

# Existing Tax Types in Mainland China

## Existing Tax Types in Mainland China

Under the current taxation system in Mainland China, there are **18 types of tax** divided into five categories according to the target of taxation:

- **Income taxes:** corporate income tax and individual income tax
- **Turnover taxes:** value-added tax, excise tax and tariff
- **Property taxes and action taxes:** house property tax, dNotice on the Further Preferential Income Tax Policies for Small and Micro Enterpriseseed tax, vehicle and vessel tax, stamp duty, city and town land use tax, land value increment tax and tonnage tax
- **Resource taxes:** resource tax
- **Special-purpose taxes:** urban construction and maintenance tax, vehicle purchase tax, farmland occupation tax, tobacco tax and environmental protection tax.

This guide will give an overview of five major tax types (the currency used below is **RMB**)

Source: Ministry of Commerce

## 1. Corporate Income Tax

Table of Corporate Income Tax Rates

<b>Corporate Income Tax</b>	<b>Rate</b>
Corporate income tax	25%
Qualified small and low-profit enterprises (for the annual taxable income generated from 1 January 2019 to 31 December 2021, only 25% of the first million of taxable income will be taxed and 50% of the taxable income ranging from RMB 1 million to 3 million will be taxed)	20%
State-supported high and new technology enterprises	15%
Advanced technological service enterprises (Chinese model cities of service outsourcing)	15%
Enterprises producing integrated circuits with a line width of less than 0.25 micrometre	15%
Integrated circuits production enterprises with an investment of over RMB 8 billion	15%
Enterprises in encouraged industries in Western China	15%
Enterprises in encouraged industries in Hengqin of Guangdong, Pingtan of Fujian and Qianhai of Shenzhen	15%
Key software enterprises and integrated circuit design enterprises included in national plan	10%
Third-party enterprises engaging in pollution prevention and control (from 1 January 2019 to the end of 2021)	15%
Non-resident enterprises which have no offices or establishments in China, or which have offices or establishments in China but have income unrelated to these offices or establishments, shall pay corporate income tax for their income that originates from China.	10%

Small- and medium-sized enterprises with annual taxable income of less than RMB 1 million, or anywhere between RMB 1 million and RMB 3 million are subject to a reduced tax rate of 12.5% and 25% respectively on their taxable income, and are subject to a 20% corporate income tax rate.

(1) For instance: For taxable income of RMB 2.8 million

1) Tax on the RMB 1 million of the taxable income = RMB 1,000,000 × 25% × 20% = RMB 50,000

2) Tax on the taxable income between RMB 1 million and 3 million = RMB 1,800,000 × 50% × 20% = RMB 180,000

3) Final corporate income tax payable = RMB 50,000 + RMB 180,000 = RMB 230,000

Simplified calculation = (RMB 1,000,000 × 5%) + (RMB 1,800,000 × 10%) = RMB 230,000

(2) Other calculation formula:

Taxable income × tax rate

## Notice on the Further Preferential Income Tax Policies for Small and Micro Enterprises

In order to further support the development of small and micro enterprises, the relevant taxation policies are hereby announced as follows.

1. For small and micro enterprises with annual taxable income exceeding RMB 1 million but no more than RMB 3 million, the taxable income shall be reduced by 25% and the corporate income tax shall be paid at a rate of 20%.
2. Small and slightly profitable enterprises mentioned in this Notice refer to enterprises engaged in industries that are not restricted or prohibited by the State and meet the three conditions: having an annual taxable

income of not more than RMB 3 million; the number of employees is not more than 300; and the total assets amount to no more than RMB 50 million.

The number of employees includes the number of workers who have established a labour relationship with the enterprise and the number of dispatched-labour workers hired by the enterprise. The number of employees and total assets shall be determined by the quarterly average of the enterprises throughout the year. The calculation formulas are as follows.

Quarterly average = (Beginning-of-quarter value + End-of-quarter value) ÷ 2

Annual quarterly average = Aggregate of quarterly averages in a year ÷ 4

If an enterprise starts or terminates its business activities in the middle of the year, the actual operating period shall be regarded as a tax year to determine the above-mentioned indicators.

**3. The implementation period of this announcement is from 1 January 2022 to 31 December 2024.**

## **2. Individual Income Tax**

Table of Annual Withholding Individual Income Tax Rate (based on the tax threshold of RMB 60,000 – applicable for consolidated income)

<b>Level</b>	<b>Annual Taxable Income (RMB)</b>	<b>Withholding Rate (%)</b>	<b>Quick Deduction</b>
1	Under 36,000	3	0
2	RMB 36,000 to 144,000	10	2,520
3	RMB 144,000 to 300,000	20	16,920
4	RMB 300,000 to 420,000	25	31,920
5	RMB 420,000 to 660,000	30	52,920
6	RMB 660,000 to 960,000	35	85,920
7	Over 960,000	45	181,920

(1) The annual taxable income referred to in the table is an individual's consolidated income for the tax year after an annual standard deduction of RMB 60,000, special deductions, special additional deductions and other deductions regulated by the law.

(2) Consolidated income refers to the income from four kinds of labour income (salary, service remuneration, manuscript remuneration and royalties).

For service remuneration, manuscript remuneration and royalties of less than 4,000/time, a standard deduction of RMB 800 is allowed, whereas a 20% deduction is applicable to income of over RMB 4,000. For manuscript remuneration, an extra cut of 30% in addition to the above exemption is adopted. A progressive withholding rate ranging from 20% to 40% is adopted for service remuneration. A 20% withholding rate is adopted for manuscript remuneration and royalties.

#### Applicable for Withholding Tax on Individuals' Service Remuneration

<b>Level</b>	<b>Annual Taxable Income (RMB)</b>	<b>Withholding Rate (%)</b>	<b>Quick Deduction</b>
1	RMB 1 to 20,000	20	0
2	Between 20,000 and 50,000	30	2,000

Level	Annual Taxable Income (RMB)	Withholding Rate (%)	Quick Deduction
3	Over 50,000	40	7,000

- Calculation of taxable income

Taxable income from service remuneration and royalties = income  $\times$  (1-20%)

Taxable income from manuscript remuneration = income  $\times$  (1-20%)  $\times$  70%

- Tax calculation formulas:

Payable withholding tax on taxable service remuneration = withholding taxable income  $\times$  withholding rate – quick deduction

Payable withholding tax on manuscript remuneration and royalties = withholding taxable income  $\times$  20%

### 3. Value-added Tax (VAT)

Enterprises are divided into general VAT taxpayers and small-scale VAT taxpayers based on the type of taxation they are subject to.

There are three levels of VAT rate for **small-scale taxpayers**: 5%, 3% and 1%  
(Phased reduction is adopted due to the pandemic)

There are four levels of VAT rate for **general taxpayers**: 13%, 9%, 6% and 0%

## **. Small-scale taxpayer**

(1) VAT rate: 3% (generally applicable): the most common tax rate for small-scale taxpayers.

(2) VAT rate: 5% (applicable in specific circumstances): a special tax rate applicable for small-scale taxpayers for the selling or renting of real estate.

Calculation formula:

$\text{Sales} = \text{tax-inclusive sales} \div (1+5\%)$

$\text{Tax payable} = \text{sales} \times 5\%$

(3) VAT rate: 1% (phased reduction)

This VAT rate is adopted as a phased reduction measure applicable in special periods. Pursuant to the Notice on Value-added Tax Policies to Support the Resumption of Production and Operation of Individual Businesses (Notice by State Taxation Administration and Ministry of Finance [2020] No. 13), from 1 March to 31 December 2020, small-scale VAT taxpayers in all provinces, autonomous regions and directly administered municipalities, except for Hubei Province, shall pay the VAT at a reduced rate of 1% on their taxable sales that was originally subject to a tax rate of 3%, and prepay the VAT at a reduced rate of 1% on taxable items that were previously subject to the withholding VAT rate of 3%. The policy was temporarily extended on 1 January 2021, and the official document shall prevail once issued. Calculation formula:

$\text{Sales} = \text{Tax-inclusive sales} \div (1+1\%)$

$\text{Tax payable} = \text{sales} \times 1\%$

**VAT exemption applicable for small-scale taxpayers (excluding**

## **special VAT receipts)**

- Small-scale taxpayers who are engaged in VAT taxable sales and have a total monthly sales of RMB 100,000 or less (in the case of a tax period spanning one quarter, quarterly sales do not exceed RMB 300,000, which also applies below) are exempt from VAT.

For small-scale taxpayers who are engaged in VAT taxable sales with a total monthly sales of over RMB 100,000 and the balance after deducting the sale of real estate in the current period does not exceed RMB 100,000, the sales derived from selling goods, labour, services and intangible assets are exempt from the VAT.

- Whether small-scale taxpayers eligible for the net-based VAT policy can enjoy the VAT exemption stated in this Notice is determined based on the sales after calculating the net value.
- Small-scale taxpayers paying VAT at regular intervals can choose to pay monthly or quarterly and, once determined, shall not change their reporting period for one fiscal year.

For instance: for a quarterly income of RMB 280,000, which consists of RMB 100,000 from special VAT receipts and RMB 180,000 from the normal VAT receipts

Tax payable = RMB 100,000 × 3% = RMB 3,000; the amount from normal VAT receipts is exempt from the VAT

## **• General Taxpayer**

(1) VAT rate: 13%

Sales or importation of goods, sales of services, and tangible movable property leasing services are subject to a VAT rate of 13%. Calculation formula:



$\text{Sales} = \text{tax-inclusive sales} \div (1+13\%)$

$\text{VAT payable} = \text{sales} \times 13\%$

(2) VAT rate: 9%

Transportation services, postal services, construction services, real estate leasing services, sales of real estate, transfer of land use rights, and sales of foods and other goods stipulated by the State Council are subject to a VAT rate of 9%. Calculation formula:

$\text{Sales} = \text{Tax-inclusive sales} \div (1+9\%)$

$\text{VAT payable} = \text{sales} \times 9\%$

(3) VAT rate: 6%

Value-added telecommunications services, financial services, life services, modern services, and sales of technologies and other intangible properties are subject to a VAT rate of 6%. Calculation formula:

$\text{Sales} = \text{tax-inclusive sales} \div (1+6\%)$

$\text{VAT payable} = \text{sales} \times 6\%$

(4) VAT rate: 0%

Exportation of goods, exportation of specific services and specific intangible properties are subject to a VAT rate of 0%.

## 4. Excise Tax

<b>Excise Tax Rate Table</b>
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Taxable Item	Tax Rate		
	Production (Importation)	Wholesale	Retail
<b>I. Tobacco</b>			
1. Cigarettes			
(1) Grade A cigarettes	56% plus RMB 0.003/unit	11% plus RMB 0.005/unit	
(2) Grade B cigarettes	36% plus RMB 0.003/unit		
2. Cigars	36%		
3. Cut tobacco	30%		
<b>II. Alcoholic drinks</b>			
1. White spirits	20% plus RMB 0.5/500g (or 500ml)		
2. Rice wine	RMB 240/ton		
3. Beer			
(1) Grade A beer	RMB 250/ton		
(2) Grade B beer	RMB 220/ton		
4. Other alcoholic drinks	10%		
<b>III. High-end cosmetics</b>	15%		
<b>IV. Valuable jewellery, jade and gemstones</b>			
1. Gold, silver and platinum jewellery, diamonds and diamond accessories			5%
2. Other valuable jewellery, jade and gemstones	10%		

<b>V. Firecrackers and fireworks</b>	15%		
<b>VI. Refined oil</b>			
1. Gasoline	RMB 1.52/L		
2. Diesel	RMB 1.2/L		
3. Aviation kerosene	RMB 1.2/L		
4. Naphtha	RMB 1.52/L		
5. Solvent oil	RMB 1.52/L		
6. Lubricant	RMB 1.52/L		
7. Fuel oil	RMB 1.2/L		
<b>VII. Motorcycles</b>			
1. Cylinder capacity of 250cc	3%		
2. Cylinder capacity of more than 250cc	10%		
<b>VIII. Cars</b>			
1. Passenger vehicles			
(1) Cylinder capacity (engine displacement, the same hereinafter) of 1.0L or below	1%		
(2) Cylinder capacity of over 1.0L to 1.5L	3%		
(3) Cylinder capacity of over 1.5L to 2.0L	5%		
(4) Cylinder capacity of over 2.0L to 2.5L	9%		
(5) Cylinder capacity of over 2.5L to 3.0L	12%		
(6) Cylinder capacity of over 3.0L to 4.0L	25%		

(7) Cylinder capacity of over 4.0L	40%		
2. Small/medium-sized commercial cars	5%		
3. Ultra-luxury cars	Levied pursuant to sub-category 1 and 2		10%
<b>IX. Golf and equipment</b>	10%		
<b>X. High-end watches</b>	20%		
<b>XI. Yachts</b>	10%		
<b>XII. Wooden disposable chopsticks</b>	5%		
<b>XIII. Solid wood flooring</b>	5%		
<b>XIV. Batteries</b>	4%		
<b>XV. Paints</b>	4%		

(1) Ad valorem tax method

Tax payable = sales of taxable consumer goods × applicable tax rate

(2) Specific tax method

Tax payable = sales of taxable consumer goods × applicable tax standard

(3) Self-manufacturing taxable consumer goods for the taxpayer's own use

- When used in the continuous production of taxable consumer goods, no tax will be levied;
- For other uses: If the product is of the same type of consumer goods with a selling price, the tax shall be calculated based on the selling price of the same type of consumer goods produced by the taxpayer; if the product is not of any type of consumer goods with a selling price that can be referred to, the taxes shall

be calculated based on the composite taxable value.

Composite taxable value = (cost + profit) ÷ (1 – excise tax rate)

Tax payable = composite taxable value × applicable tax rate

(4) For taxable consumer goods consigned for processing, the consignee shall withhold and pay the excise tax at the time of delivery. The tax shall be calculated based on the selling price of the same type of the consignee's consumer goods; if the product is not of any type of consumer goods with a selling price that can be referred to, the taxes shall be calculated based on the composite taxable value.

Composite taxable value = (material cost + processing fee) ÷ (1 – excise tax rate)

Tax payable = composite taxable value × applicable tax rate

(5) Taxable consumer imports shall be taxed according to the composite taxable value.

Composite taxable value = (tariff taxable value + tariff) ÷ (1 – excise tax rate)

Tax payable = composite taxable value × excise tax rate

(6) Taxpayers of retail gold and silver jewellery shall convert VAT-inclusive sales into VAT-exclusive sales when calculating the tax.

Taxable sales of gold and silver jewellery = VAT-inclusive sales ÷ (1 + value-added tax rate or levy rate)

Composite taxable value = original purchase price × (1 + profit margin) ÷ (1 – excise tax rate of gold and silver jewellery)

Tax payable = composite taxable value × excise tax rate of gold and silver jewellery

(7) For items used by manufacturer, wholesaler, and retailer for gifts, sponsorships, fund-raising, advertising, samples, employee benefits, rewards, etc., or sales that are not separately accounted for, the tax shall be calculated based on the composite taxable value.

## 5. Tariff

Tariff refers to a type of tax legally levied by the customs of a country on imports and exports passing through its borders.

### Mainland Tariff Rate Table

#### (1) Ad valorem

An ad valorem tariff is levied based on the price of imports and exports. The price here does not refer to the sale price, but the after-tax price of the imports and exports. Therefore, to calculate tariffs with the ad valorem method, the after-tax price of the goods must be ascertained first. The calculation formula of the ad valorem tariff is:

Tax payable = quantity of taxable imports and exports × after-tax unit price × applicable tax rate

#### (2) Specific

A specific tariff is levied based on the quantity, weight, capacity, length and area of the goods. It is a characteristic of specific tariff that the tax amount does not change with the fluctuation of the price of the goods, and the calculation

is relatively simple. The calculation formula of the specific tariff is:

$\text{Tax payable} = \text{quantity of taxable imports} \times \text{per unit tariff}$

### **(3) Compound**

The compound tariff is also known as a mixed tariff. It is a method of imposing both specific and ad valorem tariffs on imports. Generally speaking, it is mainly based on quantity with an ad valorem tariff added on top. The calculation formula of the mixed tariff is:

$\text{Tax payable} = \text{quantity of taxable imports} \times \text{per unit tariff} + \text{quantity of taxable imports} \times \text{after-tax unit price} \times \text{applicable tax rate}$

### **(4) Sliding**

A sliding tariff refers to a form of tariff in which the tariff rate changes in the opposite direction as the price of imports changes, that is, the higher the price, the lower the tariff rate, and the tariff rate is proportional. Therefore, when the sliding tariff rate is implemented, the tariff payable on imports shall be calculated in the same way as the ad valorem tariff. The calculation formula is:

$\text{Tariff payable} = T1, 2 \times P \times \text{exchange rate}$

### **(5) Special**

The calculation formulas of the special tariff are as follows:

$\text{Special tariff} = \text{tariff taxable value} \times \text{special tariff rate}$

$\text{Import excise tax} = \text{import excise taxable value} \times \text{import excise tax rate}$

Import excise taxable value = (tariff taxable value + tariff + special tariff) ÷ (1- import excise tax rate)

Import value-added tax = import value-added taxable value × import value-added tax rate

Import value-added taxable value = tariff taxable value + tariff + special tariff + import excise tax

Source: Provided by the advisory accounting firm, Annex 2 “Taxable Value Table for Imports of the People’s Republic of China” of Notice No. 63 [2019] by the General Administration of Customs