

# Corporate Income Tax (CIT) in China:

Principles, Rates, and Compliance



# Key Corporate Income Tax (CIT) Rates and Benefits in China

Base Rate: 25% - standard CIT RATE



## Nationwide Benefits

- ✓ High-tech enterprises (HNTEs) → 15%
- ✓ New Type Maintenance Facilities → 15%
- ✓ Small low-profit enterprises → 5% or 10% - for part of the annual profit (depending on the level of income)

## Regional Benefits (for companies with real economic activity)

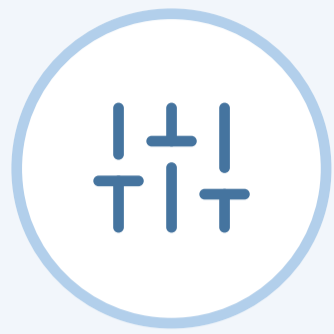
### Special administrative zones:

- ✓ Hainan Free Trade Port
- ✓ Lingang New Zone (Shanghai)
- ✓ Qianhai Cooperation Zone

→ **15% - reduced rate for a certain period**

The incentives are aimed at stimulating technological development and regional economic growth

# The company is registered in the PRC or the management is located in China



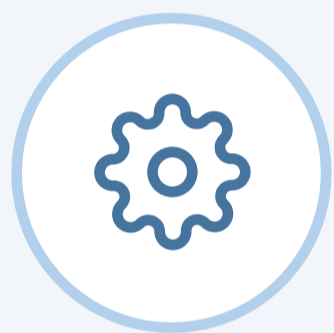
**Taxable base:** All world profits



**Rate:** 25% (standard income tax rate)



**Or 5%, 10%, 15%** (reduced income tax rates, under certain conditions)



**Income tax:** calculated according to the accrual method



## Protection against double taxation:

- ✓ You can offset taxes paid abroad (if you have a DTT)
- ✓ But the maximum is up to the level of Chinese tax on the same income

## Example:

A Chinese subsidiary headquartered in Shanghai → pays tax on both local and overseas profits.

# A company not registered in the PRC and without actual management in the territory of China - tax is paid only on income of Chinese origin

## Two taxation scenarios

Scenario	Taxable	Rate and Mechanism
1. There is a Permanent Establishment (PE) (office, plant, branch, etc.)	<ul style="list-style-type: none"><li>• Profit received through PU</li><li>• Revenues outside of China but related to PU</li></ul>	<ul style="list-style-type: none"><li>• 25% (as for residents)</li><li>• Self-submission of the declaration</li></ul>
2. No PU in China	Passive income only: <ul style="list-style-type: none"><li>• Dividends</li><li>• %</li><li>• Royalty</li><li>• Rent</li><li>• Sale of assets in China</li></ul>	<ul style="list-style-type: none"><li>• 10% withholding tax (WHT)</li><li>• Can be reduced under a double taxation agreement (DTA)</li></ul>

## Example

A Hong Kong company receives royalties from a Chinese partner. The → Chinese side withholds 10% of WHT when paying out

## Chinese income tax: advances + annual recalculation

The Chinese tax system is built on two levels:

Quarterly advance payments

Annual declaration with final settlement

## Terms of payment and filing of the income tax return in China



**Quarterly - until the 15th day of the month following the quarter:**

- ✓ 1Q Before April 15
- ✓ Q2 - until 15 July
- ✓ Q3 by 15 Oct
- ✓ Q4 - until January 15 (next year)

In agreement with the tax office, a monthly payment is possible

### How is the advance payment calculated?

- ✓ **Main method:** based on actual profit for the reporting quarter
- ✓ **Alternative (if calculation is difficult):**
  - Profit for the same quarter last year
  - Or another method approved by the tax

## Important

- Declaration and payment to be submitted at the same time
- Inaccurate advances do not cancel the annual recalculation - but the excess/shortfall is adjusted in March

## China Annual Income Tax Return: Final Calculation

### When is the deadline for filing?

- ✓ until 31 May of the following year (if fiscal year = calendar year: 1 January – 31 December)
- ✓ 5 months from the end of the tax period

### What does the declaration include? The annual report is not simply the sum of the quarters. It accurately calculates the taxable base taking into account:

- ✓ Tax breaks (e.g. 15% rate for High-Tech companies)
- ✓ Allowed deductions
- ✓ Transfer of losses (loss can be offset within 5 subsequent years)
- ✓ Transfer pricing (adjustments for transactions with affiliates).

# Small business in China: income tax from only 5%!

(Valid until December 31, 2027)

## Who gets the benefit?

The company must meet all three criteria:



- ✓ Profit  $\leq$  3 million yuan per year
- ✓ Employees  $\leq$  300
- ✓ Assets  $\leq$  RMB 50 million
- ✓ Not on the Negative List (Restricted/Restricted Industries)

Revenue	CIT RATE
Up to RMB 1 million	5%
1 to 3 million yuan	10%

## Example:

Profit = 2.5 million yuan  $\rightarrow$  (1 million  $\times$  5%) + (1.5 million  $\times$  10%) =  
200,000 yuan tax Instead of 625,000 yuan at the standard rate of 25%  
 $\rightarrow$  savings of 425,000 yuan!

# New and High-Tech Enterprises in China

## Income tax 15%

### 5 mandatory criteria for HNTE status

Acceptance	Request
<b>1. Intellectual Property</b>	The company owns the IP (patents, software, etc.) used in the main products/services
<b>2. Field of activity</b>	It should be included in 8 priority sectors: <ul style="list-style-type: none"><li>• IT / Electronics</li><li>• Biotech / Pharma</li><li>• Aerospace</li><li>• Latest by</li><li>• Energy Saving / Ecology</li><li>• High tech. Services</li><li>• New Energies</li><li>• High-tech agricultural sector</li></ul>
<b>3. R&amp;D staff</b>	≥ 10% of employees are engaged in research and development
<b>4. R&amp;D spending</b>	From 3% to 5% of revenue - depending on the scale: <ul style="list-style-type: none"><li>• Up to RMB 50 million → ≥5%</li><li>• 50–200 mln → ≥4%</li><li>• More than 200 million → ≥3%</li></ul>
<b>5. High-tech income</b>	≥ 60% of revenue - from HNTE products/services

# HNTE certification: 3 steps to 15% CIT

The status is not given automatically — you need to prove and maintain it

## 3 stages of obtaining a certificate

Stage	What to do	Who involved
1. Preparation	<ul style="list-style-type: none"><li>• Self-audit according to 5 criteria</li><li>• Collection of documents: IS, reporting, R&amp;D expenses, product description</li></ul>	Company + external consultant (recommended)
2. Filing and examination	<ul style="list-style-type: none"><li>• Submission to the local Office of Science and Technology (STB)</li><li>• Multi-Level Verification</li></ul>	STB + MOF + STA
3. Issuing the certificate	If successful, an official HNTE certificate is issued, signed by three departments	Only after a positive verdict

## Срок действия и продление

- ✓ **Term** - 3 years
- ✓ **Recertification:** start 3–6 months before the end
- ✓ **Risk:** Failure or delay in → automatic transition to 25% CIT
- ✓ **Tax audit:** when filing an annual return - be sure to check the status of HNTE

**!** Without a valid certificate - the benefit does not apply!

# HNTE is not only 15% CIT!

The status gives access to powerful tax and operational preferences

## Super Deduction

→ Expenses for R&D are taken into account 2-2.2 times more!

Category	Gear Box	Effect
Conventional HNTEs	200%	RMB 1 million for R&D → deduction of RMB 2 million
Semiconductors, machine tools (until 31.12.2027)	220%	RMB 1 million → deduction RMB 2.2 million

## Cumulative effect

- ✓ First, the reduction of the tax base due to the overdeduction,
- ✓ Then - application of the 15% rate

# Non-resident with no office in China? Pay WHT - and only with Chinese income!

If a foreign company does not have a registration and permanent establishment (PE) in the PRC, it pays tax only on passive income of Chinese origin through withholding (WHT)

## What is subject to WHT?



Dividends

%

Royalties (for IP, software, patents)

China Property Rental

Sale of Chinese real estate

Scenario	WHT Rate
Default value	<b>10% (from gross amount)</b>
Under a tax treaty (DTT)	<b>5–10% (depends on country and type of income)</b>

### For example:

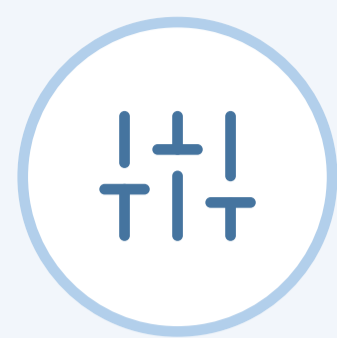
- Royalty from China to Hong Kong → 7% (DTT)
- Dividends to Germany → 5% (subject to ownership  $\geq 25\%$ )

### Who is in charge? → Chinese Paying Company!

#### It is a tax agent and is obliged to:

1. Determine the status of the recipient (resident/non-resident)
2. Classify type of income
3. Check for DTT with recipient country
4. Request a Certificate of Tax Residence
5. Withhold tax at the correct rate
6. Submit a return and pay tax by the 15th day of the following month
7. Pay the balance to the counterparty

# In China - only electronic declarations!



Filing and payment - through the official platform of the State Tax Service (STA). Paper reports are not accepted.



Meeting deadlines is your responsibility



The tax service does not remind: delay = automatic sanctions.

Disturbance	Consequences
Late payment	→ <b>Penalty of 0.05% per day of the debt amount</b>
Failure to file/errors in the declaration	→ <b>Penalty: 50–500% of unpaid tax</b>
Regular violations	→ <b>Being blacklisted is → an increased risk of on-site inspections</b>

## The system is integrated

- ✓ Declarations → linked to fapiao (electronic invoices)
- ✓ Data → synchronized with banks, SAMR, customs
- ✓ Any discrepancy → automatic flag for tax

## Practical recommendations

- ✓ Assign an employee responsible for taxes
- ✓ Use a local accountant or consultant - especially for CIT, WHT, VAT
- ✓ Keep real-time records — not “last day”
- ✓ Keep all supporting documents for at least 10 years

## How to calculate taxable profit in China?

### Basic formula for calculating profit

Taxable profit = Gross income - Non-taxable income - Exempt income - Permitted expenses - Losses of previous years (up to 5 years)

### Important:

not everything in the accounting department is taken into account in the tax!

# 4 key principles for calculating income tax in China



## 1. Accrual principle

Earnings and expenses are recorded by transaction date, not by payment date



## 2. Mandatory fapiao

Without Chinese fapiao - consumption is not deductible!

→ Foreign accounts, checks, PayPal - not accepted



## 3. Inventory method

You can choose: FIFO, average cost or per unit

→ After selection - cannot be changed without approval



## 4. Only "real" profit

Losses/gains from revaluation of assets (unrealized gains) - are not taken into account until the sale

### Typical mistakes of foreign companies

- ✓ Use of foreign accounts instead of fapiao → deduction rejected
- ✓ Application of the cash method without the right of → additional accrual + fine
- ✓ Incorrect valuation of inventories profit → distortion → risk check
- ✓ Attempt to deduct unrealized losses tax → variance

## Tip

Synchronize accounting with the Chinese fapiao system from the first day. Even if you manage the company remotely - without local financial control, tax risks are inevitable



# CONTACTS

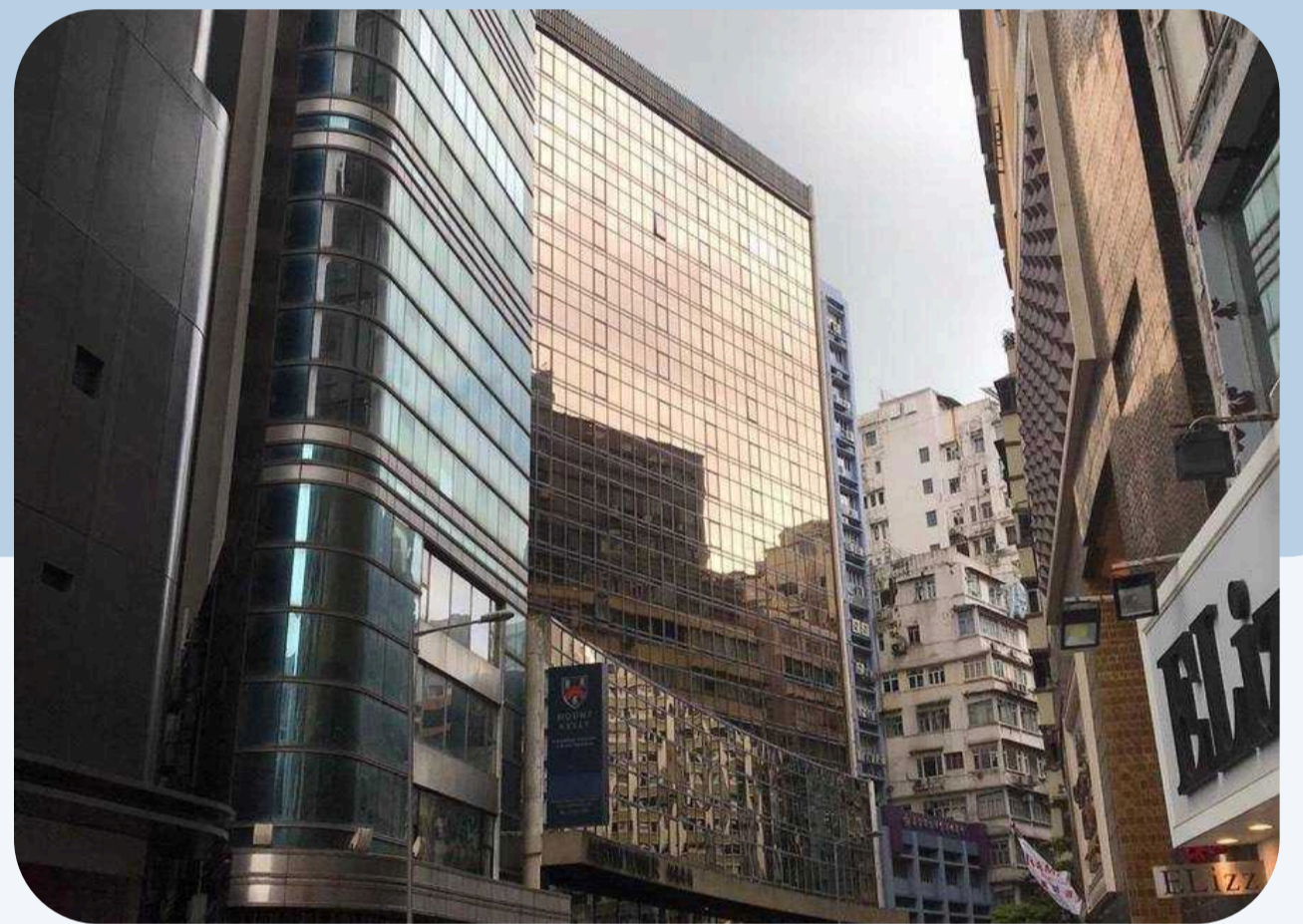
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