Understanding the Latest Preferential Tax Policies for Businesses in China

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To further boost a slowing economy (GDP growth of 6.1% in 2019) and lift domestic consumption, China has been introducing a number of Preferential Tax Policies related to corporate income tax, VAT exemptions, VAT rates, export VAT refund rates, import tariffs and individual income tax that will also benefit foreign-invested enterprises and foreigners working in China.

Corporate Income Tax (CIT)

Today, the standard CIT in China is 25% whereas companies in encouraged industries in the western regions of China and new/high tech enterprises are eligible for a reduced CIT of 15%.

Moreover, companies engaged in pollution prevention and control such as waste management or pollution monitoring will benefit from a reduced CIT rate of 15% from January 1, 2019 - December 31, 2021.

On 9 January 2019, the Ministry of Finance (MOF) expanded its existing preferential CIT policies mainly aimed at smaller private companies that will run from 1 January 2019 - 31 December 2021.

Companies with an annual taxable income below RMB 1 million will benefit from a reduced CIT of 20% on 25% of their taxable income (effective rate of 5%).

Companies with an annual taxable income of RMB 1-3 million will enjoy a reduced CIT of 20% on 25% of their taxable income below RMB 1 million (effective rate of 5%) and a reduced CIT of 20% on 50% of their taxable income from RMB 1 million - 3 million (effective rate of 10%).

Companies with an annual taxable income above RMB 3 million will pay 25% CIT on the full amount.

VAT Exemptions

On 19 January 2019, the State Administration of Taxation (SAT) announced that Small-scale VAT Taxpayers (annual turnover below RMB 5 million) with sales under RMB 100,000/month and less than RMB 300,000/ quarter would be exempted from paying VAT on such sales starting 1 January 2019.

VAT Rates

On 5 March 2019, the State Council (SC) declared that beginning 1 April 2019 the general VAT rate in the manufacturing sector would be reduced from 16% to 13% and the VAT rate on services in the construction, transport, postal and telecom sectors from 10% to 9% while the VAT rate for other services was to remain at 6%.

Moreover, taxpayers in the service sector would enjoy an additional 10% reduction on the input VAT from 1 April 2019 - 31 December 2021.

Export VAT Refund Rates

Whereas companies in most countries receive a full (100%) refund rate on Input VAT when exporting, China in effect imposes a tax on most exports whereby the refund rate on Input VAT is often lower than the applied VAT rate.

On 5 September 2018, MOF and SAT jointly announced that the export VAT refund rates would increase on 397 products including steel products, chemicals, lithium batteries, semiconductors, paint and machinery products starting 15 September 2018.

Import Tariffs

On 1 July 2018, MOF reduced the import tariffs on 1,449 categories of consumer goods covering e.g. clothes, shoes, kitchenware, home appliances, cosmetics, aquaculture, and imported vehicles.

On 30 September 2018, SC announced that additional import tariff reductions on 1,585 products including machinery, paper, textiles and construction materials would take effect on 1 November 2018.

On 24 December 2018, MOF declared that it would introduce temporary import tariff reductions on 706 consumer goods from 1 January 2019 and cut the most-favored nation import tariffs on 298 IT products starting 1 July 2019.

On 23 December 2019, SC announced that it would temporarily adjust the import tariffs on 859 products that mostly include consumer goods, raw materials for pharmaceuticals goods and raw materials for the manufacturing of high-tech products starting 1 January 2020.

Moreover, China will from 1 July 2020 remove seven provisional tax rates that presently apply to IT goods and further lower its most-favored-nation import tariffs on 176 IT products.

Individual Income Tax (IIT)

On 1 October 2018, the standard deduction amount on individual income was raised to a unified RMB 5,000/month for all taxpayers from the previous RMB 4,800/month for non-residents (foreigners) and RMB 3,500/month for residents.

On 1 January 2019, the lower tax brackets of China's **progressive income tax system** were also widened while the higher tax brackets remain the same.

Old Bracket (RMB)	New Bracket (RMB)	Effect	IIT Rate (%)
< 1,500	< 3,000	Widened	3
1,500 – 1,500	3,000 – 12,000	Widened	10
4,500 – 9,000	12,000 – 25,000	Widened	20
9,000 – 35,000	25,000 – 35,000	Narrowed	25
35,000 – 55,000	35,000 – 55,000	Same	30
55,000 – 80,000	55,000 – 80,000	Same	35
> 80,000	> 80,000	Same	45

Moreover, the IIT for residents will now be calculated on annual basis rather than on a monthly basis whereby IIT payers can claim a tax return by year's end through a final settlement process.

Employers are still required to withhold and pay IIT on a monthly basis and the IIT obligations of non-residents will still be calculated and paid on a monthly basis.

Social Insurance and Housing Fund

On 1 July 2011, it became compulsory for all foreigners working in China to participate in the Chinese social insurance system (pension, medical, work-related injury, unemployment and maternity) where both the employer and employee must each contribute according to a set local formula.

However, since the social insurance system is regulated on a regional level, this policy has not yet been implemented in cities like Shanghai which keeps cost to companies lower to both attract and retain overseas talent and expertise.

Foreigners are generally not required to contribute to the Housing Fund scheme in China.

Signs of Economic Recovery

Despite the current trade war with the US and the uncertainty about the health of the Chinese economy, some economic indicators have lately been pointing in the right direction.

In 2019, retail sales in China grew by 8.0% year-on-year and is estimated to grow by 7.9% for the whole of 2020 whereby the value of total retail sales in China is expected overtake the US for the first time.

Recent economic data also suggests that the Chinese economy will continue to stabilize in 2020 with a projected annual GDP growth of 6.0%.

China is Still Open for Business

With the introduction of many new Preferential Tax Policies, China has begun a new reform process to grow the economy by reducing business cost and further igniting domestic consumption.

China has at the same time, introduced new administrative reform regulations to reduce capital requirements, cut red tape and speed up processing times for foreign investment.

Despite global uncertainty and slowing growth, China remains open for business and trade with the Chinese economy showing signs of recovery and stability.

Contact

Noam David Stern, Founding Partner

noam@china-direct.biz

Mobile: +86 136 1169 1358

www.china-direct.biz

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