pilot FTZs are testing fundamental reforms to the financial sector and further opening the economy to foreign investment, in addition to operating as typical FTZs in which goods can be imported, processed and exported free from customs duties. Financial sector changes include liberalization of interest rates, free convertibility of the renminbi and relaxation of limits on foreign participation in the financial industry and offshore banking business.

Broadly, foreign investors in a pilot FTZ can obtain “national treatment” and gradually be allowed to invest freely in six modern service sectors: financial services, shipping and logistics services, commerce and trade services, professional services, cultural services and public sector services. Additional policies have been introduced to promote regional headquarter and regional operation center activities within the zones. A “negative list”-based mechanism piloted in the zones effectively supersedes the prohibited, restricted and encouraged categories under the catalogue. Foreign investment in any activities other than those included on the negative list no longer requires preapproval.

The pilot FTZs are expected to be accompanied by more economic reforms, principally to further open and rebalance the economy. The economic measures (e.g. the negative list-based mechanism in the foreign investment sector, liberalization of interest rates, etc.) that have been tested in the pilot FTZs may be rolled out nationwide.

1.5 Tax incentives

Projects in the encouraged category usually are eligible for preferential treatment. In general, apart from possible tariff exemption quotas for self-utilized capital imports for encouraged projects, companies engaged in encouraged projects may apply for certain tax incentives.

The principal incentives include a 15% preferential tax rate applicable to high-new technology enterprises (HNTEs) and a 50% or 75% “super deduction” for qualifying R&D expenditure. The rules governing qualification of an enterprise as an HNTE have been revised to lower certain thresholds for a company to be recognized as an HNTE, streamline the application process and update the list of state-encouraged high-new technologies.

Two individual income tax incentives that have been extended nationwide to stimulate technological innovation allow the payment of individual income tax to be deferred for qualifying employees and individual shareholders of HNTEs with respect to stock awards or the capitalization of undistributed profits/reserves.

A geographically-based incentive focuses on new HNTEs established in or after 2008. The incentive (in addition to the 15% rate that applies to all new HNTEs) is a two-year tax holiday, followed by three years of tax levied at a 12.5% rate. The 15% preferential tax rate also is granted to qualified high-tech service enterprises in 21 specified cities between 1 July 2010 and 31 December 2018, and to encouraged businesses in certain regions (e.g. western China, Hengqin (Guangdong), Pingtan (Fujian) and Qianhai (Shenzhen)) between 1 January 2011 and 31 December 2020. Tax exemptions and other preferences apply to the agriculture, forestry, animal husbandry and fishery sectors, software and integrated circuit industries, major infrastructure projects, certain environmental projects, certain transfers of technology, etc.

1.6 Exchange controls

China is a foreign exchange (forex)-controlled country. Capital injections, cross-border trade and services transactions, overseas financing and profit repatriations, etc. of FIEs are subject to the exchange control regulations. The foreign exchange authorities are the State Administration of Foreign Exchange (SAFE) and its local branches.

An FIE must apply for registration of foreign exchange after the issuance of a business license and obtain a foreign exchange registration certificate. The certificate should be subject to annual inspection by the foreign exchange authorities.

In acceding to the WTO, China committed to implementing steps to liberalize the foreign exchange market. While current account convertibility is a reality, the convertibility of capital accounts is being introduced gradually. According to the 2008 Foreign Exchange Control Regulations, regular international payments and transfers are not restricted. The circulation of foreign currency is prohibited and foreign currency may not be quoted for settlement within the PRC, except as otherwise provided by the state.

The China (Shanghai) Pilot FTZ is functioning as a platform for testing full convertibility of the renminbi and further opening the economy to foreign investment, including a relaxation of foreign exchange control (e.g. removal of certain preapproval requirements and restrictions for capital account items). If successful, similar reforms eventually should be implemented nationwide.

Forex control on current and capital account

Current account: Transactions such as the sale of goods, the provision of services and other ordinary expenditure (e.g. payments and receipts from international trade, payments of interest on foreign loans (but not the repayment of principal) and the repatriation of dividends) generally are classified as "current account" items. Payments and receipts of foreign exchange under current account must be based on accurate and legitimate transactions. Financial institutions engaged in the settlement and sale of foreign exchange should conduct a proper inspection of the accuracy of documents and conformity with the forex receipts and payments. The receipt of forex under current account may be retained or sold to financial institutions engaged in the settlement and sale of forex in accordance with relevant state regulations. A forex payment under current account should be supported by valid documents and settled with self-owned forex or forex purchased from financial institutions engaged in the settlement and sale of forex in accordance with the relevant rules.

Capital account: If the purpose of a transaction is to create capital (i.e. equity or securities investments, loans, derivative deals, guarantees benefiting a foreign entity, etc.), the forex will be regarded as a capital account item, with strict control over its movement. Although China previously required strict foreign exchange administration of capital account transactions, in recent years, the SAFE has issued guidance that simplifies and relaxes the rules governing foreign exchange administration of inbound and outbound investment. Forex controls over the capital account mainly include the following:

- All forex in the capital account and the fund for settlement must be used in accordance with designated purposes approved by the relevant authorities and/or the SAFE.
- Foreign entities and individuals that invest in China or engage in the issuance and transaction of securities or derivatives must register for forex purposes.
- Domestic entities and individuals that engage in outbound investments or the issuance and transaction of securities or derivatives abroad must register for forex purposes.
- Foreign debts should be registered with the SAFE or its branches, which will not approve the repayment of foreign debt unless it has been properly registered.
- Certain cross-border guarantees must be registered with the SAFE or its branches.

2.0 Setting up a business

2.1 Principal forms of business entity

Foreign investors can invest in China through legal or nonlegal entities. Legal entities that can be set up by foreign investors generally include wholly foreign-owned enterprises (WFOEs), equity joint ventures (EJVs), cooperative joint ventures (CJVs) and joint stock companies (JSCs). Nonlegal entities include representative offices (ROs) and branches, as well as certain CJVs. The partnership also is available as an investment vehicle.

An investor's particular commercial considerations, any applicable regulatory limitations and home country tax considerations all play a role in determining the most appropriate entity in which to conduct business.

For foreigners, WFOEs offer a simpler approval procedure and complete management control. Foreign companies also often use the WFOE form to protect technology. WFOE status permits greater use of renminbi to pay for business expenses and local sales.

When setting up a JV, it is important to select an appropriate Chinese partner. The following are some factors that should be considered: a potential partner's access to domestic financing, the ability to provide a domestic market for products, the skill level of labor and the integrity and strength of management.

A holding company can offer certain economies of scale in operations and management through its collection of investments under a single corporate identity. These include centralized purchasing of production materials, collective training of subsidiary project personnel, coordination of project management and the establishment of a single entity to market all subsidiary products.

A JSC offers different advantages. An FIE opting for this corporate form can invite the participation of shareholders in the company, both to expand capital and to secure links with other legal entities in China. A JSC also offers greater liquidity in transferring interests. Both EJVs and CJVs normally require the prior consent of the other partners, as well as the original examination and approval authority, to transfer interests. A JSC does not need prior consent from others to dispose of interests, although the promoters must wait one year from the company's first registration before assigning their shares.

Forms of entity

Foreign investment enterprises

FIEs generally refer to Chinese entities with foreign investment. FIEs are permitted to conduct business activities in accordance with the scope of their business, as approved by the government. FIEs mainly are organized as limited liability companies, and the investor's ownership in an FIE is represented by the amount of registered capital it injects into the entity. FIEs do not issue shares until they have been transformed into JSCs.

The main forms of corporate entity for FIEs in China are the WFOE, EJV and CJV. In general, FIEs can carry out manufacturing, processing, trading and/or service activities in accordance with the approved business scope. There are certain FIEs incorporated pursuant to special regulations to be engaged in designated business activities, such as foreign invested commercial enterprises (FICE) in wholesale, retail or trade agency services; Chinese holding companies; regional headquarters; and leasing companies, fund management companies, etc.

Wholly foreign-owned enterprises

A WFOE organized as a limited liability company generally is a desirable investment vehicle for foreign investors, provided the participation of a Chinese partner is not required under the investment regulations. The limited liability company offers foreign investors sole control of the business operations and avoids lengthy negotiations with a Chinese partner, as may be required in the case of an EJV or CJV.

The Company Law that took effect on 1 March 2014 eliminated the minimum capital requirements, except for specified industries, such as banking, insurance, etc. Capital may be contributed in cash or in kind, although in-kind capital contributions are subject to valuation. The revised Company Law also abolished the requirement for a minimum 30% cash contribution to the registered capital, as well as other requirements in terms of the capital contribution deadline and capital verification, suggesting a more open and relaxed environment for the set up and operation of businesses.

A WFOE must establish a board of directors or a managing director for management structure. For corporate governance purposes, the company must have an independent supervisor (similar to a nonexecutive director in western countries).

A detailed management structure must be set out in the articles of association (including the duties and limits of authority of the legal representative, chief accountant, general manager, etc.). The articles of association must specify procedures for termination and liquidation, and for amending the articles.

A WFOE is required to appropriate 10% of its annual after-tax profits for its statutory general reserve fund account until the account balance reaches 50% of the company's registered capital. Hence, the distributable profits of the WFOE initially may be lower than an EJV or a CJV, whose board or joint management committee may decide not to contribute to such a reserve.

Equity joint venture

An EJV, organized as a limited liability company, is a separate legal entity established by one or more foreign investors with one or more Chinese investors. Ownership and the investor's share of profits and losses are determined based on the relevant contributions to the registered capital of the EJV.

There is no upper limit on foreign participation for general projects. The capital contribution requirements are almost the same as those for a WFOE.

Partners must pay their contribution within the timetable fixed in the contract. Failure to make timely capital contributions may result in contractual liability, as stipulated in the contract.

The governance of an EJV is different from that of a corporation in western countries. Investors hold equity interests, but no stock. Voting authority is vested in the board of directors, rather than in the shareholders. The directors are appointed by the investors and, in general, the power to appoint directors reflects the ratio of the capital contributions of the partners.

Contractual or cooperative joint venture

A CJV differs from an EJV in fundamental ways: a CJV does not have to be an independent legal entity from a legal formality perspective, i.e. it can be an incorporated arrangement (with a limited liability company) or a contractual cooperation arrangement. For tax purposes, an incorporated CJV is subject to tax at the entity level. The tax treatment of a CJV under a contractual cooperation arrangement (whether it should be taxed at the level of the entity or as a flow-through entity) is unclear under the prevailing regulations. The ownership and profits/losses are not necessarily shared based on equity/capital contributions (as in the case of an EJV), but rather on the basis of a contractual agreement. Thus, a CJV may provide more flexibility with respect to profit-sharing and risk-taking among the partners, subject to approval by the authorities (e.g. the shareholder(s) may be guaranteed a certain fixed annual return without regard to the actual performance of the CJV).

Capital is contributed in a ratio agreed upon by the parties to the CJV contract and a joint venture partner. Normally, the Chinese partner may provide cooperation terms (i.e. the provision of services or the rental-free use of factory premises of the Chinese partner) to the CJV instead of contributing capital, subject to approval by the authorities.

Multiple management structures may be applicable for a CJV, including a board of directors, a joint management committee or a management by proxy. "Hybrid" CJVs tend to adopt management systems resembling those of an EJV; "true" CJVs tend to take the more flexible form of a joint management office. "True" CJVs, which do not have independent legal status in China, generally allow the Chinese partner to enter into contracts, under a grant of power of attorney by the foreign party.

Foreign investment joint stock company

China is opening up its stock market to FIEs and foreign investors. FIEs increasingly are likely to be listed on Chinese stock markets (both A and B shares, as described below) and overseas stock markets. Only foreign investment joint stock companies (JSCs) qualify for public listing; FIEs that are planning to be listed on a Chinese stock market must be converted into a JSC, which generally means that the registered capital must be converted into stock of the company.

All of the capital must be divided into equal shares represented by share certificates. Companies must receive approval before they can issue A shares (denominated in RMB and available to Chinese citizens and qualified foreign institutional investors) and B shares (denominated in USD). A and B shares are tradable on stock exchanges. A shares are further divided into shares owned by individuals, legal persons and the state. Unlisted shares owned by foreign investors of a qualified foreign investment joint stock company can be traded on the B share market, if approved by the Ministry of Commerce.

Partnership

Foreign investors are permitted to form partnerships in China, as general or limited partners under the Foreign-Invested Partnership Rules, to engage in a wide range of business activities. There is no legal minimum or maximum for capital contributed by the partners to a partnership. Capital may be contributed in cash, in kind or in the form of land use rights, IP rights or services. Contributions other than cash must be appraised at a specific value. Partners may increase their capital contributions to the partnership enterprise, as stipulated in the partnership agreement or as decided by all of the partners. These additional contributions should be used to expand the scale of business or to compensate for losses.

There are no specific limits on the number of partners in a general partnership, but a limited partnership is restricted to 50 partners. In a general partnership, each partner has equal rights to conduct the routine affairs of the partnership; the admission of new partners is subject to the approval of the partners and the conclusion of a written partnership agreement; and newly joined partners have the same rights and responsibilities as the original partners.

Branch of a foreign corporation

Although the Company Law provides for a foreign company to register a branch in China, under prevailing practice, only registration applications of overseas companies in the financial services sector and oil exploration industries are handled.

Such a branch office does not have the status of a Chinese legal person and the foreign company remains liable for activities carried out in China by its branch. A branch must appoint a representative or agent within the territory of China to take charge of the branch. A branch is taxed at the same rate as domestic companies, and may be closed only after a formal deregistration.

Representative office (RO)

Foreign companies, particularly those in the trade agency and service industries, often choose an RO to carry on liaison and marketing activities in China. Although ROs allow foreign investors to enter the Chinese market with little initial investment, they are prohibited from direct profit-making activities.

In general, an RO of a foreign company may engage only in indirect business activities in China, including acting as a liaison with clients and the head office; introducing the products of the head office; conducting market research; and collecting information. Thus, an RO of a foreign company may not sign and conclude contracts with Chinese customers directly and is prohibited from engaging in any “direct business operations” (with certain exceptions, such as the RO of a law firm).

ROs generally are taxed at the same rate as domestic companies. If an RO is able to provide a complete accounting record, the RO is required to accurately calculate and pay tax on its taxable turnover and profits ("actual amount method"), based on a principle that reflects the actual functions performed by the RO and the risks borne. If an RO is unable to provide a complete accounting record or if it cannot calculate its income and expenses with reasonable certainty, the tax authorities reserve the right to use "deemed amount methods" to determine taxable turnover and profits. Practically speaking, ROs in only a limited number of industries (i.e. law firms) are taxed under the actual amount method, with others taxed on a deemed basis in accordance with the RO's expenses or revenue, depending on the industry.

2.2 Regulation of business

Mergers and acquisitions

The Provisional Rules on the Merger and Acquisition of Domestic Enterprises by Foreign Investors describe two types of permitted operations: (1) equity acquisitions, where foreign investors purchase existing equity of a Chinese enterprise or inject new capital into a Chinese enterprise; and (2) asset acquisitions, where foreign investors purchase the assets of a Chinese enterprise.

The Regulations on Mergers and Divisions of Enterprises with Foreign Investment establish the rights and obligations of merging and dividing FIEs, approval authority, capital requirements and share distributions. A foreign shareholding in a merged or divided entity generally should not be less than 25%; otherwise, the entity may not be entitled to certain special treatment applicable to FIEs. An FIE may not participate in a merger if the FIE has not commenced operations and begun making profits. A merger of a JV must be approved in advance by all partners, and by the original approving authority if special restriction measures are applicable. An anti-monopoly investigation may be launched if the merger or acquisition meets certain criteria.

Under the Company Law, a company seeking to undertake a merger must notify its creditors and give them up to 45 days to consent to the plan or propose an alternative settlement plan before the proposed merger. All parties involved enter into a merger agreement, and separate announcements of the merger must be made in approved publications. The parties must apply to the authority in charge of registration of enterprises to amend their registration, and also complete online filing for the merger.

The tax treatment of the major forms of mergers and acquisitions (M&A) is governed by the M&A tax rules. An M&A transaction is classified as an ordinary or a special reorganization. In the case of an ordinary reorganization, any taxable gain/loss derived by the transferor is recognized at the time of the transaction; however, in a special reorganization, the taxpayers may elect to temporarily defer recognizing taxable gain/loss on the transaction, provided certain requirements are met.

Monopolies and restraint of trade

Under the 2008 Anti-Monopoly Law, regulated monopolistic activities include: (1) the conclusion of monopoly agreements between operators; (2) the abuse of a dominant market position by operators; and (3) market concentration of operators that eliminates or restricts competition, or that may eliminate or restrict competition. The authority in charge may investigate suspected monopolistic activities and issue an order to terminate the activities, confiscate illegal income and/or impose administrative penalties.

China also has an Anti-Unfair Competition Law.

2.3 Accounting, filing and auditing requirements

Under the Company Law and relevant regulations, companies are required to prepare financial statements at each calendar year-end and to be audited by a certified public accounting firm registered in China. Audited financial statements generally are required to settle the annual enterprise income tax with the tax authorities. FIEs may prepare financial statements in accordance with other accounting standards or in other languages for global consolidation purposes. However, the Chinese authorities will only recognize and accept accounts in Chinese that are prepared based on Chinese accounting standards.

Chinese Accounting Standards for Business Enterprises (ASBEs) became mandatory for listed Chinese enterprises as from 1 January 2007. Other Chinese enterprises are encouraged to apply the ASBEs, which are substantially in line with IFRS, except for certain modifications that reflect China's circumstances and environment. China is committed to convergence with IFRS.

3.0 Business taxation

3.1 Overview

The 2008 Enterprise Income Tax (EIT) Law applies to both domestic and foreign-invested enterprises, generally at the same tax rate, with special rates applying in certain cases. In addition to the EIT, China levies a value added tax (VAT), consumption tax, customs duties, resource tax, land appreciation tax (LAT), social security contributions, stamp duty, etc. China does not levy a branch profits tax, excess profits tax or alternative minimum tax.

As noted above in 1.5, various incentives may be available.

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

Tax law and policy are developed jointly by the State Administration of Taxation (SAT) and the Ministry of Finance. The SAT is the body charged with collecting tax and enforcing compliance. The SAT is assisted by the state and local tax bureaus at the provincial level and below.

China Quick Facts for Companies	
Corporate income tax rate	25%
Branch tax rate	25%
Capital gains tax rate	25%
Basis	Worldwide
Participation exemption	No
Loss relief	
• Carryforward	5 years
• Carryback	No
Double taxation relief	Yes
Tax consolidation	No
Transfer pricing rules	Yes
Thin capitalization rules	Yes
Controlled foreign company rules	Yes
Tax year	Calendar year
Advance payment of tax	Yes
Return due date	Within 5 months of the end of the tax year
Withholding tax	
• Dividends	10%
• Interest	10%
• Royalties	10%
• Branch remittance tax	No
Capital tax	No
Social security contributions	Up to about 40% of employee base salary
Real estate tax	1.2% on cost, or 12% on rental value
Deed tax	3%-5%
LAT	30%-60% of gains on transfer

VAT	0%, 6%, 11% and 17% (13% bracket is abolished as from 1 July 2017); a 3% and 5% rate apply under the simplified VAT calculation method
VAT grouping	No
Consumption tax	1%-56%
City maintenance and construction tax	1%, 5%, 7%
Education surcharge	3% (national), 2% (local)

3.2 Residence

A company is deemed to be resident in China if it is established in China or if its place of effective management is in China. 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.

3.3 Taxable income and rates

EIT is imposed on the worldwide income of a resident enterprise (with a credit available for tax paid on foreign-source income); nonresident enterprises are subject to tax on China-source income and income effectively connected with an establishment in China. The definition of establishment is broad and does not include an exemption for an independent agent. If a foreign company has an establishment in China, it will be subject to China tax on all income effectively connected with that establishment.

Investors from the Hong Kong SAR and Macao SAR are taxed as nonresidents, provided such investors are not effectively managed in mainland China.

The normal EIT rate is 25%. Special rates mainly apply to small-scale enterprises (20% or 10% if certain requirements are met), enterprises with HNTE status (15%) and enterprises incorporated in certain regions of China and engaged in encouraged business activities (15%). Special rates are available for some other encouraged business.

Taxable income defined

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

The taxable income of a company is the amount remaining from its gross income in a tax year after the deduction of allowable expenses and losses.

Deductions

All 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 (see 3.6 below). Nondeductible items mainly include the following:

- Dividends and other distributions with respect to equity interests paid to investors;
- Management fees;
- EIT paid, as well as late payment surcharges and fines incurred on various tax payments;
- Fines for unlawful operations and losses sustained as a result of the confiscation of property;
- Unverified provisions; and
- Certain donations and sponsorship fees.

Depreciation

Depreciation is calculated on a straight-line basis and assets are subject to certain minimum depreciation periods. Fixed assets with a unit value no higher than RMB 5,000 are entitled to an immediate deduction. Accelerated depreciation generally also is applicable to fixed assets acquired and used dedicatedly for R&D purposes; and to fixed assets used in certain industries (e.g. bio-medicine manufacturing, specialty equipment manufacturing, information technology services and manufacturing, etc.). The minimum salvage value should be reasonably determined by taxpayers, according to the nature and condition of the fixed assets.

Special depreciation rules apply to enterprises engaged in oil and gas exploration activities.

Losses

Losses generally may be carried forward for five years, but the carryback of losses is not permitted.

3.4 Capital gains taxation

There is no separate capital gains tax; capital gains (and losses) of companies generally are combined with other operating income and taxed at the normal EIT rate. Gains on real property, net of development costs, are subject to the LAT.

3.5 Double taxation relief

Unilateral relief

If a resident entity receives income from a country that has not concluded a tax treaty with China, the resident is entitled to a tax credit for foreign income tax actually paid on the income. The foreign tax may be credited against Chinese tax on the same profits, but the credit is limited to the amount of China tax payable on the foreign income. A per country limitation generally is applied. If the foreign tax credit exceeds the limit, the excess may be carried forward for five years. An indirect tax credit also is allowed.

Tax treaties

China has a broad tax treaty network, the aim of which is to eliminate double taxation and provide for reduced rates of withholding tax on dividends, interest and royalties. Most of China's treaties are based on the OECD model treaty, providing for relief from double taxation on all types of income, limiting the taxation by one country of companies resident in the other and protecting companies resident in one country from discriminatory taxation in the other. China's treaties generally contain OECD-compliant exchange of information provisions.

To claim benefits under China's tax treaties, a tax residence certificate issued by the tax authorities of the country where the recipient is resident, together with supporting evidence of residence in that country, must be submitted. However, guidance issued in 2015 relaxes the procedures for nonresident enterprises and individuals to obtain benefits under China's treaties by allowing benefits to be enjoyed based on assessments made by the nonresident recipient of China-source income or the Chinese withholding agent and certain documentation submitted to the tax authorities. The tax authorities can review the documentation and request additional information from the nonresident or the withholding agent, but if the authorities conclude that a nonresident improperly obtained benefits under a treaty, they may require the nonresident to pay the relevant tax.

China was one of the 68 countries that signed the OECD multilateral instrument (MLI) on 7 June 2017.

China Tax Treaty Network

Albania	Finland	Macedonia	Singapore
Algeria	France	Malaysia	Slovakia
Armenia	Georgia	Malta	Slovenia
Australia	Germany	Mauritius	South Africa
Austria	Greece	Mexico	Spain
Azerbaijan	Hong Kong*	Moldova	Sri Lanka
Bahrain	Hungary	Mongolia	Sudan
Bangladesh	Iceland	Morocco	Sweden

Barbados	India	Nepal	Switzerland
Belarus	Indonesia	Netherlands	Syria
Belgium	Iran	New Zealand	Tajikistan
Bosnia & Herzegovina	Ireland	Nigeria	Thailand
Brazil	Israel	Norway	Trinidad & Tobago
Brunei	Italy	Oman	Tunisia
Bulgaria	Jamaica	Pakistan	Turkey
Canada	Japan	Papua New Guinea	Turkmenistan
Chile	Kazakhstan	Philippines	Ukraine
Croatia	Korea (ROK)	Poland	United Arab Emirates
Cuba	Kuwait	Portugal	United Kingdom
Cyprus	Kyrgyzstan	Qatar	United States
Czech Republic	Laos	Romania	Uzbekistan
Denmark	Latvia	Russia	Venezuela
Ecuador	Lithuania	Saudi Arabia	Vietnam
Egypt	Luxembourg	Serbia and Montenegro	Zambia
Estonia	Macao*	Seychelles	Zimbabwe
Ethiopia			

* Mainland China has signed tax arrangements with Hong Kong and Macao.

3.6 Anti-avoidance rules

Transfer pricing

The EIT Law and its implementation rules establish the basis for the Chinese tax authorities to make special adjustments related to transfer pricing. If two entities are related, all of their intercompany transactions must comply with the arm’s length principle. Transactions covered by the Chinese rules include both tangible and intangible transactions, intragroup services and intercompany financing activities.

A related party is defined as one with a 25% direct or indirect ownership. A multi-layer calculation for indirect shareholdings also applies. An entity with significant control over the taxpayer's senior management, purchases, sales, production and the intangibles and technologies required for the business is defined as a related party.

Where intercompany charges or fees do not reflect an arm’s length arrangement, the tax authorities may make compensatory adjustments by reference to normal market rates or prices for similar services or goods. In certain cases, the tax authorities are entitled to levy tax retroactively on transactions between affiliated companies that took place up to 10 years ago.

China has adopted the "best method" approach for selecting a transfer pricing method, with no specific ranking required among the following methods: comparable uncontrolled price method, resale price method, cost plus method, transactional net margin method, profit split method and other methods that comply with the arm's length principle.

Contemporaneous documentation requirements encompass a three-tiered framework (i.e. a master file and local file, as set out under action 13 of the OECD BEPS action plan, plus a “special issue” file that must be prepared for cost-sharing arrangements and in certain cases involving thin capitalization). Separate and independently operating sets of thresholds and filing deadlines apply. For example, a local file, which must be prepared by 30 June of the subsequent tax year, generally is required if the annual amount of related party purchases and sales of tangible goods exceeds RMB 200 million; the annual amount of purchases/sales of financial assets or intangible assets exceeds RMB 100 million; or the annual amount of other related party transactions is higher than RMB 40 million.

Enterprises established by multinationals in China with limited functions and risks and that only perform manufacturing/processing, distribution or contract R&D activities also are required to prepare and submit contemporaneous documentation if they incur a loss.

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. An APA generally is available to an enterprise with an annual related party transaction amount reaching RMB 40 million during the three years before the year in which the tax authorities accept the enterprise's intent to conclude an APA. The tax authorities may reject the application if the enterprise fails to fulfill its obligations to report related party transactions or prepare contemporaneous documentation. The APA process generally includes six phases, including a prefilling meeting, intent for an APA, analyses and evaluation, formal filing, negotiations and signing and monitoring and execution.

Aligned with the BEPS action 13 recommendations, China has introduced country-by-country reporting (CbC) forms into the annual income tax filing package for enterprises. In general, CbC reporting forms are required for resident enterprises that are the ultimate parent of a multinational group with consolidated revenue over RMB 5.5 billion, or appointed by the multinational group as the filing entity. There also are provisions that allow the Chinese tax authorities to request copies of the CbC report upon performing an official tax audit in a situation where they cannot effectively obtain the CbC report from the relevant overseas tax authorities through other information exchange mechanisms.

Thin capitalization

The thin capitalization rules operate to disallow a deduction for excess 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 nondeductible in the current and subsequent periods, unless the enterprise can produce supporting documentation demonstrating that the financing is at arm's length or that the effective tax rate of the borrowing entity is not higher than the rate of the domestic related party that receives the interest.

Controlled foreign companies

A Chinese shareholder may be taxed currently 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. A CFC is defined as a non-Chinese company controlled by China tax residents (which may include both companies and individuals, each of which must hold a 10% or greater voting share and which jointly must own 50% or more of the shares) through direct or indirect share ownership. To be a CFC, the company must be incorporated in a country or region where the effective tax rate is 50% or less than China's statutory EIT rate (i.e. 12.5% or less).

A Chinese resident enterprise is required to file reporting forms on overseas investments, along with its quarterly and annual tax returns.

A company can avoid the 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 or the US);
- The CFC's income is derived mainly from active business activities; or
- The annual profits of the CFC are lower than RMB 5 million.

General anti-avoidance rule

China'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 an adjustment, as appropriate.

BEPS

Actions	Implementation
VAT on business to customers digital services (Action 1)	No action currently is expected in relation to action 1, but the SAT and other government agencies are studying potential ways to tax the digital economy.

Hybrids (Action 2)	Currently under review by the SAT. China's provisional list of reservations and notifications at the time of signing the MLI on 7 June 2017 indicates that China reserves the right for the entirety of article 3 of MLI, which deals with hybrid mismatches, not to apply to China's tax treaties.
CFCs (Action 3)	China already has CFC rules, which are being reviewed as part of planned changes to current guidance (i.e. Circular 2).
Interest deductions (Action 4)	China uses thin capitalization and transfer pricing rules to limit interest deductions, although these rules only cover interest paid between related parties. The EIT law uses a debt-to-equity ratio, rather than an interest expense-based ratio, as the relevant criteria.
Harmful tax practices (Action 5)	The government is reviewing relevant regimes to ascertain whether they are affected by the action 5 conclusions. The reduced EIT rate for new technology enterprises has been reviewed by the OECD and is not regarded as harmful, so no change is expected in the short term.
Prevent treaty abuse (Action 6)	The recommendations in the action 6 report are broadly in line with long-standing practices of the SAT. The SAT appears to favor a principal purpose test (PPT) approach; China's provisional list of reservations and notifications at the time of signing the MLI on 7 June 2017 indicates the intent to include a PPT within its covered tax agreements. The SAT also is studying the "equivalent beneficiary" concept.
Permanent establishment (PE) status (Action 7)	The SAT considers that its current position regarding PE issues (contained in Circular 75) already reflects the action 7 recommendations.
Transfer pricing (Actions 8-10)	The recommendations in the actions 8-10 reports are in line with long-standing practices of the SAT. The draft changes to Circular 2 incorporate the recommendations, adapted as appropriate for China. Revised Circular 2 is expected to be replaced by several separate circulars. Bulletin 42 (regarding reporting of related party transactions and documentation), Bulletin 64 (regarding APAs) and Bulletin 6 (regarding special tax audit adjustments and mutual agreement procedures (MAPs)) have been issued, but it is not yet known when other circulars will be issued.
Disclosure of aggressive tax planning (Action 12)	The SAT is considering introducing mandatory disclosure rules into domestic law by revising the Tax Collection and Administration Law and its implementation rules.
Transfer pricing documentation (Action 13)	The draft changes to Circular 2 incorporate the action 13 recommendations, adapted for China. On 29 June 2016, the SAT issued a new regulation (Bulletin No. 42), which replaced the relevant requirement in Circular 2 relating to transfer pricing compliance (disclosure and documentation). It

	includes a three-tier contemporaneous documentation framework, including the master file, local file and special issue file. In particular, the local file requires a quantitative and qualitative value chain analysis.
CbC reporting (Action 13)	Bulletin No. 42 introduced CbC reporting for qualified groups. The parent or designated entity is required to file a CbC form, along with the entity's annual EIT return. China is one of the countries that signed a multilateral competent authority agreement for the automatic exchange of CbC reports.
Dispute resolution (Action 14)	Action 14 conclusions present changes for the Chinese tax system, which contains some ambiguous rules, such as the rules on tax suspension and the relationship between administrative remedies (e.g. the relationship between the MAP and administrative review), etc. The SAT plans to take three actions in relation to action 14: • Strengthen the relevant legislation; • Improve accuracy and uniformity in local practice; and • Join the MAP forum to enhance cooperation with other countries. On 11 October 2016, the SAT issued a new regulation (Bulletin No. 64), which replaced the rules in Circular 2 concerning APAs.
Multilateral instrument (Action 15)	China is one of the 68 countries that signed the MLI on 7 June 2017.

3.7 Administration

Tax year

The tax year is the calendar year, and tax quarters are calendar quarters.

Filing and payment

Enterprises normally are required to file provisional EIT returns with the local tax authorities within 15 days of the end of each quarter. These installments generally are calculated on actual quarterly profits. Enterprises that have difficulty prepaying tax based on actual quarterly profits may make prepayments based on the quarterly average taxable income for the preceding year, or by another method approved by the authorities.

Final settlement of the tax liability must be made within five months of the end of the year. A return must be filed regardless of whether the operations of the enterprise resulted in a profit or a loss. An enterprise that cannot file a tax return within the prescribed time because of special circumstances (e.g. natural disasters or shifts in national economic policy) may request an extension from the local tax authorities.

A late payment surcharge will be 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. An interest-based penalty may be imposed for transfer pricing, thin capitalization, CFC and general anti-avoidance tax adjustments. The tax authorities may issue rulings for special cases.

Where a resident enterprise has branch offices registered in different regions in China and operating cross-regionally, both the head office and the branches may be required to make EIT filings.

Consolidated returns

China generally does not permit the filing of consolidated returns; each company must file a separate return.

Statute of limitations

The statute of limitations for assessment and collection is three years if an underpayment of tax is due to the taxpayer's inadvertent error in tax computation (e.g. incorrect application of a formula). The period is extended to five years if the accumulated amount of underpaid tax is greater than RMB 100,000. The statute of limitations period could be up to 10 years for underpayments of EIT arising from transfer pricing issues or arrangements without a *bona fide* business purpose. There is no statute of limitations for tax evasion.

Tax authorities

Tax legislation and policy are developed jointly by the SAT and the Ministry of Finance, with the SAT and its provincial and municipal offices administering taxation policies. Each locality in China has a state tax bureau under the SAT and a local tax bureau under both the SAT and the local government. The SAT and state tax bureaus mainly are responsible for the collection and administration of taxes that generate revenue for the central government or revenue that is shared between the central and local governments.

Rulings

Advance ruling procedures are not widely adopted in China. 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. China does allow for APAs (see under 3.6). Advance ruling procedures have been piloted in certain large businesses.

4.0 Withholding taxes

4.1 Dividends

A 10% withholding tax on dividends paid to a nonresident company was introduced as from 2008. Previously, dividends paid by a Chinese company with at least 25% foreign participation were exempt. It should be noted, however, that dividends paid out of pre-2008 earnings continue to be exempt from withholding tax. The 10% withholding tax may be reduced under an applicable tax treaty.

Dividends paid to a nonresident individual generally are subject to a 20% withholding tax, unless the rate is reduced under a tax treaty, and dividends paid by certain companies to a nonresident individual may be exempt from income tax.

4.2 Interest

Interest paid to a nonresident company generally is 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. A 6% VAT also applies to interest payments.

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

4.3 Royalties

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

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

4.4 Branch remittance tax

Currently, China does not levy a branch remittance tax.

4.5 Wage tax/social security contributions

The employer must withhold individual income tax on behalf of the employee and remit the correct amount to the tax authorities on a monthly basis.

Both the employer and the employee are required to make social security contributions in China. The employer must contribute approximately 20% of basic payroll to the state-administered pension scheme. The employer also must contribute to a medical insurance fund, maternity insurance, unemployment insurance and work-related injury insurance. The total employer contribution can be up to about 40% of the employee's base monthly salary, although the rates can vary across the country. The employee also is required to contribute a certain percentage of his/her monthly salary to the above funds, subject to a threshold set by the local authorities.

Foreign individuals legally working in China (including both locally hired individuals and those seconded from abroad to work in China) are required to participate in the same social security scheme as described above, unless an exemption is provided under an applicable bilateral social security totalization agreement. However, enforcement may vary in different cities.

5.0 Indirect taxes

5.1 Value added tax

VAT is a national tax, with a single rate imposed regardless of the location of the VAT taxpayer. Chinese VAT generally is levied on any person engaged in the sale of goods or the provision of processing, repair or replacement services within China, as well on the importation of goods into China.

Since the initial launch in 2012, the VAT reform (initially applying to only a few sectors) has been rolled out nationwide (to replace the business tax, which was a turnover tax imposed on the sale of immovable property, and on sales of intangible goods and certain services that were not subject to VAT). Additional sectors were added to the scope of the reform over time (including railway transportation and postal services as from 1 January 2014; telecommunication services as from 1 June 2014; and the construction, real estate, financial services and lifestyle services sectors as from 1 May 2016). As from 1 May 2016, the scope of VAT covers all goods and services, and business tax no longer is imposed.

There are two types of VAT payers: general VAT payers and small-scale VAT payers. Small-scale VAT payers are entities engaged in manufacturing or providing processing, repair and replacement services with sales not exceeding RMB 0.5 million per year, and firms engaged in wholesale or retail trade with sales not exceeding RMB 0.8 million per year. All other taxpayers are general VAT payers. For taxpayers engaged in VAT-taxable services, the sales threshold for registration is RMB 5 million per year. Taxpayers whose annual sales do not reach the above threshold still may apply for general VAT payer status if the taxpayer can demonstrate it has a sound financial and accounting system.

The standard VAT rate for a general VAT payer is 17%, which is applicable to the sale or import of goods; the provision of processing, repair or replacement services; and the leasing of movable and tangible assets. A reduced rate of 13% applied to certain food, goods, books and utilities until 30 June 2017, and then reduced to 11% on 1 July 2017. The 11% rate also applies to transportation services, postal services, basic telecommunications services, construction services, the leasing of real estate and sales of real estate/land use rights. A 6% rate applies to value-added telecommunications services, financial services, lifestyle and other modern services and sales of intangible assets (except land use rights). Small-scale VAT payers pay VAT at a rate of 3%, but there is no input VAT credit (i.e. this is a simplified VAT calculation method). The simplified VAT calculation method at a rate of 5% may apply to certain transactions involving real estate (e.g. sales of real estate that was acquired by 30 April 2016). Exports generally are zero-rated.

A zero rate also may be applied to certain cross-border services (e.g. R&D/design services provided to foreign entities and international transportation services), while other qualified cross-border services may be VAT-exempt. Input VAT incurred on zero-rated services may be refunded, but is unrecoverable on VAT-exempt services.

VAT incurred on the purchase or construction of fixed assets (excluding immovable property) may be credited against output VAT. Input VAT arising from following items, however, is not creditable against output VAT:

- The purchase of goods and services for the exclusive use for non-VAT taxable, VAT-exempt projects or projects subject to a simplified VAT calculation method, welfare activities or individual consumption;
- The purchase of yachts, motorcycles and motor vehicles that are subject to consumption tax and used for the taxpayer's own use;
- Goods and relevant services (i.e. processing, repair and transportation services) purchased that are lost in an unusual manner (e.g. casualty or theft losses);
- Goods and relevant services (i.e. processing, repair and transportation services) purchased and consumed or used for products or finished goods that are lost in an unusual manner;
- Real estate and relevant goods/services (i.e. goods, design and construction services consumed or used for the real estate) purchased that are lost in an unusual manner;
- Goods, design and construction services purchased and consumed or used for construction in progress that is lost in an unusual manner; and

- The purchase of passenger transportation services, loan services, catering services, lifestyle services and entertainment services.

A general VAT payer is allowed to credit input VAT incurred on the purchase of real estate and relevant goods and services (i.e. goods, design and construction services consumed or used for the real estate) after 1 May 2016. However, such input VAT can be credited only in two installments: 60% upon the receipt of valid supporting documents (notably, VAT special invoices), and 40% after 12 months.

A VAT refund may be available in an export situation. Exports generally attract a zero rate of VAT, i.e. zero output VAT on the export, along with a refund of input VAT incurred on materials purchased domestically for the export of goods. However, as the VAT refund rate ranges from 0% to 17%, many products do not enjoy a full refund of input VAT.

A company is required to register with the local tax authorities at the time of incorporation to have its status recognized as either a general VAT payer or small-scale VAT payer. A foreign company generally is not required to register for VAT.

VAT returns generally must be filed 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 grouping generally is not permitted.

5.2 Capital tax

China does not levy capital duty.

5.3 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 levied at varying rates, depending on the size of the city or locale.

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%.

5.4 Transfer tax

China does not levy transfer tax.

5.5 Stamp duty

Stamp duty, 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.

5.6 Customs and excise duties

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 China 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 customs duties on the importation of machinery and equipment for self-use.

5.7 Environmental taxes

As from 2018, China will start to collect environmental protection tax. Taxable pollutants will be divided into four categories, atmospheric pollutants, water pollutants, solid water and noise, which will be taxed according to the "pollutant emission equivalent amount."

5.8 Other taxes

Consumption tax

Consumption tax applies to prescribed nonessential and luxury or resource-intensive goods (including alcohol, luxury cosmetics, fuel oil, jewelry, 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.

Once the taxpayer's tax status has been approved by the tax authorities, the vendor should register as a consumption tax payer. Returns generally must 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 national education surcharge apply to entities and individuals that are subject to VAT (and previously business tax) or consumption tax. The two surcharges are calculated as a percentage of the VAT (and previously business tax) and consumption tax due. The rates of the urban construction and maintenance tax depend on the location of the taxpayer or withholding agent: the rate is 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, are subject to the 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. A super 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 mineral products or the production of salt within the territory of, and waters under the jurisdiction of, China. 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); for other taxable resources, the tax is calculated based on the volume of products sold or self-used, at revised tax rates. The resource tax is payable to the local authorities at the place of production or exploitation. It is planned to extend the scope of the tax to natural resources, such as water, forests, etc.

Vehicle and vessel tax

A tax generally is imposed on owners or users of vehicles and vessels. The applicable tax rates may be determined by the local authorities, within the range prescribed by the tax law.

6.0 Taxes on individuals

Personal income tax is levied on both Chinese and foreign individuals (albeit with varying allowances), and tax is imposed on private business income.

Expatriate employees of Chinese enterprises, resident representatives of foreign businesses and other individuals who hold residence permits normally must register with the tax authorities if they are subject to individual income tax in China.

China Quick Facts for Individuals	
Income tax rates	3%-45% (wages/salaries), up to 35% (business profits)
Capital gains tax rates	0%/20%
Basis	Worldwide income
Double taxation relief	Yes
Tax year	Usually calendar year
Return due date	Within three months of end of the calendar year (business profits tax return and return for individuals whose annual income exceeds RMB 120,000); within 30 days of end of the calendar year (foreign-source income tax return); and within 15 days of the month following the month in which income is earned (wages/salaries withholding return)
Withholding tax	
• Dividends	20%/0%
• Interest	20%
• Royalties	20%
Net wealth tax	No
Social security	Varies
Inheritance tax	No
Real estate tax	12% (rental income), 4% (lease of residential property)
Deed tax	3%-5%
Land appreciation tax	30%-60% of gains on transfer
VAT	0%, 6%, 11% and 17% (13% bracket is abolished as from 1 July 2017); a 3% and 5% rate apply under the simplified VAT calculation method

6.1 Residence

There is no specific definition of tax residence for personal tax purposes in the domestic law. However, the test for “domicile” in China is whether an individual is usually or habitually residing in China due to household, family or economic circumstances.

6.2 Taxable income and rates

China-domiciled individuals are subject to individual income tax on their worldwide income; nondomiciled individuals are subject to tax depending on the source of income.

A nondomiciled individual who has resided or stayed in China for less than 90 days in a calendar year is subject to tax only on Chinese-source income borne by a Chinese entity or establishment. A nondomiciled individual who has resided or stayed in China for more than 90 days, but less than one year, is subject to tax only on Chinese-source income. A nondomiciled individual who is in China for one full year, but who does not meet the five-consecutive-year test (see below) is subject to personal tax on Chinese-source income, plus foreign-source income borne by a Chinese entity.

A nondomiciled individual who has resided in China for five consecutive full years is subject to Chinese individual income tax on his/her worldwide income for each full year the individual resides in China, as from the sixth year. Any absence from China for more than 30 days during a temporary trip, or cumulatively for more than 90 days over numerous trips within the same tax year, breaks up the "full" year.

Taxable income

Taxable income comprises employment income (e.g. salary and wages, personal benefits, income in kind, cost of living allowances); production and business income; income derived from contracting for, or leasing operations of, enterprises or institutions; dividends and bonuses; interest income (except interest from bank deposits); royalty income; income from the leasing of property; income from the assignment or transfer of property; contingency income; and other income specified as taxable by the Ministry of Finance.

If a domiciled individual has to pay income tax on foreign-source income in another country as well as in China, the tax paid in the foreign country may be used to offset the individual's Chinese tax liability. However, the maximum amount of the offset may not exceed the Chinese individual income tax payable, as calculated in accordance with the law.

Items that can be paid to foreign employees (through reimbursement and with sufficient documentation) and remain tax-exempt include housing allowances, relocation expenses, meal subsidies and laundry expenses; reasonable allowances for business trips in China or abroad (including home leave); language training expenses; and a portion of child education fees. Although advance approval of the tax authorities is not required for this exemption, supporting documents and valid commercial invoices must be retained for the tax authorities' review.

Deductions and reliefs

Deductions and allowances are available, depending on the category of income. For wages and salaries received in China, individuals are entitled to a fixed monthly deduction of RMB 3,500 (foreign nationals are entitled to an additional fixed deduction of RMB 1,300). Personal basic contributions are deductible. These include payments to housing funds and certain medical insurance, pension and unemployment insurance payments.

Taxable income from personal services, royalties and remuneration from manuscripts and the leasing of property is net of a standard deduction for expenses that is equal to 20% of total income, with a minimum amount of RMB 800 per payment.

Reasonable business expenses incurred in earning income from a business are deductible.

Rates

Tax rates can be progressive or flat. Seven progressive tax rates, ranging between 3% and 45%, are levied on wages and salaries. Tax is withheld by the employer each month and paid to the tax authorities. The same progressive rate schedule applies to both Chinese citizens and foreigners, except for a differential in basic monthly exemptions, with a standard monthly deduction of RMB 3,500 for local citizens and RMB 4,800 for expatriates and certain nationals.

A separate tax schedule applies to income from the operation of a private business (including on a contractual or lease basis). For a private business, taxable income is defined as total revenue net of costs, expenses and losses incurred. For a business operating on a contractual or lease basis, taxable income is total revenue net of necessary expenses. Progressive tax rates apply to such income: 5% on the first RMB 15,000; 10% on the next RMB 15,000; 20% on the next RMB 30,000; 30% on the next RMB 40,000; and 35% on income exceeding RMB 100,000.

Dividends, interest, royalties, income from the leasing of property, income from the transfer or assignment of property, income from manuscripts and contingency income are taxed at a rate of 20%. Interest on bank deposits temporarily is exempt from individual income tax (previously it was taxed at 5%). Income from personal services is subject to progressive rates ranging from 20% to 40%.

Gains on the sale of real property also may be subject to VAT, LAT, etc. Individuals generally are exempt from income tax on gains from the sale of their sole private dwelling if they have occupied the residence for five years or more.

6.3 Inheritance and gift tax

China does not levy inheritance or gift tax.

6.4 Net wealth tax

China does not levy net wealth tax.

6.5 Real property tax

An individual who rents out his/her property is subject to real estate tax, which is 12% of the rental income. The rate may be reduced to 4% for the leasing of residential property. However, the practice may vary across China, since the rates are determined by the local authorities.

Self-occupied residential property owned by individuals is not subject to real property tax, except in Shanghai and Chongqing, where a pilot real estate tax has been imposed on such property, at rates varying depending on the conditions.

6.6 Social security contributions

The employer is required to contribute approximately 20% of 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 total employer contribution can be up to around 40% of the employee's base monthly salary, although the rates can vary across the country. The employee is required to contribute a certain percentage of his/her monthly salary to the funds, subject to certain limits.

Foreign individuals working legally in China (including locally hired individuals and those seconded from abroad to work in China) are required to participate in the same social security scheme as described above, unless an exemption is provided under an applicable bilateral social security totalization agreement. However, enforcement may vary in different cities.

6.7 Compliance

Each individual must file a separate return; joint filing is not permitted. Non-Chinese nationals may need to register with the competent Chinese tax authorities as soon as they become liable to individual income tax.

Individual income tax generally is collected via withholding at source. If Chinese-source income is not covered by the withholding procedure, the individual must file a return.

Individual income tax on wages and salaries is calculated and levied on a monthly basis. Withholding agents and individuals who file tax returns personally must submit the return 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 was derived.

Annual filing is required within three months of the end of a calendar year for individuals with annual income exceeding RMB 120,000. Nondomiciled individuals who have not resided in China for a full tax year may be exempt from the filing requirement. In most cases, an employer or a person who pays taxable income to a taxpayer 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.

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.

7.0 Labor environment

7.1 Employee rights and remuneration

Separate labor regulations govern unemployment insurance, work-related injury insurance maternity insurance, employment of foreigners, labor dispatch and rules on collective labor contracts. The government continues to issue new regulations on labor-related issues. There are laws on preventing and controlling occupational diseases, toxic products in the workplace and the use of child labor (employment of those younger than age 16).

Employees in all types of enterprises have equal rights to select an occupation and obtain employment, receive remuneration for their work and take holidays and receive vocational training, social insurance and welfare benefits.

Employee rights and obligations must be clearly specified in a written labor contract and must include provisions covering the term of the contract, job description, labor protection and conditions, remuneration, labor discipline and conditions for breach and termination. Various probation periods may be granted, with the term depending on the length of the contract. No probation period is required for employment contracts with a term of less than three months or those aimed at the completion of certain tasks. The employer is liable for economic damages to a previous employer if it recruits that employer's employees before the completion of their original labor contracts.

Only imminent bankruptcy and major production problems can justify layoffs due to redundancy. Trade unions may object to dismissals they consider inappropriate.

If any of the following circumstances makes it necessary to reduce the workforce by 20 persons or more, or by less than 20 individuals that account for at least 10% of the total number of the enterprise's employees, the employer may reduce the workforce after it has explained the circumstances to its trade union or to all of its employees 30 days in advance, has considered the opinions of the trade union or the employees and subsequently has reported the workforce reduction plan to the labor administration department:

- Restructuring occurs pursuant to the Enterprise Bankruptcy Law;
- "Serious difficulties" occur in production and/or business operations;
- The enterprise changes production, introduces a major technological innovation or revises its business method, and, after the amendment of employment contracts, still needs to reduce its workforce; or
- There are other major changes in objective economic circumstances relied on at the time employment contracts were concluded that render the contracts unperformable.

The employer is responsible for health and safety measures and must pay social insurance and housing fund contributions to the local governments on behalf of its employees. Social insurance includes a pension, medical care, unemployment, work-related injuries and maternity insurance. The employer also may purchase commercial medical insurance or other additional commercial insurance for its employees from insurance companies.

Working hours

China generally operates an eight-hour work day or 40-hour work week for all employees.

Employees are guaranteed at least one day off per week, and overtime should not exceed 36 hours per month. The local labor bureau and unions should ensure that employees receive rest and overtime entitlements.

7.2 Wages and benefits

Wages must be paid according to the principle of equal pay for work of comparable value. Apart from meeting minimum wage requirements, FIEs and SOEs are free to set their own wages.

Time wages are calculated on the basis of 21.75 work days per month under the standard eight-hour day/40-hour work week. The regulations permit payment on an hourly, daily, weekly or monthly basis.

Housing and schooling allowances, perks and hardship pay commonly are added to a foreign employee's salary. Wages and salaries for Chinese staff vary by region, and total labor costs can be higher than basic wages in some companies, with a range of benefits and subsidies making up the balance.

Each province or municipality must set a minimum wage.

A JV may determine its wage scales independently of the rates of the Chinese partner and other Chinese enterprises. The foreign partner in a JV often negotiates a wage scale with the Chinese partner or local labor service bureau and includes this in the labor contract, spelling out what benefits and subsidies are included and which party is responsible for them.

Pensions and social insurance

Several pieces of legislation covering specific social security needs have been implemented nationwide, according to which the contribution rates and contribution base will be determined by the city-level authorities following guidelines issued at the central level. As noted above, foreign individuals legally working in China generally are required to participate in the social security scheme unless otherwise agreed in bilateral agreements entered into by China.

Some large multinationals have implemented an enterprise annuity (EA) for local employees as a way to attract and retain staff. To establish a multi-tiered social security system, which ensures a better quality of life for local employees after retirement and enhances the existing social security system, the former Ministry of Labor and Social Security (currently Ministry of Human Resources and Social Security) has introduced legislation on EAs. The EA, considered the corporate pension plan, is an occupational voluntary defined contribution scheme applicable to all local employees. An EA must be set up under a trust arrangement, and the trustees must appoint EA service providers (i.e. the plan administrator, the custodian and the investment manager) to jointly manage the EA.

The social security regulations set up a three-tiered structure: basic pension, personal accounts and supplementary schemes. The system requires employers (including state-owned, collective, foreign investment, private and joint stock enterprises) to contribute approximately 20% of basic payroll for the basic pension portion; most funds enter into a municipal-run pension fund. However, this fund eventually will be transferred to a provincial pension pool to fund the basic pension. The actual percentage of contribution varies throughout the country, since the percentage is set by the local authorities.

The employee contributes 8% of his/her salary to a personal account, which normally is portable if the employee changes employers.

The employer and employee can voluntarily establish a supplementary scheme, and the employer is given some discretion in designing these plans. The employer can pay the entire monthly contribution or share the burden with the employee, but the employee portion may not exceed 50% of the total.

Under the social security system, benefits on retirement are as follows:

- If contributions have been made for at least 15 years, a monthly payment equal to a certain percentage (depending on the length of the contribution period) of the average amount of the previous year's provincial or municipal average monthly salary and contribution base is payable from the basic pension fund, plus a certain percentage (variable upon the retirement age) of the personal account balance.
- A benefit equal to the remaining balance in the personal account is payable to a designated beneficiary upon the death of the employee.
- If contributions have been made for less than 15 years, a lump sum equal to the personal account balance is payable.

The unified pension regulations cover only urban employees and not those living in the countryside, although the longer-term objective is to extend coverage to the rural population.

Contributions to unemployment insurance vary by city. Employers in Shanghai, including FIEs, are required to pay the equivalent of 1.5% of total payroll for unemployment insurance funds and employees must pay 0.5% of their wages; government agencies supply an unspecified amount.

An employee is entitled to unemployment insurance benefits after involuntary dismissal for up to two years while actively seeking new employment. If the individual has not found employment at the end of this period, he/she is entitled to regular benefits.

As agreed by the local authorities and supported by local policies, many JVs pay a single sum to a comprehensive insurance scheme administered by the Labor Services Bureau.

Employer contributions to a housing fund vary by city. In Beijing, the government requires all enterprises, including FIEs, to contribute 12% of an employee’s monthly salary to the Housing Provident Fund, up to a maximum of three times the average monthly earnings in Beijing in the previous year. In Shanghai, the most recent adjusted employee's contribution rate includes a 7% basic portion and a 1% to 8% complementary portion, together with maximum and minimum limits for contributions.

Other benefits

There are 11 state holidays. Employees who have been with a company for more than one year enjoy statutory paid annual leave from 5 to 15 days, depending on their seniority. Most employees of FIEs are entitled to more than 15 days of annual leave, according to the FIE's company policies. Employees separated from their families may be entitled to additional leave.

7.3 Termination of employment

The Labor Law allows an FIE to dismiss an employee (without advance notice) if the employee does not fulfill the requirements during the probation period, or if he/she “seriously” violates labor discipline or company regulations, is “seriously” derelict in his/her duties or engages in graft, favoritism or other activities that cause “serious” damage to the employer. An employee may be dismissed for other reasons under particularly egregious circumstances.

If an employer terminates an employment contract during the probation period, an explanation must be furnished to the employee.

An employer may dismiss an employee with one month’s written notice or one month's wages in lieu of notice if the employee remains incompetent after training or rearrangement of duties, or where there are “major” operational or production difficulties. The trade union must be notified 30 days in advance. Employees dismissed because of major difficulties must be given priority if the same enterprise recruits employees within the following six months. Trade unions are entitled “to object” to dismissals they deem inappropriate. If disputes arising from such dismissals cannot be resolved, the courts or labor arbitration tribunals should handle the matter, with union representatives retaining the right to assist with such actions.

An employee also has the right to terminate employment, provided he/she notifies the employer 30 days in advance, or three days in advance within the probation period. In certain cases, an employee can choose to terminate employment without notice (e.g. when the employer fails to pay wages or fails to pay social insurance according to the law).

The Labor Law requires an employer to make severance payments, with the amount governed by local regulations. An employee must be paid severance pay based on the number of years worked with the employer, at the rate of one month’s wage for each year worked. Any period of at least six months but less than one year is counted as one year. The severance payable to an employee for any period of less than six months is one-half of his/her monthly wages.

If an employee’s monthly wage is greater than three times the average monthly wage of employees in the employer’s area, as published by the authorities, the rate for the severance pay is three times the average monthly wage of employees and may cover no more than 12 years of work. The term “monthly wages” means the employee’s average monthly wage for the 12 months before the termination or ending of his/her employment contract.

7.4 Labor-management relations

China has a single trade union, the All-China Federation of Trade Unions (ACFTU), with local chapters at the factory level. Independent trade unions are not permitted. Chinese national law requires JVs to permit the formation of unions; in many areas, local regulations require the unionization of JV workforces. Domestic and foreign investment firms should consult with trade unions to conclude collective labor contracts.

In many FIEs, unions may be responsible for distributing wages, bonuses, housing and other payments to employees. Union representatives have the right to attend board meetings when labor matters are under discussion. They also may negotiate with management on behalf of individual employees. Each month, FIEs must contribute 2% of total wages (including those payable to expatriate employees) to the trade union fund, and this contribution normally is deductible for EIT purposes if valid supporting documents are provided.

The employee or the employer can take disputes to the labor dispute mediation committee in its own employing unit. Such committees, headed by a trade union representative, comprise staff, employee and trade union representatives. If mediation fails, the employee or employer may take the dispute to a tribunal organized under the local Labor Service Bureau. The committee is headed by an appointee of the bureau and includes representatives of the bureau, the trade union and the employing unit. Arbitration awards generally must be rendered within 60 days of submission. Parties dissatisfied with an award may appeal to the People's Court within 15 days.

The burden of proof is on the employer in disputes arising from a decision to dismiss or lay off an employee or reduce an employee's remuneration. The employer also is liable for paying remuneration or damages to an employee who has worked under especially harsh conditions, has been made to work long hours or has otherwise had his/her rights curtailed.

7.5 Employment of foreigners

In general, foreigners may be hired only where there is a demonstrated need and where approval is obtained from the local labor authorities. Foreigners must comply with a licensing system before they can start work. The system requires work permits, professional visas and residence permits.

The term "work" under the immigration rules is defined as carrying out activities with a remunerative nature, and "work in the PRC" means performing one's employment duties in the PRC, pursuant to either: (1) an employment contract signed directly with a legal person in the PRC, regardless of the length of employment in China and regardless of whether the foreigner is paid in the PRC for the services rendered in China; or (2) an employment contract signed with a legal person outside China if the source of compensation is outside China and work is performed in China for more than three months in any calendar year, unless exceptions apply. Violation of these rules may be a criminal offense.

Work permits and residence permits generally are valid for the shorter of one year, the remaining validity of the passport, the term of the employment in China or the remaining validity of the local employer's business license. Certain groups of foreigners may apply for a maximum five-year residence permit. Foreigners who are eligible for the longer-term residence permit include consultants and advisers to the Chinese government, those who take up a position of vice general manager level or above and those who are seconded as management or professionals to a Chinese company with foreign investment of more than USD 3 million.

All foreigners require visas to enter China. It is recommended that a passport be valid for at least six months from the date of arrival in the country. Generally, a transit visa is required for a stop in China, except in certain cases (e.g. where the foreigner directly transits through China by air and remains in the airport for no more than 24 hours).

A Z (working) visa is issued to a foreigner who comes to China for a post or employment. To obtain the Z visa, the employer must be accredited to employ foreigners and must obtain an employment permit (notification letter), with which the foreign candidate may apply for a Z visa at a Chinese consular post overseas.

An F/M (business) visa must be sponsored by a qualifying government entity in China. With a visa notification form (the sponsorship form), the applicant can apply for an F visa at a Chinese consular post overseas.

An L (tourist) visa can easily be obtained at a PRC embassy or consulate located in a foreign national's home country. The specific rules and policies for issuing L or F visas vary depending on the particular embassy or consulate.

8.0 Deloitte International Tax Source

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