

## PRC Tax Regime - PRC Taxation Practices and Measures -

### I. PRC Tax Regime

#### 1. Outline of PRC tax regime

PRC taxes are basically classified into income tax, distribution tax, resource tax, asset tax, deed tax, special purpose tax and agricultural tax. Table below shows the brief outline. Its tax regime is characterized that tax liabilities of certain taxes are separated into PRC domestic enterprises, Chinese individuals, foreign investment companies/foreign companies and foreign individuals. Currently, PRC government is in the process of integration of the above separation. In 1994 tax reform individual income tax and distribution tax were integrated and enterprise income tax is expected to be integrated.

		Enterprises and individuals subject to tax	
		PRC domestic enterprises, Chinese individuals	Foreign investment companies, Foreign companies, Foreign individuals
Income tax	Enterprises income tax	Enterprises income tax	Foreign-investment enterprises income tax
	Individual income tax	Individual income tax	
Distribution tax	Distribution tax	<u>Value-added tax</u> : Sales of products are subject to tax. <u>Business tax</u> : Tax is imposed each time a taxable transaction is conducted. Taxable transactions include provision of services and transaction of intangible assets <u>Consumption tax</u> : Luxurious articles are subject to tax at the time of leaving warehouses. <u>Customs duties</u>	
Other taxes	Resource tax	Resource tax	
		Land use tax	Land use fee is imposed for use of land.

	Asset tax	Real estate tax Vehicle and vessel tonnage tax	Urban real estate tax Vehicle and vessel usage license plate tax
	Deed tax	Stamp tax, contract tax, slaughter tax, party tax, car acquisition tax	
	Special purpose tax	Fixed assets investment adjustment tax	
		Land appreciation tax, City maintenance and construction tax	
	Agricultural tax	Agricultural tax, Farmland occupation tax	

## 2. Tax collection system

In order to ensure tax collection and tax revenue, PRC tax authorities adopted separate taxation system under 1994 tax reform. Under the separate taxation system, national government and local government are independently responsible for tax collection and tax revenue is allocated accordingly. Taxes are classified into central tax, local tax and common tax. National tax authorities and local tax authorities administer taxes according to the classification.

### Tax jurisdiction

Tax source and types	National tax authorities		Local tax authorities
Income tax	Foreign-investment enterprises income tax, enterprises income tax	-	Individual income tax
Distribution tax	Consumption tax Customs duties	Value-added tax (National 75%, local 25%)	Business tax
Others	Resource tax (Oil development tax)	-	Stamp tax, other resource tax (common tax), land appreciation tax, land use tax, contract tax

Note In Schenzhen, foreign-affiliated enterprise income tax is administered under

local tax authorities.

### 3. Outline of PRC taxes

A table below shows an outline of PRC taxes.

	Tax	Taxpayer and characteristics	Tax rate and tax return
Income tax	Foreign-affiliated enterprises income tax	<ul style="list-style-type: none"> <li>● World-wide income is subject to tax for a foreign investment enterprise.</li> <li>● It regulates withholding tax for non-residents foreign enterprises.</li> <li>● It provides preferable tax treatment.</li> <li>● Foreign tax credit is available by tax deduction method.</li> </ul>	<ul style="list-style-type: none"> <li>● Tax rate is 33%.</li> <li>● Tax return must be filed annually.</li> <li>● Withholding tax must be paid by the 5<sup>th</sup> of the following month.</li> </ul>
	Individual income tax	<ul style="list-style-type: none"> <li>● It regulates tax rate and tax return due date according to income types.</li> <li>● Salary income return should be filed monthly (no income deduction except for basic allowance).</li> </ul>	<ul style="list-style-type: none"> <li>● Tax rate varies from 5% to 45%.</li> <li>● Tax return must be filed within 7<sup>th</sup> day of each following month.</li> </ul>
	Enterprises income tax	<ul style="list-style-type: none"> <li>● World-wide income of PRC domestic enterprises are subject to tax.</li> </ul>	<ul style="list-style-type: none"> <li>● Tax rate is 33%.</li> <li>● Tax return must be filed annually.</li> </ul>
Distribution tax	Value-added tax	<ul style="list-style-type: none"> <li>● Sales of goods and processing business are taxable transactions.</li> <li>● Export tax exemption and tax refund are available.</li> <li>● If input tax exceeds output tax, the difference is carried forward, and it is not refunded.</li> </ul>	<ul style="list-style-type: none"> <li>● Tax rates are 13% and 17%.</li> <li>● Tax return should be filed by 10<sup>th</sup> of each following month.</li> </ul>

	Business tax	<ul style="list-style-type: none"> <li>● Taxed at each transaction stage (no taxable purchase credit and no offset)</li> <li>● Taxable transactions include provision of services, transfer and lease of intangible assets and real estate, construction and transportation.</li> <li>● No tax exempt is allowed for export.</li> </ul>	<ul style="list-style-type: none"> <li>● Tax rates are 3% and 5% (excluding for entertainment).</li> <li>● Tax return should be filed by 10<sup>th</sup> of each following month.</li> </ul>
	Consumption tax	<ul style="list-style-type: none"> <li>● Luxurious goods such as liquor, cigars, cars and oils are subject to tax.</li> <li>● Taxpayers are manufacturers and importers (when leaving warehouses).</li> </ul>	<ul style="list-style-type: none"> <li>● Tax rates varies 3% to 45% (value tax).</li> <li>● Also usage is considered.</li> <li>● Tax return should be filed by 10<sup>th</sup> of each following month.</li> </ul>
	Customs duties	<ul style="list-style-type: none"> <li>● Import and export of taxable goods are subject to tax. (Also import value-added tax is collected together .)</li> </ul>	<ul style="list-style-type: none"> <li>● Tax rate varies from 0% to 270%.</li> <li>● Tax is paid at the time of clearing customs.</li> </ul>
Resource tax	Resource tax	<ul style="list-style-type: none"> <li>● Development and production of crude oil and natural gas etc., are subject to tax.</li> </ul>	<ul style="list-style-type: none"> <li>● Usage tax</li> <li>● Tax return should be filed by the 10<sup>th</sup> of each following month.</li> </ul>
	Land use tax	<ul style="list-style-type: none"> <li>● Use of land within taxable area is subject to tax.</li> <li>● PRC domestic enterprises are subject to tax (Foreign enterprises are subject to land use fee).</li> </ul>	<ul style="list-style-type: none"> <li>● Taxes are 0.2 yuan to 10 yuan/m<sup>2</sup></li> </ul>
Asset tax	Urban real estate tax	<ul style="list-style-type: none"> <li>● Holding and leasing houses within taxable area are subject to tax.</li> </ul>	<ul style="list-style-type: none"> <li>● Holding: 1.2%</li> <li>● Lease: 12%</li> </ul>
	Vehicle and vessel license plate tax	<ul style="list-style-type: none"> <li>● Holding of vehicle and vessel is subject to tax.</li> </ul>	<ul style="list-style-type: none"> <li>● Usage tax</li> </ul>

Deed tax	Stamp tax	<ul style="list-style-type: none"> <li>● Stamp must be attached to taxable statement (contract), license certificate and accounting records.</li> <li>● Even if contract is concluded outside of PRC, any contract relevant to domestic assets is subject to tax.</li> </ul>	<ul style="list-style-type: none"> <li>● Tax rate varies from 0.003% to 0.1%.</li> <li>● Stamp tax is paid at the time of purchase of stamps.</li> </ul>
	Contract tax	<ul style="list-style-type: none"> <li>● Donation and exchanges of land use right and buildings are subject to tax (taxpayers are assignees).</li> </ul>	<ul style="list-style-type: none"> <li>● Tax rate varies from 3% to 5%.</li> <li>● Tax return should be filed by 10<sup>th</sup> of each following month.</li> </ul>
Special Purpose tax	Land appreciation tax	<ul style="list-style-type: none"> <li>● Transfer of national land use right and building/attachments are subject to tax (taxpayers are transferor).</li> </ul>	<ul style="list-style-type: none"> <li>● Tax rate varies from 30% to 60%.</li> <li>● Tax return should be filed within 7 days from the conclusion of contract.</li> </ul>
	Fixed asset investment adjustment tax	<ul style="list-style-type: none"> <li>● Investment in fixed assets in PRC is subject to tax.</li> <li>● Only domestic enterprises are subject to tax.</li> </ul>	<ul style="list-style-type: none"> <li>● Tax varies from 0% to 30%.</li> </ul>
	City maintenance and construction tax	<ul style="list-style-type: none"> <li>● Distribution tax (value-added tax, business tax and consumption tax) is the tax base.</li> </ul>	<ul style="list-style-type: none"> <li>● Tax varies from 1% to 7%.</li> </ul>

## II. “PRC Taxation Practices and Measures”

The book entitled as “PRC Taxation Practices and Measures” is written by PRC taxation experts and explains systems and laws necessary for Japanese enterprises to conduct business in PRC. It contains full description of PRC tax regime, comparison with Japanese tax system, Japanese translation of major PRC tax laws and circulars. It also contains case studies which are likely to be encountered when doing business in PRC. Set out below is an index of the above book.

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