



# Doing business in China 2024

**forv/s**  
**mazars**

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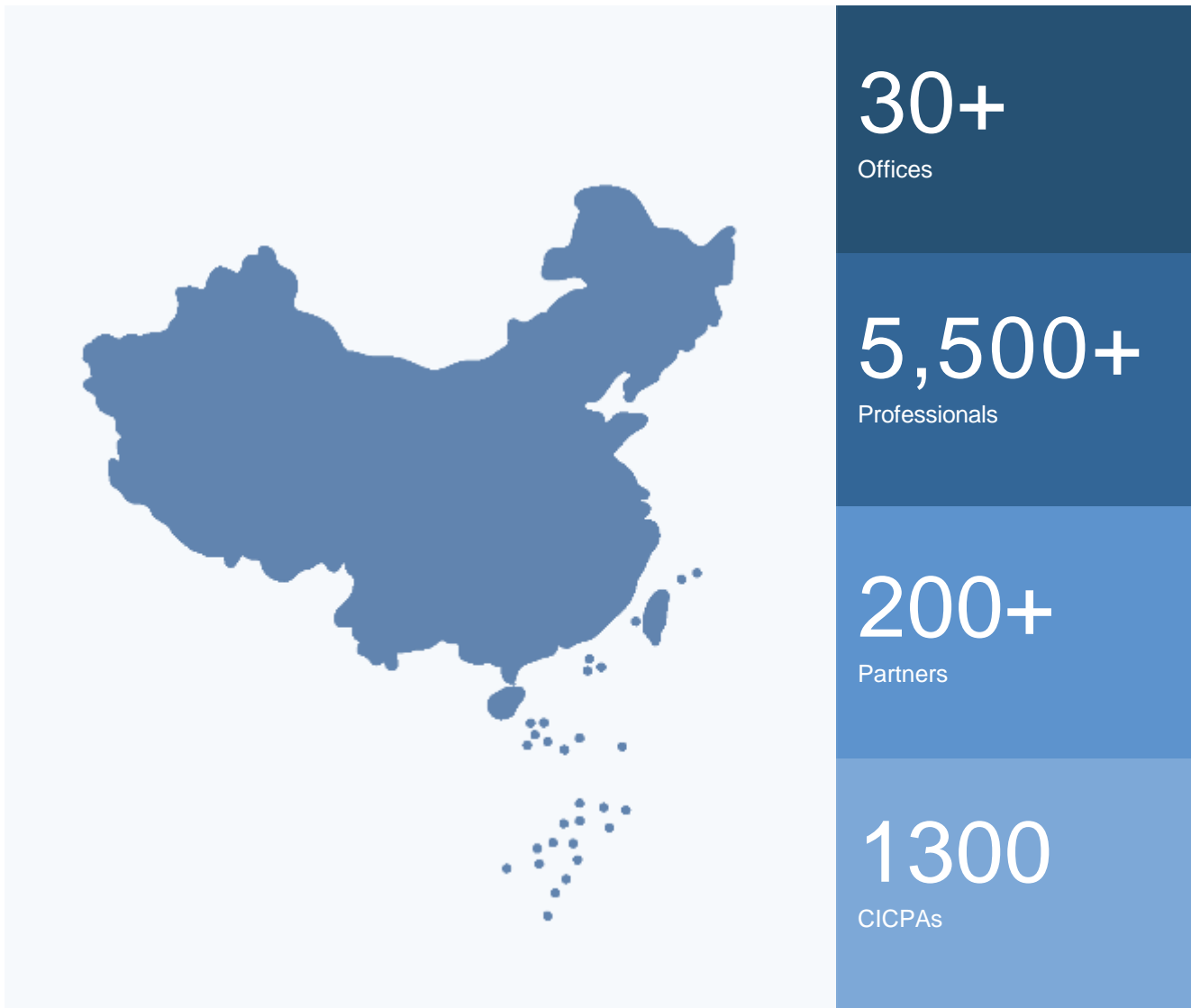
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# Chapter 1

## Who we are



## Who we are Forvis Mazars in China



Forvis Mazars in China specializes in audit, accounting, tax and business advisory services and focuses on delivering value in meeting our clients' needs.

Forvis Mazars has been present in China for more than two decades and operates as one integrated firm throughout over 30 offices in Beijing, Shanghai, Guangzhou, Wuhan, Kunming and more.

Our client portfolio includes multinational companies as well as small-and-medium sized enterprises, with well-proven experience in serving state-owned-enterprises, mainland China and Hong Kong listed companies, and private companies.

## Chapter 2

### General information



# General information about China

## The Government of the People's Republic of China ("PRC")

The National People's Congress ("NPC") is the highest state body and the only legislative house in the PRC.

The NPC and its Standing Committee exercise the legislative power of the state.

## Size and population

The PRC is located in Central and Eastern Asia with a total area of about 9.6 million km<sup>2</sup> and is the 4<sup>th</sup> largest country by area.

Its population has reached 1.41 billion in 2023, which represents approximately 18% of the world population.

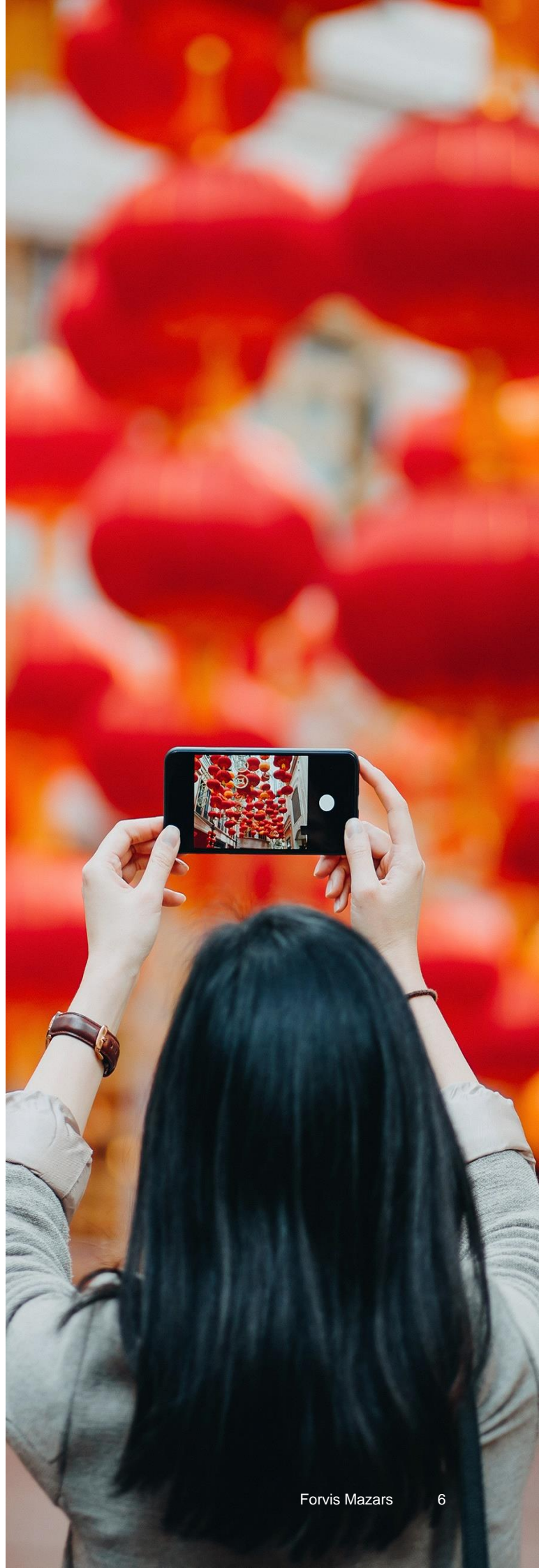
The PRC has diverse climatic conditions. In the North, it is bitterly cold in winter but hot and humid in summer. In the South, the climate is subtropical.

## Economic environment

China's gross domestic product (GDP) grows 5.2 percent year-on-year to 126.06 trillion yuan (\$17.52 trillion) in 2023 - meeting the country's preset annual growth target of around 5 percent, fueled by a slew of policy measures taking effect gradually last year.

Experts called its 2023 GDP growth as "relatively fast" in contrast to other major economies, highlighting China's role as a key growth engine for the world economy.

Source:  
*National Bureau of Statistics*  
*China reports 5.2% GDP growth for 2023*



## Chapter 3

### Setting up a business organization



# Setting up a foreign-invested enterprise (“FIE”) or wholly foreign-owned enterprise (“WFOE”)

## Formation of an FIE

To set up an FIE, the investors are required to submit an application online to the State Administration of Market Regulation (“SAMR”). The main supporting documentation includes the shareholder’s certificate, articles of association, the governance members and the lease agreement. The articles of association establish the company’s by-laws and prescribe the roles as well as the responsibilities of the board of directors and supervisor.

The SAMR has 10 days to answer the application request from the online submission date. Upon approval by the SAMR, the investors will then proceed with onsite submission of the original paper documentation. The SAMR shall issue the business license within 10 days of the approval date.

Once the business license is issued, the FIE is officially established. The FIE should then register with different government authorities (e.g. tax bureaus, customs) within 30 days of the date of issuance of the business license.

## Registered capital of the FIE

The MOC will validate the project, and notably the proposed amount of capital to be injected into the FIE based on the proposed nature and scale of the

FIE’s business. Contributions can be in currency, or in kind, intellectual property, land use right, stock rights, creditor’s rights or other non-monetary property that may be assessed in currency and transferred according to law, except the property that may not be used as capital contributions according to any law or administrative regulation. The non-monetary property as capital contributions shall be assessed and verified, which may not be overvalued or undervalued. Additionally, for EJV enterprises, the form of capital would need to meet certain requirements for the ratio of equity and debt which is determined by the amount of investment.

According to the revised Company Laws of PRC effective from 1<sup>st</sup> July 2024, the registered capital shall be the total capital contributions subscribed by all the investors and the amount shall be determined by the investors and also in compliance with the articles of associations. And the restriction on the payment term of the capital contribution is 5 years from the date of establishment. Therefore, the shareholders of the FIE could determine the date of the capital injection in accordance with the law. After the full amount of capital contributions has been subscribed, the investors shall report to Ministry of Commerce (“MOC”).

## WFOE

The term WFOE is used if 100% of the capital comes from an overseas entity or an entity from Hong Kong, Macau, or Taiwan.



# Setting up a foreign-invested enterprise (“FIE”)

## Governance Bodies

Most foreign companies incorporate a limited liability entity in China or commonly called wholly foreign owned enterprise (WFOE). Foreign entity can also join a Chinese partner to establish a limited liability entity in China, in such case it is commonly called joint venture (JV).

Regarding the company governance in China, there are four mandatory positions that we may not avoid:

### The shareholders committee:

The shareholders committee is composed by all the shareholders of the company: it is the authority of the Company.

The shareholders committee decides on:

- Nominating or changing the legal representative, the director of the board and the supervisor.
- Approving the board of directors report.
- Approving the board of supervisors report.
- Approving the dividend distribution or effects of the profit or loss.
- Making resolutions on the change of the registered capital.
- Making resolutions on the issuance of corporate bonds which can be delegated to the directors
- Making resolutions on the merger, split-up, dissolution, liquidation or change of corporate form of the company;
- Amending the articles of association.

### The legal representative

- The legal representative is nominated by the shareholders. He or she conducts the civil activities in the name of the Company.
- The legal representative holds the position of director or manager who represents a company to execute corporate affairs.
- The legal representative can be a foreigner and there is no need to be a Chinese resident, however the legal representative may be required to visit Chinese authorities in order to fulfill his or her obligation.

### Board of directors (“BOD”):

- The shareholders can appoint only one director. The director may concurrently hold the position of the manager and the legal representative of the Company.

- Or can appoint several directors (more than 3 members).
- The BOD is in charge to decide the business plans and investment scheme of the Company.
- Prepare the financial statements and the budget for approbation.
- Prepare the resolution for the shareholders’ committee.
- The directors can be non-Chinese residents.

### Supervisors:

- The supervisor is nominated by the shareholders’ committee, the supervisor cannot hold any executive position in the company, thus the legal representative or any directors of the company can hold this position.
- The supervisor is in charge to supervise or control the company’s management and the finance, whether or not the Articles of Association (“AoA”) is correctly applied.
- A limited liability company with a small scale or a relatively small number of shareholders may dispense with the supervisor(s) upon the unanimous approval by all of the shareholders.

### Finance principal:

- The finance principal is nominated by the director or the manager. He or she is in charge of the preparation of the company’s financial statements and budget.
- He or she reports to the board of directors.
- He or she represents the company in front of the authorities for finance affairs.
- A non-Chinese resident can hold this position. He or she needs to come to China to conduct the real-name authentication with the tax authority.

These are the most important positions in China regarding the company’s governance bodies.

## Profit distribution

A WFOE is required to allocate 10% of its after-tax profits to a general reserve until the balance of the general reserve reaches 50% of its registered capital. The reserve is not distributable but could be used to offset the previous year’s losses, increase the registered capital or expand the business scale. A WFOE is also required to allocate portions of its after-tax profits to staff reward and welfare reserves but the percentage of contribution remains at the WFOE’s discretion.

# Setting up a foreign-invested enterprise (“FIE”)

Dividends can be paid to foreign investors out of the FIE’s retained earnings. Dividends distributed to foreign investors are subject to PRC withholding tax (“WHT”). Normally, the standard WHT rate is 10%, however, it could be reduced to a lower rate by virtue of relevant tax treaties. In addition, provided that conditions are fulfilled, payment of withholding tax may be deferred if those relevant dividends are re-invested into other investments in China.

## Accounting and audit requirements

An FIE is required to maintain its own accounting records and prepare its financial statements. It is also required to submit monthly and annual financial statements to the local tax authorities. The annual financial statements must be audited and certified by a Chinese Certified Public Accountant.

## Labour contract law and social security contributions

Under the Labour contract law:

- An employer should enter into written employment contracts with all of its employees;
- The employment contracts should state the duration of employment, job description, compensation arrangements, and working conditions, such as the maximum working hours (40 hours per week excluding overtime), annual leave, and maternity leave entitlements;
- If the employee's monthly salary exceeds 3 times the average monthly salary of the city, then the rate for the financial compensation payable shall be 3 times the average monthly salary of the city, and the number of years involved shall not exceed 12 years.

Both the employer and employees have to make social security contributions for the employees’ housing, pension, unemployment, and medical insurance. The employer is also required to make social security contributions for the employees’ work injury and maternity insurance.

Effective from 15 October 2011, the social security contributions are also applicable to foreigners based and working in China.

Effective from 1 January 2020, social security contributions are mandatory to Hong Kong, Macao, and Taiwan residents based and working in China.



# Immigration

Foreigners leaving and/or working for a short-term mission or long-term period in China must have a visa and working permit corresponding to their situation.

Passengers from [53 countries](#)\* can enter China from designated ports with their valid travel documents and a connecting ticket to a third country or region, with a confirmed seat and date within 144 hours. There are many different kinds of visas regarding the purpose and time of your stay in China you should apply for.

Depending on the type of visa you are holding, it can be extended into a working residency permit of one year or more if you intend on staying longer. Every demand has its own special kinds of procedures.

If you expatriate an employee to China for a long time period, this process may implement that the employee will have to bring his or her family alongside him or her. Again this will mean a different kind of visa for a different procedure.

We can determine a few categories of visas regarding your situation. You will find below some of the relevant types of visas that could apply to your situation:

Categories of visas	Description
M - Business visa	<ul style="list-style-type: none"><li>Issued for commercial and trade activities, single-double-multiple entries with a 30 to 60 days duration for each stay.</li></ul>
F - Non-commercial	<ul style="list-style-type: none"><li>Used for cultural exchange, research, lectures, scientific studies. Single and double entry only for a duration of stay of 30-90 days each stay.</li></ul>
Z - Work visa	<ul style="list-style-type: none"><li>Issued for those who have obtained employment in China or come for a commercial performance. This is a single-entry visa only.</li></ul>
X1/X2 - Study	<ul style="list-style-type: none"><li>For students in an exchange program in China. X1 is for a stay exceeding 6 months. X2 is for less than 6 months.</li></ul>
S1 - Private visa	<ul style="list-style-type: none"><li>For family members of people working or studying in China. The duration of stay has to be more than 180 days.</li></ul>
G - Transit visa	<ul style="list-style-type: none"><li>For people transiting in China for 24h, 48h, etc.</li></ul>

Within the framework of work visas, two situations arise. The stay is either of long-term or short-term. Depending on the situation there will be a few steps to go through before entering China.

\*Source: Shanghai Municipal People's Government ([List of the 53 countries](#))

# Immigration

## Short-term work visa:

For a short-term work visa, you enter in the category “M”. To be able to apply for an “M” visa you will need an invitation letter from a Chinese company in order to apply for a visa at the nearest Chinese embassy.

## Long-term work visa:

If you are looking to stay here for a longer period, the “Z” visa is the one you need. However, before entering China, to meet the necessary conditions to apply for this visa, you must have: two years working experience, a minimum of bachelor’s degree, and initiate the demand in your country of residence. Here below are the steps to obtain your work permit.



# Employment

## Labour contract

The relationship between employer and employee must follow the Chinese labour law and Chinese labour contract law. The labour contract is mandatory. In the labour contract, the employer must mention that he or she will take care of social securities and housing fund of the employee according to the provisions planned by the PRC. Moreover, the employer is responsible for declaring and paying the relevant labour charges according to the employee and employer's situation.

## Salary and minimum wage

Salary and minimum wage are also set by the local Municipal Human Resource and Social Security Bureau ("MHRASSB"), this may affect both monthly and hourly minimum salary standards. This must be verified with the relevant local department. Each local city has its own minimum wage. See below examples for year 2022:

City	Monthly Minimum Wage for year 2023
Beijing	2420 CNY
Shanghai	2690 CNY
Guangzhou	2300 CNY
Shenzhen	2360 CNY

## Legal holidays

Legal holidays are to be taken into account when companies plan their activities. When unable to do differently, employees are to be given "additional wages" when working during public holidays. Moreover, concerning annual leave there is a minimum fixed by the laws and regulations of the PRC. This minimum depends on the employee's seniority in the company.



# Employment

## Social Welfare

The contribution base is determined by the employee's annual average salary of the previous year, subject to the upper limit and the lower limit of each city announced in the middle of the year. According to the PRC labour contract law, an employer shall pay the social contribution for the employee in accordance with the law. If any enterprise conceals the total amount of wages or the number of employees when declaring the payable amount of social insurance premiums to the social insurance handling institution, it shall be ordered by the labour security administration to make a correction, and in addition, be imposed upon a fine of not less than 1 time but not more than 3 times of the concealed amount of wages.

Here we'd like to share the new social contribution based on the megacities effective from July 2022.

### Applicable rate from 1<sup>st</sup> July 2023 to 30<sup>th</sup> June 2024, Beijing

	Base Range	Employer	Employee
Pension	6326 CNY ~ 33891 CNY	16.00%	8.00%
Unemployment insurance	6326 CNY ~ 33891 CNY	0.50%	0.50%
Medical insurance (Including maternity insurance)	6326 CNY ~ 33891 CNY	9.80%	2.00%+3
Injury insurance	6326 CNY ~ 33891 CNY	0.2%-1.9%	N/A
Housing fund	2420 CNY ~ 33891 CNY	12.00%	12.00%

**Monthly minimum wage for year 2023: 2420 CNY**

### Applicable rate from 1<sup>st</sup> July 2023 to 30<sup>th</sup> June 2024, Shanghai

	Base Range	Employer	Employee
Pension	7310 CNY ~ 36594 CNY	16.00%	8.00%
Unemployment insurance	7310 CNY ~ 36594 CNY	0.50%	0.50%
Medical insurance	7310 CNY ~ 36594 CNY	9%	2.00%
Injury insurance	7310 CNY ~ 36594 CNY	0.16-1.52%	N/A
Maternity insurance	7310 CNY ~ 36594 CNY	1.00%	N/A
Housing fund	2590 CNY ~ 36594 CNY	5.00-7.00%	5.00-7.00%

**Monthly minimum wage for year 2023: 2690 CNY**

# Employment

## Applicable rate from 1<sup>st</sup> July 2023 to 30<sup>th</sup> June 2024, Guangzhou

	Base Range	Employer	Employee
Pension	5284 CNY ~ 26421 CNY	15%	8%
Unemployment insurance	2300 CNY ~38082 CNY	0.32% / 0.48% / 0.8%	0.2%
Medical insurance	5674 CNY ~ 28368 CNY	6%	2%
Injury insurance	Actual salary	0.1-1.4%	N/A
Maternity insurance	5674 CNY ~ 28368 CNY	0.85%	N/A
Housing fund	2300 CNY ~38082 CNY	5%-12%	5%-12%

**Monthly minimum Wage for year 2023: 2300 CNY**

## Applicable rate from 1<sup>st</sup> July 2023 to 30<sup>th</sup> June 2024, Shenzhen

	Base Range	Employer	Employee
Pension	2360 CNY ~ 26421 CNY	15% / 14%	8%
Unemployment insurance	2360 CNY	0.70%	0.30%
Medical insurance	7778 CNY ~ 38892 CNY	6.2%	2%
Injury insurance	2360 CNY ~ Actual salary	Floating rate	N/A
Maternity insurance	2360 CNY ~ 38892 CNY	0.50%	N/A
Housing fund	2360 CNY ~ 41190 CNY	5% - 12%	5% - 12%

**Monthly Minimum Wage for year 2023: 2360 CNY**

# Foreign exchange control

The State Administration of Foreign Exchange (“SAFE”) (and its branches) is the main body responsible for supervising and monitoring foreign exchange transactions.

According to the PRC Foreign Exchange Control Regulations, foreign exchange transactions are categorized into current account and capital account items:

Current account items cover foreign exchange transactions that entail goods, services, remunerations, dividends, interest, gifts, and compensations.

Capital account items cover foreign exchange transactions that entail direct investments. An FIE is required to register with the SAFE. It may open separate foreign exchange (“forex”) bank accounts for current and capital account items with designated banks.

For current account items, an FIE may receive and sell as well as purchase and remit foreign currency through its forex bank account. The FIE is generally required to provide information and supporting documentation to the bank or SAFE to substantiate the transactions.

With the issuance of Huifa [2013] No.30, effective from 1 September 2013, the procedures to apply for a forex remittance with regard to service trade are further simplified. In addition, under the Announcement [2013] No. 40 of the State Administration of Taxation (“SAT”), a record filing system replaces the tax clearance certificate for outward remittance. Furthermore, the record filing requirement is waived for a forex payment less than or equivalent to USD 50,000.

As for forex transactions of capital account items, an FIE is generally required to obtain prior approval from the SAFE.

From a forex control perspective, foreign investors should be aware that:

- An FIE must have its export proceeds remitted back into the PRC;
- An FIE must register its foreign exchange borrowing with the SAFE;
- An FIE, with prior approval from the SAFE, may open a forex account with a bank outside the PRC;
- An expatriate is allowed to remit his or her PRC-sourced salaries and other legitimate income out of the PRC after tax clearance.

However, the reform of China (Shanghai) Pilot Free Trade Zone introduces policy innovations with regard to forex administration in the zone on the following aspects:

- It further simplifies the forex registration procedures for direct investment and delegates the administration authority to banks;
- It relaxes the verification for current account items on both forex inflow and outflow;
- It deregulates the administration on forex borrowing and lending;
- It improves the forex pilot policy relating to multinational companies with regard to forex central management, cash pooling and settlement centers for international trades, etc.

Chapter 4  
Taxation



# Corporate income tax (“CIT”)

The existing corporate income tax system was revised and has been in effect since December 29, 2018.

The corporate income tax (“CIT”) law governs the income tax levied on domestic enterprises, FIEs, and foreign enterprises.

## Resident enterprise

An enterprise that is established under PRC laws, or an enterprise that is established under the laws of a foreign country/region but maintains its place of effective management within Mainland China, is considered a PRC tax resident enterprise and is therefore subject to CIT on its worldwide income.

The place of effective management of an enterprise refers to the place where the overall management and control of the production, operation, personnel, finance and properties of the enterprise are exercised.

## Non-resident enterprise

An enterprise established under the laws of a foreign country/region maintaining its place of effective management outside Mainland China, is considered a non-PRC resident enterprise and will be subject to CIT on its PRC-sourced income, and non-PRC-sourced income that is effectively connected with its institutions/workplaces (i.e. establishment) in the PRC.

## Income tax rates

The statutory CIT rate is 25% but certain types of enterprises may enjoy reduced CIT rates (see below).

For a non-PRC resident enterprise without institutions/workplaces in China, or a non-PRC resident enterprise, its income has no effective connection with its institutions/workplaces in China, the CIT rate for its income from China is reduced to 10%.

Under the tax arrangement between Mainland China and Hong Kong, Hong Kong tax resident companies may enjoy a reduced PRC withholding tax rate on dividends at 5% and on interest and royalties at 7% upon the fulfillment of certain conditions.

## Deductions

According to the CIT law and implementation rules, reasonable expenses actually incurred by the business in relation to company income, including costs, expenses, taxes, losses and other expenses, are allowed to be deducted in the calculation of taxable income. However, deductions of certain expenses are capped. These expenses include staff welfare, labour union fund contribution, staff education, business entertainment, advertising and promotion, and charitable donations. In addition, costs and expenses can only be deducted when proper legitimate vouchers such as fapiao are available.

## Corporate income tax incentives

Under the existing CIT regime, tax incentives are mainly qualified high-technology and micro, small and medium sized enterprises oriented. Specifically, the annual income from technical transfers by a resident company with a non-exclusive license for more than 5 years can be exempted from CIT for up to CNY 5 million; for the part above CNY 5 million, a reduction by half CIT is available. The effective CIT rate for eligible small low-profit enterprises could be reduced to 5% till 31 December 2027, for qualified high-tech enterprises supported by the state could be reduced to 15%; a super deduction is available for expenditures on researching and developing new technologies; for resident enterprise, the income from a qualified technology transfer within a financial year not exceeding CNY 5 million can be exempted from CIT, for the part exceeding CNY 5 million, a reduction by half CIT is available; The research and development expenses, which have not formed into intangible assets, enjoy an additional 100% deduction; where the intangible asset is formed, an additional 200% deduction based on the cost of intangible asset is allowed from 1<sup>st</sup> January 2023; a qualified newly established software production company could be granted a “2-year exemption and 3-year reduction by half” preferential CIT treatment.

# Transfer pricing (“TP”)

In general, the transfer pricing (“TP”) concepts in the PRC follow the principles of the OECD Transfer Pricing Guidelines with some variations. The CIT law and regulations do not prescribe any preferred TP methods. Taxpayers may use any of the acknowledged methods to determine their transfer prices as long as the methods are defensible and commercially justifiable.

Related party transactions mainly include:

- Transfer of the right to use or ownership of tangible assets.
- Transfer of financial assets.
- Transfer of the right to use or ownership of intangibles.
- Financing
- Services

Unless they are specifically exempt under certain designated conditions (*Enterprises with only domestic related party transactions may choose not to prepare master files, local files, and special issue files*), corporate taxpayers are also required to prepare contemporaneous documentation with detailed information requirements - notably in the following main categories:

<b>Master Files</b>	<ul style="list-style-type: none"> <li>• Organizational structure</li> <li>• Description of MNE’s business(es)</li> <li>• Intangibles</li> <li>• Financial activities</li> <li>• Financial and tax position</li> </ul>
<b>Local Files</b>	<ul style="list-style-type: none"> <li>• Overview of the enterprise</li> <li>• Related party relationship</li> <li>• Related party transactions</li> <li>• Comparability analysis</li> <li>• Selection and application of transfer pricing method</li> </ul>
<b>Special Issue Files</b>	<ul style="list-style-type: none"> <li>• Special issue file on cost sharing agreements</li> <li>• Special issue file on thin capitalization</li> </ul>

A master file shall be completed within 12 months of the fiscal year end of the ultimate holding company of the enterprise group; local file and special issue file shall be completed by 30 June of the year following the year during which the related party transactions occur. Contemporaneous documentation shall be submitted within 30 days

after receiving a request from the tax administrations.

## Transfer Pricing Novelty

On 20 January 2022, OECD released the latest edition of the Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations.

The OECD Transfer Pricing Guidelines provide guidance on the application of the “arm’s length principle” which represents the international consensus on the valuation of cross-border transactions with associated enterprises.

Based on the OECD Transfer Pricing Guidelines 2017 edition, the latest edition consolidates other OECD reports published in recent years, including:

- The report *Revised Guidance on the Transactional Profit Split Method*, approved by the OECD/G20 Inclusive Framework on BEPS on 4 June 2018.
- The report *Guidance for Tax Administrations on the Application of the Approach to Hard-to-Value Intangibles*, approved by the OECD/G20 Inclusive Framework on BEPS on 4 June 2018.
- The report *Transfer Pricing Guidance on Financial Transactions*, adopted by the OECD/G20 Inclusive Framework on BEPS on 20 January 2020.

In November 2023, the OECD released the 2022 Mutual Agreement Procedures (MAP) Statistics, covering 133 jurisdictions and all MAP cases worldwide, to further improve dispute prevention and resolution.

# Value-added Tax (“VAT”) and Consumption Tax (“CT”)

## General

Value-added Tax (“VAT”) and Consumption Tax (“CT”) are two major turnover taxes in China.

### Value-added Tax (“VAT”)

VAT is levied on the sales of goods, services, intangible asset, immovable property, and the importation of goods within the territory of the People’s Republic of China.

VAT taxpayers are categorized into two types: general taxpayers and small-scale taxpayers, based on their annual taxable sales amount. The ceiling of annual VAT sales for small-scale taxpayers is CNY 5 million.

General taxpayers are subject to a progressive tax rate of 0 to 13 percent, depending on the types of goods and services they provide. Small-scale taxpayers are generally subject to a lower levy rate of 3 percent.

Unlike general taxpayers, the small-scale taxpayers are neither entitled to VAT refund for export products nor credit input VAT from output VAT.

#### Calculation Method

General taxpayers are eligible for the general VAT calculation method, the VAT payable equals the current output VAT deducting the current input VAT.

Small-scale taxpayers adopt usually the simplified VAT calculation method, the VAT payable is calculated simply based on the sales volume and the applicable VAT rate.

#### VAT Refund

Except the export VAT refund, the Company eligible could apply for a full refund of incremental VAT credit on a monthly basis and a one-off refund of their remaining VAT credit accordingly.

#### Preferential Tax Policy

The advanced manufacturing companies could enjoy an additional 5 percent value-added tax (VAT) deduction based on their deductible input VAT from 1<sup>st</sup> January 2023 to 31 December 2027.

Small-scale taxpayers with monthly sales of under CNY 100,000 could enjoy VAT exemption until 31 December 2027.

Small-scale taxpayers who were subject to a levy rate of 3 percent could enjoy a reduced levy rate of 1 percent until 31 December 2027.

### Consumption Tax (“CT”)

CT is levied on manufacturers and importers of 14 types of consumer goods such as motor cars, jewelry, tobacco, liquor, cosmetics and petrol.

The CT rates range from 1% to 56%. For certain types of goods, CT is calculated by fixed amounts of CT per taxable unit.

# Other major taxes and duties

## Land Appreciation Tax (“LAT”)

When a property owner (whether it is a land or building) makes a gain from a property transfer, the gain is subject to LAT and taxed at progressive rates:

Appreciated value as a percentage of the total deductible costs	LAT rate (in %)
Not exceeding 50%	30%
Exceeding 50% but not exceeding 100%	40%
Exceeding 100% but not exceeding 200%	50%
Exceeding 200%	60%

### Deductible costs include:

- Acquisition cost of land use rights
- Project development costs and expenses
- Taxes paid for the property transfer
- Cost and expense of new homes and amenities, or the appraised price of old homes and buildings
- Other deduction items stipulated by the Ministry of Finance

Property developers are entitled to claim an additional deduction of 20% on the acquisition cost of land use rights and project development costs.

Furthermore, a property developer may be required to file provisional LAT on a monthly or quarterly basis. In addition to affordable housing, the provisional LAT rate in the eastern provinces shall not be less than 2%, the provinces in the central and northeastern regions shall not be less than 1.5%, and the provinces in the western region shall not be less than 1%.

For a real estate development project of which the construction has been certified as completed by various government authorities, the tax authorities may require the property developer to settle LAT when:

- More than 85% of the saleable floor area of the whole project has been sold;
- Or 85% or less of the saleable floor area has been sold and the remaining saleable floor area has been leased out or used by the property developer itself.



# Other major taxes and duties

## Resources Tax

Units and individuals that develop taxable resources in the territory of the PRC and other sea areas under the jurisdiction of the PRC are subject to resources tax.

The resources tax rate applicable to crude oil and natural gas products is 6% of the sales volume. In terms of the resources tax, the tax amount standard for other tax items varies from CNY 0.1/ton to CNY 10/ton, or from CNY 1/m<sup>3</sup> to CNY 30/m<sup>3</sup> depending on the kinds and locations of the resources.

## Customs duties

### General information

Import duties vary depending on any preferential tariff arrangements between the PRC and the country of origin.

- Customs duties are imposed on imported goods, independently of VAT and CT. VAT and CT are imposed on the customs-duty-inclusive value of the imported goods.
- Freight, insurance, and other prescribed expenses are included as part of the dutiable value of the goods.
- Customs duties have to be paid within 15 days after Customs issues the duty payment notice.
- Export duties are only imposed on limited types of goods, for example, certain mineral ores, wooden floor, disposable chopsticks, etc.

### Exemptions

Enterprises that are engaged in contract processing or import processing arrangements may claim customs duties and VAT exemption on the importation of raw materials, provided that the products manufactured under the arrangement are for exports. Importation of machinery and equipment for use under such arrangements may also be exempt from customs duties if certain conditions are satisfied.

An FIE engaged in a project that is classified as “Encouraged” under the Guidance Catalogue for Foreign Investment Industries may enjoy customs duties exemption for the importation of equipment, provided that:

- The equipment is imported for self-use;
- The value of the equipment is covered by the total investment amount of the FIE; and
- The equipment does not fall within the items listed in the “Catalogue of Non-exempt Commodities Imported for Foreign-invested Projects”.

Importation of raw materials into Free Trade Zones and Export Processing Zones is exempt from customs duties and import VAT, provided that the finished goods are not subsequently sold in the PRC. Importation of machinery and equipment for use within these zones is also exempt from customs duties and import VAT. The import and export declaration procedures in these zones are different from those in other locations.

Enterprises may claim customs duties exemption for machinery and equipment that are imported temporarily into the PRC (i.e. no more than 6 months, with possible extension to one year). However, the importer is required to make a guarantee payment that is equivalent to the customs duties otherwise payable under general import.

## Stamp duty

Stamp duty is levied on dutiable instruments (such as sales and purchase contracts, leases, and property title transfer agreements) that are executed, used, or received in the PRC and Units and individuals engaged in securities transactions are also stamp duty taxpayers. Stamp duty rate ranges from 0.005% to 0.1%.

## Real Estate Tax (“RET”)

Owners and mortgagees (and in certain circumstances, custodians and users) of buildings are subject to RET. According to the national RET regulations (subject to local variations), RET may be imposed on the following two principles:

- For properties not rented out: original value of the property x (1 – statutory deduction %, ranging from 10% to 30% depending on the locality) x 1.2%.
- For properties rented out: Rental income x 12%.

Source: <http://www.icalculator.info/china/guides/resource-tax.htm>

## Other major taxes and duties

### Deed tax

The transferees (including purchasers and donees) of land and buildings are subject to deed tax. Deed tax rate ranges from 3% to 5%, depending on the location, and is imposed either on the transaction price or the market value of the land and buildings, as the case may be:

- For the transfer and sale of land use rights, and the purchase and sale of buildings, the basis is the transaction value;
- For the donation of the land use rights, donation of buildings, the tax authorities shall determine the basis according to the market price of the land use rights and the purchase and sale of buildings;
- For the exchange of land use rights and the exchange of buildings, the basis is the difference between the prices of the exchanged land or buildings.

When the transaction price is obviously lower than the market price without valid reasons, or the price difference of the exchanged land or buildings is obviously unreasonable and cannot be justified, the basis shall be determined by the tax authorities according to the market price.



# Individual income tax (“IIT”)

## General

IIT is charged on income earned by individuals.

- PRC resident individuals are subject to IIT on their worldwide income.
- For non-residents, the IIT treatment depends on the length of their stay in the PRC and their source of income. Non-residents may enjoy IIT exemption if a tax treaty has been signed between the PRC and their home countries.

NON-RESIDENT STATUS (Not Applicable For “Senior Executives”)	IIT SCOPE
Less than 90 days	PRC-sourced income paid / borne by PRC entities / establishments
More than 90 days and less than 183 days	Income attributable to the period of employment in China
More than 183 days for each year in less than 6 years in a row	All income, except the part of salary belonging to overseas working period and paid by overseas entities/individuals
More than 183 days for each year in 6 years	Worldwide income (starting on 7th year of their stay)

For “Senior Executives”, who stay in China less than 90 days, the income belonging to overseas working period and paid by PRC entities is also subject to PRC IIT Scope. While under the circumstance “more than 90 days and less than 183 days”, all income, except the part of salary belonging to overseas working period and paid by overseas entities/individuals, is subject to PRC IIT Scope.

Under the IIT law, there are 6 types of taxable income:

- Comprehensive income
- Income from operations
- Interest, dividend, and distributed profit
- Income from lease of property
- Income from the transfer of property
- Contingent income

The IIT calculation methods vary for different types of income.

Comprehensive income includes salaries and wages, income derived from remuneration for personal services, income derived from remuneration for manuscripts, and income from royalties. Comprehensive income is taxed at progressive rates ranging from 3% to 45%. Every month the employer should report the taxable employment income of the employees in an IIT return, withhold the IIT from the employees’ payroll, and remit the IIT to the responsible tax authority.

The deduction standards on nursing expenses for children under 3 years old and children’s education raise respectively from CNY 1,000 per month to CNY 2,000 per month.

The deduction standard on expenses for supporting the elder raise from CNY 2,000 per month to CNY 3,000 per month.

Under the IIT regulations, Foreigners working in China could continue to enjoy tax exemption on eight categories of fringe benefits, for another four years, till December 31, 2027.

- Housing rental expense
- Meal Fee
- Relocation expense
- Laundry Fee
- Business Travel Expense
- Home Leave Expense
- Language Training Expense
- Education Expense for Children

# Individual income tax (“IIT”)

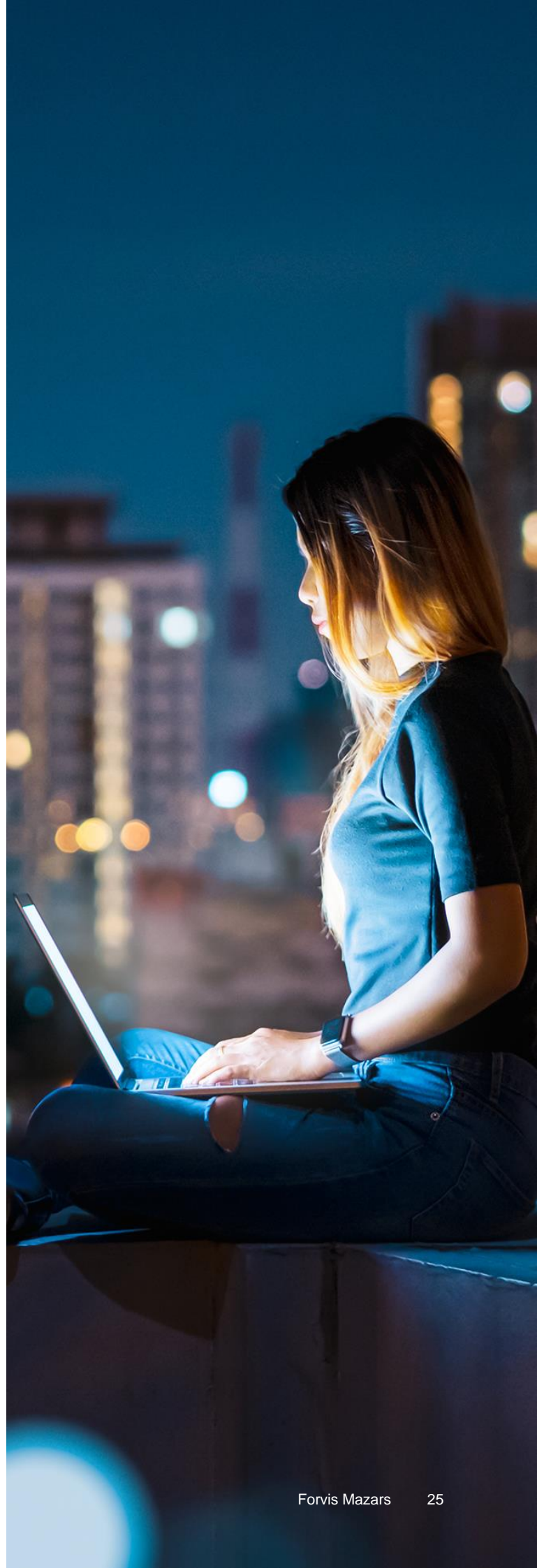
Such expenses should be in reasonable amounts. Furthermore, the expatriates need to provide valid tax invoices for these expenses.

The regulations mentioned that until 31 December 2027, expatriates can still enjoy these additional tax deductibles items listed above or choose the specific itemized deductions listed below, but not both:

- Child education
- Continued education
- Serious illness
- Rental cost
- Mortgage interest
- Elderly support
- Nurse for children under 3 years old

## Foreign tax credit

To avoid double taxation, the IIT law and regulations provide that individuals who have paid foreign income tax in respect of foreign income that is taxable in the PRC can be granted a foreign tax credit. The credit cannot exceed the amount of IIT otherwise payable on such foreign income. Unutilized foreign tax credit can be carried forward for five years to cover the IIT liability on future foreign income arising from that particular jurisdiction.



# Tax treaties

To achieve greater economic integration in terms of investment and trade, the PRC has signed tax treaties with other countries. Those treaties are meant to encourage businesses and individuals in other countries to invest and work in the PRC by reducing the potential double tax burdens to be imposed by the two jurisdictions.

Currently, the PRC has signed tax treaties with more than 109 countries and regions, for example:

- Australia
- Canada
- France
- Germany
- Italy
- Japan
- New Zealand
- The Netherlands
- Singapore
- United Kingdom
- United States of America

The PRC has also entered into tax treaties with the Special Administrative Regions of Hong Kong and Macau.

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*In the context of this publication, China, Mainland China or the PRC refers to the People's Republic of China but excludes Hong Kong Special Administrative Region, Macao Special Administrative Region and Taiwan Region.*

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