

3.2 Which kinds of income should be taxed?

3.2.1 The following kinds of income should be taxed:

- ① Income from wages and salaries
- ② Income from remuneration for personal services
- ③ Income from author's remuneration
- ④ Income from royalties
- ⑤ Income from business operation
- ⑥ Income from interest, dividends and bonuses
- ⑦ Income from the lease of property
- ⑧ Income from property transaction
- ⑨ Contingent income

3.2.2 whether foreigners obtain domestic or foreign income or not?

Source of income	Income payer	Individuals who do not have a residence in China for six consecutive years have accumulated 183 days of residence per year in China and have not left the country for more than 30 days in a single year.	1. do not have a domicile in China 2. have lived in China for a total of 183 days in a row for less than six consecutive years 3. there has not been a single departure for more than 30 days.	Individuals who do not have a domicile in China have lived in China for more than 90 days in a tax year, less than 183 days.	Individuals who do not have a domicile in China do not live in China for more than 90 days in a tax year.
Domestic income	Domestic payment	tax	tax	tax	tax
	Overseas payment	tax	tax	tax	exemption
Foreign income	Domestic payment	tax	tax	tax only for senior executives	tax only for senior executives
	Overseas payment	tax	exemption	no tax	no tax

Tips: The starting year of the six years referred to in the table above begins from 2019 and beyond.

3.2.3 Domestic income and overseas income

In general, the following income, no matter which the place of payment is, it is deemed to be from China:

- ① Labor services in China due to employment, performance, etc.
- ② leasing the property to the lessee for use in China
- ③ The use of various concessions in China.
- ④ The transfer of property such as real estate in China
- ⑤ Interest and dividends obtained from enterprises, institutions, other organizations and individual residents in China.

3.3 Preferential taxation policy for foreigners

The special deduction items of personal income tax (for resident individuals):

- ① Education cost for Children: a fixed standard of 1,000 yuan will be deducted every month from the parents' taxable income for each child's education from preschool all the way to doctoral education.

② Self-education expenses: taxpayers who are receiving continuing education can also enjoy the deduction of 400 yuan amonth for 48 months at most for a degree or 3,600 yuan in total for professional qualifications education.

③ Healthcare cost for major diseases: Taxpayers with serious diseases will have their amount of out-of-pocket medical costs (between 15,000 yuan and 80,000 yuan) deducted from their taxable income each year.

④ Housing loan Interest: Taxpayers or their spouses who have mortgage loans or Housing Accumulation Fund loan for a first house in China can have a deduction of 1,000 yuan per month from taxable income for 240 months at most.

⑤ Rent: Rent deduction will be granted to taxpayers as well as their spouse owning no housing in the city where they work.

1. Four municipalities, provincial capital, five cities with independent planning : taxpayers can get a monthly deduction of 1,500 yuan.

2. Other cities:

Registered population	Housing rent deduction (per month)
> 1 million	1,100 yuan
≤ 1 million	800 yuan

⑥ Elderly support:

1. Only child: everyone can get a monthly deduction of 2,000 yuan
2. Non-only child: sibling share the 2,000-yuan deduction quota per month; each one' quota may not exceed 1,000 yuan per month.

⑦ Caring for the Infants:

Since 01/01/2022, taxpayer expenditures related to caring for infants under the age of 3 shall be deducted according to the standard quota of 1,000 yuan for each infant per month.

Related tax incentives: the following income of foreign individuals is temporarily exempt from personal income tax.

- ① Housing subsidies, food allowances, relocation expenses, and laundry expenses obtained by foreign individuals in non-cash or reimbursement.
- ② Domestic and foreign travel subsidies obtained by foreign individuals according to reasonable standards.
- ③ The family visit fees, language training fees, and children's education fees obtained by foreign individuals are reviewed and approved by the local tax authorities as a reasonable part.
- ④ Dividends and bonuses obtained by foreign individuals from foreign-invested enterprises.

Tips: Resident individuals taxpayer can only choose one of the ways between special additional deductions and tax-exempt benefits. Accessing both of them at the same time for the same kind of expenditure is not allowed. Once determined, the specific deduction method can not be changed in a tax year.

CURRENT TAX SYSTEM & PREFERENTIAL POLICIES

CONCISE EDITION

VALUE-ADDED TAX POLICY GUIDE FOR FOREIGNERS

1.1 WHAT IS VAT ?

VAT(Value-Added Tax) is a tax applied on the value added to goods and services at each stage in the production and distribution chain.

VAT is levied only when there is value added.

It forms part of the final price the consumer pays for goods or services.

1.2 The scope of VAT

The supply of goods or taxable services for consideration in China, by a taxable person in the course or furtherance of any business.

The importation of goods into China, regardless of the status of the importer.

1.3 Who is liable ?

All units and individuals engaged in the sales of goods, provision of processing, repairs and replacement services, and the importation of goods within the territory of China are taxpayers of VAT.

General VAT taxpayers: Taxpayers providing VAT services with an annual turnover of 5 million RMB or more.

Small-scale VAT taxpayers: Taxpayers providing VAT services with an annual turnover of less than 5 million RMB.

1.4 How to calculate the tax?

1.4.1 For General VAT taxpayers:

Sales of goods and the provision of processing, repair or replacement services are generally subject to 13%.

Certain goods are subject to a reduced rate at 9%.

Other taxable services are generally subject to 6%.

Tax payable=Output tax payable for the period- Input tax for the period

Output tax=Sales amount×Tax rate

1.4.2 For Small-scale VAT taxpayers:

Small-scale VAT taxpayers engaged in selling goods or taxable services shall use a simplified method for calculating the tax.

The basic leviable rate is 3%.

Input VAT paid on purchases is not deductible.

Tax payable=Sales amount×Leviable rate

1.5 Preferential Policies

Since 01/04/2022, Eligible taxpayers can apply for a one-time VAT-credit refund.

From 01/04/2022 to 31/12/2022, small-scale VAT taxpayers have a preferential policy as follows:

Small-scale VAT taxpayers will be exempted from VAT on taxable sales income at a rate of 3%, and will suspend the VAT on prepay the projects at a rate of 3%.

ENTERPRISE INCOME TAX POLICY GUIDE FOR FOREIGNERS

2.1 The definition of EIT

The enterprises and other organizations that are located within China and earn income (hereinafter generally referred to as enterprises) are taxpayers of EIT(Enterprise Income Tax).

EIT is not applicable to individual proprietorship enterprises and partnerships.

2.2 The scope of EIT

Resident Enterprises: Enterprises which are set up in China, or that are set up in a foreign country (region) whose actual administration institution is in China.

A resident enterprise shall pay EIT on its income generated from both inside and outside China.

Non-resident Enterprises: Enterprises which are set up in a foreign country (region) and whose actual administrative institution is not in China, or which have no such institutions or establishments but have income generated from China. A non-resident enterprise that has set up institutions or establishments in China shall pay EIT on the income earned by its institutions or establishments from inside China and the income which is generated from outside China but which is actually relevant to the institutions or establishments set up in China. A non-resident enterprise that has not set up any institutions or establishments in China, or it has done so but the income it earns is not actually relevant to the said institutions or establishments, it shall pay EIT on the portion of its income generated from China.

2.3 How to calculate the tax?

When calculating the amount of its income taxable, an enterprise may deduct its expenses which are actually incurred in relation to its income earned, including the cost \fees\tax payments and losses.

The rate of enterprise income tax shall be 25%.

2.4 Preferential policies

2.4.1 policy for small-scale and marginal profit enterprises

Small-scale and marginal profit enterprises are entitled to a further reduction in tax base and a preferential rate of 20%.

Small-scale and marginal profit enterprises refer to enterprises engaged in industries not restricted or prohibited by the states, with an annual taxable income of no more than 3 million RMB, a payroll size of at most 300 persons and a total amount of assets not exceeding 50 million RMB.

An annual taxable income	Actual EIT rate	Implementation period
≤ 1 million RMB	2.5%	From 01/01/2021 to 31/12/2022
> 1 million RMB, ≤ 3 million RMB	5%	From 01/01/2022 to 31/12/2024

2.4.2 Deferring tax policy

Deferring tax policy is for the foreign investors if their profits from Chinese domestic enterprises are directly reinvested in Chinese domestic enterprises. Withholding tax would temporarily be exempted to encourage foreign investors to expand investment in China. (If the foreign investors don't directly reinvested their profits, generally speaking, they shall pay Withholding tax by 10%)

3. Individual Income Tax Policy Guide for Foreigners

3.1 Are you a resident taxpayer of China?

Resident Individual: An individual who has domicile in the territory of China or who is non-domiciled but has resided in the territory of China for 183 days or longer in a tax year will be deemed as a resident individual.

Non-resident Individual: Any individual who has no domicile and does not stay within the territory of China or who has no domicile but has stayed within the territory of China for less than 183 days in aggregates is considered as a non-resident individual.

The number of days of cumulative residence in China of an individual who has no domicile in a tax year shall be number of days of the individual's cumulative stay in China. If the individual has stayed in China for 24 hours on the day of his or her stay in China, that day shall be included in the days of his or her residence in China; and if the individual has stayed in China for less than 24 hours on the day of his or her stay in China, that day shall not be included in the days of his or her residence in China.