GoGBA go-to guide

Taxation in the Greater Bay Area (I)

Enterprise income tax and value-added tax

With the development of the Guangdong-Hong Kong-Macao Greater Bay Area (GBA) going at full speed, how can Hong Kong businesses get a head start and take advantage of the immense business opportunities? The GoGBA go-to guides series, produced in collaboration by the Hong Kong Trade Development Council (HKTDC) and Richful Deyong (a Tricor company), hopes to help businesses with the first steps of setting up a business, handling taxation and completing related procedures.

This GoGBA go-to guide provides an overview of the rates and filing requirements of corporate income tax and value-added tax in the GBA and other provinces and cities in Mainland China (based on the latest official information as of July 2020), useful websites and other related information. Please refer to the official websites of the State Taxation Administration, provincial and municipal taxation authorities and administrative service platforms for the latest policies and detailed information, and consult professional advisers according to your specific needs.

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Taxation in Mainland China

Mainland China's taxation system has been undergoing continuous reform, with the latest change being the abolition of business tax in November 2017. Current tax types include income tax (enterprise income tax and individual income tax), turnover tax (value-added tax and consumption tax), and tax related to real estate (land appreciation tax, real estate tax, deed tax, farmland occupation tax, and urban and township land use tax). Other tax types include stamp duty, customs duty, vehicle purchase tax, vehicle and vessel tax, resource tax, environmental tax, urban maintenance and construction tax, tonnage tax and tobacco tax.

There is no capital gains tax in Mainland China. Income from the sale of fixed assets will be treated as ordinary income for tax purposes.

The **main tax types** applicable to foreign-invested enterprises, foreign enterprises and foreign individuals (including Hong Kong, Macao and Taiwan residents) in Mainland China include:

Enterprise income tax

Individual income tax

Value-added tax and its surcharges
(urban maintenance and construction tax & education surcharge)

Vehicle purchase tax
(when buying vehicles)

Customs duty and import-related value-added tax
(according to customs regulations and other relevant provisions when importing and exporting goods)

Consumption tax
(when engaging in the production and sales of products subject to consumption tax)

Please refer to the website of the Guangdong Provincial Taxation Bureau (in Chinese only) for the latest policies applicable to the Guangdong-Hong Kong-Macao Greater Bay Area:
https://guangdong.chinatax.gov.cn/gdsw/index.shtml

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Enterprise income tax

What is enterprise income tax

Enterprise income tax is a **tax levied on the income derived from production, business operations and other sources** generated by enterprises and business entities in Mainland China, except individual proprietorship enterprises and partnership enterprises established in accordance with the laws and administrative regulations of Mainland China.

Enterprise income tax rates

Standard rate

25% → **15%**

Eligible enterprises under encouraged industries (for example, new- and high-technology enterprises and some semiconductor manufacturing enterprises) **are taxed at the reduced rate of**

Enterprises given support and encouragement in development by the state are entitled to tax deductions. Other enterprises deemed to be in encouraged industries will enjoy tax deductions in accordance with the regulations of the State Council.

Transitional preferential tax treatments are provided to new- and high-technology enterprises newly established in special zones established by law for developing foreign economic cooperation and technological exchange and in an area where the State Council has provided for the implementation of the abovementioned special policy. The measure for preferential tax treatment is provided by the State Council.

Taxpaying resident enterprises in Mainland China also enjoy other tax reductions. Under the new taxation system, there are more detailed regulations regarding taxpaying resident enterprises, special tax adjustments and special reorganisations.

Object of taxation for enterprise income tax

Payers of enterprise income tax are enterprises and other organisations within the territory of Mainland China that generate income. Taxpayers are generally divided into resident enterprises and nonresident enterprises.

Resident enterprises

Resident enterprises are enterprises incorporated within the territory of Mainland China in accordance with Chinese laws and regulations or enterprises established under foreign laws with their offices of effective management within the territory of Mainland China. The income tax for such enterprises is 25%. Eligible enterprises are subject to a reduced tax rate, which is considered a preferential tax policy.

Non-resident enterprises

Non-resident enterprises are enterprises incorporated under foreign laws and whose offices of effective management are not within the territory of Mainland China. Such enterprises either have establishments or venues in Mainland China, or their income is derived from sources in Mainland China.

Rate of enterprise income tax

25%

Non-resident enterprises that do not have any establishments or venues in Mainland China, or those with establishments or venues in Mainland China but whose income is not effectively connected with these establishments or venues, must pay tax on the income derived from sources in Mainland China **at the rate of**

20%

Income from within and without Mainland China shall be determined under the following principles:

1. Income from the sale of goods shall be determined according to the place where the transaction is carried out
2. Income from the provision of labour services shall be determined according to the place where the labour services are provided
3. The income from the transfer of real property shall be determined according to the place where such real property is situated, while the income from the transfer of personal property shall be determined according to the place where the enterprise or institution of establishment that transfers the property

is located. The income from the transfer of equity investment assets shall be determined according to the place where the invested enterprise is located

4. Income from equity investment, such as dividends and bonuses, shall be determined according to the place where the enterprise that distributes the income is located
5. Interest income, rental income and income from franchise royalties shall be determined according to the place where the enterprise, institution or establishment that pays the income is located or according to the place where the abode of the individual that pays the income is located
6. Other income shall be determined by the competent department of treasury or taxation of the State Council

Method of computation for enterprise income tax

Taxable income

Taxable income = total annual income of enterprise – (income not subject to taxation + income exempted from taxation + deductible items + losses from previous years permitted to be offset)

The computation of taxable income of an enterprise shall be, in principle, on an accrual basis. Current income and expenses are regarded as income and expenses of the current period, regardless of whether they have been received or paid. Income and expenses outside of the current period are not regarded as current income and expenses even if they are received and paid in the current period.

Tax payable

Tax payable = taxable income of enterprise × applicable tax rate – tax reductions

The amount of tax reductions and exemptions as used in the formula is the amount of taxes that are reduced, exempted or credited under the Enterprise Income Tax Law and the preferential tax policies of the State Council. The amount of income tax paid outside Mainland China on the following income earned by an enterprise may offset the tax payable for the current period, the amount of tax quota for the offset being the amount of the tax to be paid on the said income, which is calculated in accordance with the provisions of the law. The portion in excess of the said quota may be made up with the balance of the annual amount of tax to be offset in each current year within the next five years:

1. Taxable income generated outside Mainland China by a resident enterprise
2. Taxable income which is generated outside Mainland China by a non-resident enterprise that has establishments or venues in Mainland China but which is actually relevant to the said establishments or venues

Amount of tax deduction and exemption = the total amount of tax payable under the Enterprise Income Tax Law and the present Regulation for the enterprise's income sourced within and without Mainland China × the total amount of taxable income sourced from other countries (regions) ÷ the total amount of taxable income sourced both within and without Mainland China

Adjustment of Special Tax Payment

The cost incurred by an enterprise and its affiliate in joint development or transfer of intangible assets or in joint provision or acceptance of labour services shall be shared by them under the arm's length principle, when the amount of income taxable is calculated.

An enterprise may make suggestions to the taxation authority as to the principle of pricing and the method of calculation for the transactions effected between itself and its affiliate. The taxation authority and the enterprise may, after consultation and confirmation, reach an advance pricing agreement.

Arm's length principle – refers to the principle that all unrelated parties to a transaction conduct business in accordance with a fair transaction price and regular business practices.

Advance pricing agreement – refers to an agreement reached between an enterprise and the taxation authority under the arm's length principle and through negotiations, under which the enterprise files an application to the taxation authorities with respect to its principles of pricing and calculation method to be used in future years for related transactions.

Preferential tax policies for enterprise income tax

Preferential tax policies under the Enterprise Income Tax Law include tax exemption, tax reduction, additional deduction, accelerated depreciation, income reduction and tax credit.

Income exempted from tax

- Income from interest on government bonds
- Income from equity investment, such as dividends and bonuses, between qualified resident enterprises
- Income from equity investment, such as dividends and bonuses, that is received from a resident

enterprise by a non-resident enterprise that has institutions or establishments in Mainland China, and which is actually relevant to the said institutions or establishments
- Income of a qualified non-profit organisation

Note: The income of qualified non-profit organisations does not include the income of non-profit organisations engaged in profit-making activities, except as otherwise stipulated by the departments in charge of finance and taxation under the State Council.

Tax reduction and exemption

- The tax levied on the following income of an enterprise may be exempted or reduced: income earned from projects of farming, forestry, animal husbandry, and fisheries; income from investment in and operation of infrastructure projects which have the major support of the State; income earned from qualified projects of environmental protection or energy and water conservation; and income from qualified technology transfer.
- With respect to non-resident enterprises (non-resident enterprises that do not have any establishments or venues in Mainland China, or those that have establishments or venues in Mainland China but whose income is not effectively connected with these establishments or venues shall pay enterprise income tax for income sourced from within Mainland China), the tax levied on its income shall be reduced at a rate of 10%.
- With respect to a qualified small enterprise earning low profits, the tax levied on its income shall be reduced at a rate of 20%.
- With respect to new- or high-technology enterprise that needs key support from the State, the tax levied on its income shall be reduced at a rate of 15%.
- The tax levied on the following income of an enterprise shall be exempted: interest income from loans provided by foreign governments to the Chinese government; interest income from preferential loans provided by international financial organisations to the Chinese government and resident enterprises; and other income approved by the State Council.

According to the Enterprise Income Tax Law of the People's Republic of China and the Regulation on the Implementation of the Enterprise Income Tax Law of the People's Republic of China, reasonable wages/salaries, employee welfare fees, advertising and business promotion fees, business entertainment fees, handling fees and commissions, research and development expenses, public welfare donations, etc., can enjoy corporate income tax deduction.

Enterprise Income Tax Law of the People's Republic of China (in Chinese only)
http://www.chinatax.gov.cn/chinatax/n810341/n810825/c101434/c28479830/content.html

Regulation on the Implementation of the Enterprise Income Tax Law of the People's Republic of China (in Chinese only)
http://big5.www.gov.cn/gate/big5/www.gov.cn/gongbao/content/2019/content_5468940.htm

Tax return and collection

Preferential tax policies under the Enterprise Income Tax Law include tax exemption, tax reduction, additional deduction, accelerated depreciation, income reduction and tax credit.

Tax year

- Enterprise income tax shall be calculated on the basis of the tax year.
- If an enterprise commences business or terminates its business activities during a tax year, so that the actual period of business conducted in the tax year is less than 12 months, the actual period of business operation shall be deemed to be a tax year.
- When an enterprise is being liquidated in accordance with law, the period of liquidation shall be deemed to be a tax year.

Tax return

- Enterprise income tax shall be prepaid on a monthly or quarterly basis as designated by the taxation authority.
- For prepayment of tax, an enterprise shall submit an enterprise income tax return for prepayment to the taxation authority within 15 days from the end of a month or quarter.
- For consolidated tax payment, an enterprise shall submit an annual enterprise income tax return to the taxation authority within five months from the end of a tax year and settle the tax payable and refundable.
- When submitting its enterprise income tax return, an enterprise shall enclose with it a financial statement and other relevant information according to the relevant regulations.
- Where an enterprise terminates its business activities during a tax year, it shall, within 60 days from the date it actually terminates its business operation, settle its enterprise income tax for the current period on a consolidated basis with the taxation authority.
- The annual enterprise income tax return should be completed on or before 31 May in the following year.

Required documents (in the case of Shenzhen)*

Documents include the enterprise's business licence, legal person's identity document, identity document of the person in charge of finance, bank account details and so on. The application can be handled at the tax service hall, electronic taxation administration, online taxation platform, self-service taxation terminal or by remote processing via video.

* For the specific requirements of different cities, please refer to the relevant official information.

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Value-added tax

What is value added-tax?

Value-added tax (VAT) is a kind of turnover tax imposed on the newly increased value; that is, **the additional value of goods in various links from commodity production to circulation.** All corporations and persons engaged in the sales or importation of goods, provision of processing, repairs and replacement services within the territory of the People's Republic of China need to pay VAT, and shall pay it in accordance with the Interim Regulation of the People's Republic of China on Value-added Tax.

Extending preferential VAT policies for small-scale taxpayers

The State Taxation Administration issued an announcement on extending the VAT exemption policy for small-scale taxpayers. From 1 April 2021 to 31 December 2022, smallscale taxpayers with monthly sales of Rmb150,000 or less will be exempt from VAT. The details are as follows:

Small-scale taxpayers with monthly sales of less than Rmb150,000*

Exempted from VAT

Small-scale taxpayers with taxable sales of VAT exceeding Rmb150,000*
whose sales do not exceed Rmb150,000 after deducting the sales of immovable property

Exempted from VAT **for their sale of goods, labour, service and intangible assets.**

*** Or Rmb450,000 for a quarterly tax period**

VAT taxable items and calculation method

VAT shall be levied and collected by the taxation authorities. VAT on imported goods shall be collected by Customs on behalf of the taxation authorities.

VAT covers:

- Sale of goods
- Provision of repairs, replacement and processing services
- Provision of services
- Sale of intangible assets
- Sale of real properties
- Import of goods

Currency of taxation:

Rmb ¥

Tax rate for goods exported by taxpayers:

0% * except where otherwise determined by the State Council

Enterprises eligible for tax exemption, offset and refund

The export of goods, provision of services and other taxable activities to which the VAT deduction (exemption) policy applies shall be exempted from VAT and refunded in accordance with the regulations.

Enterprise	Circumstances	Basic policy provisions
Production enterprises	1. Export of self-produced goods and goods regarded as self-produced goods and the provision of processing, repair and assembly labour services for foreign entities 2. Listed production enterprises exporting non-self-produced goods 3. Production enterprises under general tax computation that provides taxable services and intangible assets subject to zero tax rate	Exempt from VAT, the corresponding input tax shall decrease VAT payable (excluding VAT payable subject to the policy of refund immediately after payment or refund after payment), and the remaining amount shall be refunded
Foreign trade enterprises	Foreign trade enterprises under general tax computation that directly export services and self-developed intangible assets	

Enterprise	Circumstances	Basic policy provisions
Special industry enterprises	1. International transportation services provided by domestic units and individuals 2. Specific services provided by domestic units and individuals to foreign units for consumption entirely outside the country 3. With reference to international transportation services, aerospace transportation services are subject to zero tax rate	Exempt from VAT, the corresponding input tax shall decrease VAT payable (excluding VAT payable subject to the policy of refund immediately after payment or refund after payment), and the remaining amount shall be refunded

Circumstances eligible for tax exemption and refund

Enterprise	Circumstances	Basic policy provisions
Foreign trade enterprises / other units	1. The goods and labour services exported by export enterprises incapable of production (hereinafter referred to as "foreign trade enterprises") or other units 2. Foreign trade enterprises under general tax computation purchasing foreign services or intangible assets for export	Exempt from VAT, and the corresponding input tax is refunded

VAT export rebate rates

- The calculation of VAT rebates for export goods will adopt various rebate rates, applicable tax rates and levy rates under different circumstances.
- For goods and labour services to which different tax refund rates apply, separate customs declaration and separate accounting shall be conducted, and separate applications for tax refund (exemption) shall be filed. The lower tax refund rate shall apply if separate customs declaration or separate accounting is not conducted or such separation cannot be clearly made.
- According to Announcement No. 39 jointly issued by the Ministry of Finance, the State Taxation Administration and the General Administration of Customs, export goods originally subject to a 16% VAT rate and 16% export refund rate has their export refund rate adjusted to 13%, while export goods and cross-border taxable activities originally subject to a 10% VAT rate and 10% export refund rate has their export refund rate adjusted to 9%.

VAT rate and method of computation

General taxpayers

The VAT rates are different according to their taxable selling activities

13% / 9% / 6%

* A zero tax rate applies to taxpayers who export goods unless otherwise stipulated by the State Council. A zero tax rate applies to domestic entities and individuals carrying out cross-border sales of services and intangible assets within the scope stipulated by the State Council. The tax rate adjustments are determined by the State Council.

Small-scale taxpayers

The VAT rate

3%

* Unless otherwise stipulated by the State Council.

VAT payable computation

Input tax on the following items shall not be credited against the output tax:

1. Purchased goods, labour, services, intangible assets and immovable property used in the item under the simple taxation method, projects exempt from VAT, collective welfare or individual consumption
2. Abnormal loss of goods purchased and related labour and transportation services
3. Goods purchased (excluding fixed assets), labour and transportation services consumed in the production of work-in-progress or finished goods which suffer abnormal losses
4. Other items stipulated by the State Council

Except for the provisions above, for a taxpayer engaged in selling goods or supplying taxable services, the payable tax amount shall be the balance after offsetting or deducting the input tax amount for the current period against or from the output tax amount for the current period.

1. **Output VAT** The VAT levied on the taxpayer on taxable sales according to the sales amount and the prescribed tax rate. (Output VAT = sales amount x applicable tax rate)

2. **Input VAT** The amount of VAT paid or borne by the taxpayer on the purchase of goods, labour, services, intangible assets and immovable property. (The correspondence between the input VAT and output VAT is that the output VAT collected by the seller is the input tax paid by the purchaser.)

Tax payable for general taxpayers = current 1 output VAT − current 2 input VAT

* If the current output tax is less than the current input tax, the shortfall can be carried forward to the next period for tax deduction.

VAT on the sale of goods or taxable services payable by smallscale taxpayers, calculated by a simple method on the basis of the sales amount and tax rate, shall not be credited against the output tax.

Tax payable for small-scale taxpayer = sales amount × tax rate

* The standard for small-scale taxpayers is determined by the competent finance and taxation department of the State Council.

Taxpayers importing goods shall calculate their tax payable according to the composite taxable price and tax rate stipulated in the regulation:

Composite taxable price = customs value + tariff + consumption tax

Tax payable = composite taxable price × tax rate

VAT exemption and zero rate VAT

1 VAT exempt goods

- Agricultural produce sold by the agricultural producers that produced them (agriculture refers to plantation, breeding, forestry, animal husbandry and aquaculture; agricultural products refer to primary agricultural products; the specific scope shall be determined by the Ministry of Finance and the State Taxation Administration)
- Contraceptive pharmaceuticals and devices
- Antique books (antique books sourced from society)
- Imported instruments and equipment to be used directly in scientific research, scientific experimentation or teaching
- Imported supplies and equipment given gratis in aid by foreign governments and international organisations
- Articles for the specific use of disabled persons that are imported directly by disabled persons' organisations
- Articles sold after having been used by oneself (articles sold by other individuals after having been used by oneself)

2 VAT zero-rated and VAT exempt transactions

VAT zero-rated transactions

A zero VAT rate applies to taxpayers who export goods unless otherwise stipulated by the State Council. A zero VAT rate applies to units and individuals selling the following services and intangible assets.

- International transportation services
- Space transport services
- The following services provided to overseas entities which are consumed overseas entirely: research and development services; energy management contracting services; design services; production and distribution of radio and television programmes (works); software services; circuit design and testing services; information system services; business process management services; offshore service outsourcing business; and transfer of technologies

VAT exempt cross-border services

A zero VAT rate applies to units and individuals selling the following services and intangible assets, except for those subject to a zero VAT rate as stipulated by the Ministry of Finance and the State Taxation Administration. If the sales amount of the taxpayer does not reach the threshold of VAT prescribed by the competent department of finance and taxation of the State Council, the taxpayer shall be exempt from VAT; if the threshold is reached, the VAT shall be calculated and paid in full in accordance with the relevant regulations.

- Construction services for overseas projects; project supervision services for overseas projects; engineering survey and exploration services for overseas engineering and mineral resources; conference and exhibition services for overseas conference and exhibition venues; storage services where the storage venue is overseas; leasing of tangible movables which are used overseas; broadcasting of radio and television programmes (works) provided overseas; cultural and sports services, education and medical services, and travel services, which are provided overseas
- Postal services, collection and delivery services and insurance services, which are provided for exports
- Telecommunication services, intellectual property services, logistics auxiliary services (except for storage services, collection and delivery services), authentication and consultation services, professional and technical services, business support services, advertising services, and intangible assets (except for technologies) sold to overseas entities, which are consumed overseas entirely
- International transportation services provided via the method of carriers without transportation vehicles
- Direct charges financial services provided for monetary financing and other financial businesses between overseas entities, and the services are not related to goods, intangible assets and immovables in Mainland China

Useful Links

Please refer to the below websites for the latest official updates and more detailed information:

State Taxation Administration
http://www.chinatax.gov.cn/chinatax/index.html

Guangdong Provincial Tax Service, State Taxation Administration
http://guangdong.chinatax.gov.cn/gdsw/gzsw/gzsw_index.shtml

Guangdong Provincial E-tax Service
https://etax.guangdong.chinatax.gov.cn/xxmh/

Guangdong Provincial Tax Service, State Taxation Administration - Tax Policy
http://guangdong.chinatax.gov.cn/gdsw/gzsw_sfzcjd/city_ztzl_lists.shtml

Guangzhou Tax Service, State Taxation Administration – Tax Service Platform for Inbound & Outbound Investment
https://guangdong.chinatax.gov.cn/gdsw/gzsw_zcq/gzsw_zcqyjl_index.shtml

Qianhai Shenzhen-Hong Kong Modern Service Industry Cooperation Zone – Guidelines for the Recognition of Industries Eligible for Preferential Enterprise Income Tax Policies
http://qh.sz.gov.cn/sygnan/xxgk/xxgkml/zcfg/gfxwj/content/post_9769641.html

(2021 edition) Guidelines on Preferential Tax and Fee Policies for Micro and Small Enterprises and Individual Industrial and Commercial Households
http://www.chinatax.gov.cn/chinatax/n810341/n810825/c101434/c5167234/content.html

Guidelines on Preferential Tax and Fee Policies for "Widespread Entrepreneurship and Innovation"
http://www.chinatax.gov.cn/chinatax/n810219/n810744/c101827/common_list_dzcy.html

Richful Deyong
http://www.rf.hk/

GoGBA 灣區經貿通

The HKTDC has launched the GoGBA one-stop platform to provide digital information and business tools, advisory services and training as well as promotional and networking activities, offering multi-faceted support online and offline to help Hong Kong businesses navigate the Guangdong-Hong Kong-Macao Greater Bay Area. HKTDC GBA Centres and GoGBA Business Support Centres provide advisory services and training to Hong Kong companies; a series of flagship promotional events help Hong Kong companies expand their business networks; while the GoGBA website and WeChat mini-programme feature the latest policy and business updates and cross-border business tools.

GoGBA business tools
[WeChat mini programme]

GBA updates
[WeChat official account]

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