

What a foreign company pays in China

CIT — Corporate Income Tax

- **25%** standard
- **15%** HNTE and preferential zones
- **5%** small low-profit enterprises

VAT

- **13%** goods and imports
- **9%** transport, construction, agricultural products
- **6%** modern services
- **0%** exports

WHT — Withholding Tax

- **10%** on dividends, interest and royalties paid to non-residents
- **5%** under a tax treaty with a shareholding of $\geq 25\%$

IIT — Individual Income Tax on employees

- **3–45%** progressive scale
- Withheld monthly by the employer

On top of VAT:

- Urban Maintenance and Construction Tax 7%
- Education Surcharge 3%
- Local Education Surcharge 2%

All calculated on the VAT paid.

Why an expense without a fapiao costs more

- 1 **Supplier issues an e-fapiao** — an electronic invoice generated in the tax authority's system
- 2 **Data goes to the STA platform** — State Taxation Administration
- 3 **Golden Tax IV reconciles automatically** — tax return, bank transaction and invoice are matched with no inspector involved
- 4 **Deduction confirmed** — the expense reduces the CIT base, input VAT is credited

No fapiao → expense is not deductible

The money is gone and the goods have arrived, but the amount stays in taxable profit and is taxed at your CIT rate. Input VAT is lost as well.

A supplier's "no fapiao" discount only makes economic sense if it exceeds a quarter of the price — and that's before the lost VAT credit.

TRE, non-TRE, PE: where the line is drawn

TRE — tax resident

Tax Resident Enterprise · incorporated under PRC law or managed from within China

Taxed on: worldwide income

Rate: 25% (or preferential)

non-TRE without a permanent establishment

Non-Tax Resident Enterprise · no PRC registration, managed abroad

Taxed on: China-source income only

Rate: 10% WHT at source

non-TRE with a permanent establishment (PE)

Permanent Establishment — office, construction site, place where services are provided

Taxed on: profits of that establishment

Rate: 25%

What the inspector treats as the place of effective management (POEM)

where the budget is approved · where board minutes are kept · who makes HR decisions · where the books are kept

Since 1 April 2025, a tax residency certificate is issued via the Electronic Tax Bureau **within 7 business days**.

R&D super deduction and the 15% rate: the effects stack

Illustrative calculation. Inputs: pre-deduction profit — CNY 30 million, including R&D expenses of CNY 10 million.

Standard regime

Tax base: CNY 30 million

Rate: 25%

Tax: CNY 7.5 million

HNTE + 200% super deduction

Additional deduction of CNY 10 million

Tax base: CNY 20 million

Rate: 15%

Tax: CNY 3 million

Difference — CNY 4.5 million a year

The mechanisms apply in sequence: the super deduction cuts the base first, and only then is the preferential rate applied.

The 200% ratio applies to most enterprises; 220% for integrated circuit and machine tool manufacturers until 31 December 2027. The HNTE certificate must be valid on the date the annual return is filed.

Small-scale or general taxpayer: what annual revenue changes

Threshold

Annual revenue CNY 5 million (~USD 700k)

Below the threshold: small-scale taxpayer

3% rate, reduced to 1% from 1 January 2023 to 31 December 2027

No input VAT credit

All supplier VAT stays in the cost of goods

Suits low purchase volumes

Above the threshold: general taxpayer

13% / 9% / 6% depending on the transaction type

Input VAT credited against special VAT invoices

Export refunds available

Suits trading and manufacturing

Register as a general taxpayer before your first major purchase. Input VAT on fapiao already booked cannot be credited retroactively.

What happens to export VAT refunds

Date	Change
Until 31 March 2026	Refund of 0 to 13% according to the export product catalogue
From 1 April 2026	Photovoltaic products (panels, modules, inverters) — refund fully abolished. Battery products — rate cut from 9% to 6% for April–December 2026
From 1 January 2027	Battery products — refund discontinued

Important

The applicable date is the export date on the customs declaration — not the contract date or the warehouse dispatch date.

A contract signed before the cut-off but declared after it falls entirely under the new rules.

What must be in place before profits leave China

- 1 **Subscribed capital fully paid in** — dividends cannot be paid otherwise
- 2 **Annual audit completed** — mandatory for foreign-invested enterprises
- 3 **Prior-year losses covered** — only profit remaining after losses are offset can be distributed
- 4 **10% of after-tax profit to the statutory reserve** — contributions continue until the reserve reaches 50% of registered capital

Exit

Standard WHT rate — 10%. 5% under a double tax treaty with a shareholding of $\geq 25\%$ and confirmed beneficial ownership.

Denial

A holding company with no office, staff or operating expenses of its own cannot demonstrate substance. The treaty benefit is denied and the standard 10% is withheld.

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