Understanding the Latest Preferential Tax Policies for Businesses in China

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To further boost a slowing economy (GDP growth of 6.6% in 2018) and lift domestic consumption, China has lately been pushing through a number of new Preferential Tax Policies related to corporate income tax, VAT exemptions and 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, China expanded its existing preferential CIT policies mainly aimed at smaller private companies that will run for three years 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%) while companies with an annual taxable income of RMB 1-3 million will enjoy a reduced CIT of 20% on 50% of their taxable income (effective rate of 10%).

VAT Exemptions

On 19 January 2019, Small-scale VAT Taxpayers (annual turnover below RMB 5 million) with sales under RMB 100,000/month and less than RMB 300,000/quarter got exempted from paying VAT on such sales.

General VAT Taxpayers with annual sales below RMB 5 million over the previous twelve months or four quarters can also opt to become Small-scale VAT Taxpayers until 31 December 2019.

VAT Rates

On 1 April 2019, China further reduced the general VAT rate in the manufacturing sector from 16% to 13% while the VAT rate on e.g. services in the construction, transport, postal and telecom sectors was lowered from 10% to 9% while the VAT rate on other services remained at 6%. For Small-scale VAT Taxpayers, the VAT rate is 3%. Moreover, taxpayers in the service sector will enjoy an additional 10% reduction on the input VAT.

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 15 September 2018, China increased the export VAT refund rates on 397 products including steel products, chemicals, lithium batteries, semiconductors, paint and machinery products.

Import Tariffs

On 1 July 2018, China 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 1 November 2018, China introduced additional import tariff reductions on 1,585 products including machinery, paper, textiles and construction materials. Moreover,

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 15 October 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) whereby 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 that keep cost to companies lower and 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 uncertainty about the health of the Chinese economy, some economic indicators have lately been pointing in the right direction.

In Q1 2019, retail sales in China grew by 8.3% year-on-year and is expected to grow by 7.5% for the whole of 2019 whereby the value of total retail sales in China will overtake the US for the first time.

In the housing market, the sale of real estate in the first-tier cities grew by 30% year-on-year in Q1 2019 with the Chinese house buyers' confidence index on the rise.

Recent economic data also suggests that the Chinese economy will rebound and stabilize in 2019 with a projected annual GDP growth of 6.3%.

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 clear signs of recovery.

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