

中國稅法西點



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Topic 18: Introduction to **China tax**

(1) **Corporate Income Tax** 企業所得稅

- **CIT** [also known as **EIT**] is a tax paid by an enterprise (i.e. an economic organization set up in accordance with law) on their **world-wide** income from production and business operation.

- A **HK company** having a **PE** in China is taxed in respect of its **income effectively connected to PE**.

- A HK company, whether it has a PE in China or not, receives dividend, interest and royalty from a China enterprise is subject to withholding tax at the following rates: dividend at 10% for at least 25% shareholding, 5% for other cases; interest at 7%; royalty at 7%.

- CIT is chargeable on taxable income after allowable deductions in a tax year at standard rate of **25%** subject to certain reductions and exemptions.

- Tax year is from 1 Jan to 31 Dec
- CIT is usually payable on quarterly basis based on quarterly financial statements
- Tax is paid within 15 days of the quarter end
- Yearly tax returns for the tax year must be submitted within 5 months after the year end and balance of tax liability, if any, must be paid accordingly.

- Taxable incomes include business income, production income and other incomes.
- Other taxable incomes include dividend income, interest income, rental income, sale of fixed assets, and income from royalty, trademark or technology.
- Most government subsidies are exempt.

- Allow deduction for reasonable business expenses, charitable donations and depreciation on fixed assets and intangible assets at prescribed rates.
- Non-deductible items include dividend payment, CIT, tax penalty and expenses not for production of taxable income.
- Business loss can be carried forward to set off future profits subject to a limit of 5 years.
- Certain types of enterprise enjoy lower tax rates or exemption :
 - High-tech enterprises and **foreign enterprise** in Special Economic Zone are taxed at 15%.
 - **Small enterprises** are taxed at 20%
 - **Foreign enterprises without permanent establishment** in China having China sourced income (e.g. **agency fee**) are taxed at 10% to 20% in respect of the China sourced income
 - Certain government encouraged activities such as scientific research, exploration of energy, development of transportation etc. are exempt.

(2) Individual Income Tax 個人所得稅

- An individual who has **domicile in China** pays IIT on his **world-wide** taxable income.
- An individual **without domicile** in China is taxed according to his length of stay in China; for 1 to 5 years: world-wide income referring to the amount paid in China; for **more than 5 years**: world-wide income covers both paid in China and paid outside China are taxable; for **stay of less than 1 year**, only income derived from China is taxable.

- Full exemption of IIT for **HK resident** under Double Taxation Arrangement if (i) he stays in China for not exceeding **183** days in 12 month starting or ending in the year concerned; (ii) the income is paid by an employer who is not a resident in China; and (iii) the income is not borne by a permanent establishment in China.

- To prove the HK resident status, he needs to obtain a **Certificate of HK Resident Status** from HK IRD. • An individual who has moved his permanent base to China cannot qualify a HK resident – see Topic 5 for definition of HK resident.

- For a HK resident **rendering services both in HK and China**, only his income sourced in China is subject to IIT. The income sourced in China is computed on time basis. If he stays in China not exceeding 183 days in the calendar year concerned, only the income paid in China is included in the time basis apportionment. If exceeding 183 days, all incomes including those paid outside China are included in the income for **time apportionment**. All days of presence in China are generally counted. Nevertheless, the taxpayer may ask HK IRD to raise the issue with China tax authority if he is also assessed under HK salaries tax with double counting of days. See Topic 19.

- For a HK resident **rendering services in China only**, all income sourced in China is taxable: **No time apportionment** is allowed.

- Taxable income includes wages, salaries and allowances. It is reported by the employer to tax authority on **monthly** basis. • A **fixed amount of deduction** is allowed. Tax is calculated by applying the applicable progressive

rate to the taxable income after deduction of expenses deduction and other allowable deductions.

Computation of IIT

- Taxable Income = Gross **Monthly** Salary – Social Benefit Contribution – Expenses Deduction **¥3,500**
- A **HK resident** having no domicile in China can get Expenses Deduction **¥4,800**.
- IIT = Taxable Income x Tax Rate – Quick Deduction

Monthly taxable income ¥	Applicable tax rate	Quick deduction
1 – 1,500	3%	0
1,501-4,500	10%	105
4,501-9,000	20%	555
9,001-35,000	25%	1,005
35,001-55,000	30%	2,755
55,001 - 80,000	35%	5,505
80,001 and above	45%	13,505

Example: Mr. Chan, a Hong Kong resident, worked as a factory supervisor in China. He did not work in Hong Kong. In Oct 2016 his monthly salary was ¥50,000 (tax borne by employee). Assuming he does not have domicile in China, he gets deduction of ¥4,800. So, his taxable income in June is $50,000 - 4,800 = 45,200$, giving an IIT of $45,200 \times 30\% - 2,755 = ¥10,805$. The IIT is paid by his employer in China to local tax authority within 7 days after the month end (that is on or before 7 Nov 2016).

Other incomes subject to of IIT

IIT is also levied on income from solely owned business, rental income, royalty income, dividend and interest income:

- Income from **solely owned business** is taxed at a separate set of progressive rates from 5% to 35%
- **Rental income, royalty income, dividend income** are taxed at standard rate of **20%**.
- Individual's working income such as **writer's fee** attracts an expenses deduction (20% deduction for payment over ¥ 4,000, ¥ 800 deduction for payment under ¥ 4,000) and then the balance is taxed at 20%.
- **Interest income** is taxed at 5%, tax deducted by payer. This tax deduction has been suspended since 9.10.2008

Reporting obligations of individual taxpayer

- An individual earning **income without deduction of IIT** must file a tax return with local tax authority within 7 days of the following month and pay IIT accordingly.
- An individual having an annual income of **¥120,000** must file an annual tax return to tax authority within 3 months after the year end.

(3) Value Added Tax 增值稅

• Any enterprise and individual engaged in **sales of goods**, provision of services of processing, repairs and replacement must pay VAT • **Exporters** of goods are exempt and may apply for refund of VAT for input tax.

Necessities such as food, water, natural gas, books, newspapers, magazines etc.	13%
All other goods; services of processing, repairs and replacement	17%

• **General taxpayers** need to separately calculate the output tax and the **input tax** for the VAT period. Then the difference is the actual amount of VAT payable.

Tax payable = Output tax payable for the VAT period – Input tax for the VAT period

Output tax payable = Sales in the current VAT period (excluding VAT) × Applicable tax rate

• For purchase of goods, the input tax is the VAT in the VAT special invoices received from suppliers • For **importation of goods**, the input tax is the VAT in the tax certificates issued by Custom Authority • Input tax for **transportation cost** of goods is the VAT as shown in the related VAT special invoice • No input tax deduction is allowed for purchase of **fixed assets**.

• **VAT period** may be 1 day, 3 days, 5 days, 10 days, 15 days, 1 month or 1 quarter as set by the tax authority. Usual VAT period is 1 month and for these

taxpayers VAT must be paid within 5 days after the month end.

- **Small-scale taxpayers** are taxed on the revenue from sales of goods or provision of taxable services by applying 3%. Small-scale taxpayers are those engaged in sales of goods with annual turnover <¥ 800,000; or engaged in production of goods with annual turnover < ¥ 500,000. VAT payable = Sales amount (excluding VAT) × 3% • Exemption of VAT is granted for small taxpayer whose monthly sales do not exceed ¥30,000.

- **Exempt** items include contraceptive medicines and devices; antique books; instruments and equipment imported for scientific research, experiment and education; articles imported for the disabled etc.

- **VAT special invoice** sets out the VAT and selling prices separately.

- Enterprises involved in printing and using invoices are subject to control by tax authority • For goods sold to consumers, the invoices need not show the VAT separately • Small-scale taxpayers are not required to issue VAT special invoices.

- With effect from **1 May 2016**, Business Tax (which is mainly paid by service providers) is abolished and replaced by VAT **營改增** as follows.

Leasing of tangible assets 有形動產租賃服務	17%
Transportation service 交通運輸服務	11%
Construction service 建築業服務	11%
Modern service 現代服務業服務	6%

VAT payable = Output tax – Input tax (same as above)

VAT period for the new items is usually on quarterly basis.

Exemption is granted for schools, medical organizations, handicapped services, cultural services, religious activities etc.

- **Small-scale taxpayers** are taxed on the revenue of the taxable services by applying 3%. • Small-scale taxpayers are those annual turnover <¥5,000,000 • Exemption of VAT is granted for small taxpayer whose monthly sales do not exceed ¥30,000.

- For **transfer of immovable properties** 個人售房, the purchase price of the property or land use right can be deducted from the sale consideration. Then, VAT is 5% on the balance (if surplus).

- Where the turnover of goods and services cannot be accounted separately, the highest VAT rate 17% will be used..

(4) **Consumption Tax** 消費稅

- Every enterprise and individual engaged in the **production and importation of consumer goods** (e.g. tobacco, alcoholic drinks, cosmetics, jewel, fireworks, gasoline, diesel oil, tires, motorcycles, automobiles) may pay Consumption Tax, see PRCT Article 1 • The tax is computed on sales price or sales volume.

- **Exporters** are exempt and may apply for refund of VAT for input tax.
- If an enterprise purchases consumer goods from a producer for further production, the CT paid by the producer can be deducted from the total CT on the final taxable consumer goods. Deduction is based on the amount of the consumer goods used in the further production during the relevant CT period.

- **Taxable goods** include tobacco products, alcoholic drinks, cosmetics, skin-care products, gold and jewel, firework, gasoline and diesel, motor-car, motorbike, car-tyre etc.
- Tax rates vary from **3% to 56%** according to the types of consumer goods. Refer to CLP for details.

$$\begin{aligned} \text{Tax payable} &= \text{Turnover in CT period} \times \text{Applicable tax rate;} \\ &\text{or} = \text{Quantity sold in CT period} \times \text{Applicable tax rate} \end{aligned}$$

- CT period may be 1 day, 5 days, 10 days, 15 days or 1 month as set by the tax authority. Usual CT period is 1 month and for these taxpayers CT must be paid within 5 days after the month end.

(5) **Tax Administrative Review** 稅務複議

- Where a taxpayer believes that his legitimate rights were infringed by a tax officer, he can request for a tax administrative review by a higher authority.
- If the taxpayer is not satisfied with the review, he can take legal proceedings in Peoples' Court.

以上是 hkicpa qp module d taxation course 的部份筆記，給你作為參考。全部筆記及答題精要，共 149 頁〔以 A5 計〕，會給與參加補習的學生。

這些 taxation course notes 稅務課程筆記及 examination answer key 考試答題精要，是基於本人 Raymond Yeung 多年的稅務工作，包括稅務教學及評卷經驗，以常考及可能考的題目，按評分準則 marking scheme，為了快速取分而編寫：筆記列出稅務考試內可能考的題目及其內容，與及能取分的要點 points。

同學請注意，對課題有全面及深入的認識是十分重要，最好是由我講解如何運用這些答題精要，及其餘未列入筆記的稅務知識。課題筆記及答題精要，會在補習有關題目時免費給與學生。

想要齊我的答題筆記，就請你參加由我親自教授的補習班了，或直接購買全套筆記。詳情請到 rytc.com.hk。

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