

Business Tax Computation Method

For taxpayers providing taxable services, transferring intangible assets or selling immovable properties, the Business Tax payable shall be computed on the basis of the turnover and by applying the applicable tax rate.

The formula for computing the tax payable is as follows:

Amount of tax payable = Turnover * Applicable tax rate

Examples :

a. The turnover of a transportation company in the month is 2 million yuan, and the applicable Business Tax rate is 3%. The Business Tax payable for the month is computed as:

Amount of tax payable = 2 million yuan * 3% = 60000yuan

b. A dancing hall has a turnover of 600000 yuan in the month, and the local applicable Business Tax rate is 20%. The amount of Business Tax payable by the dancing hall for the month is computed as :

Amount of tax payable = 600,000*20% = 120,000 yuan

Usually, the turnover is composed of the total consideration and all other charges received (including commissions, fund, pool fund, payment received on behalf, and payment made on behalf) from the buyers for the provision of taxable services, transfer of intangible assets and/or sales of immovable properties by the taxpayers. Certain expenses, however, can be deductible for the computation of turnover in the following situations:

a. For transportation enterprises carrying passengers or cargoes out of China and sub-contracting the passengers or cargoes to other transportation enterprises overseas, the turnover shall be the balance of freight charges for the whole journey less the freight charges paid to the other transportation enterprises overseas.

For the transportation enterprises engaged in through transport, the turnover shall be the balance of the revenue after deduction of payment of freight, loading and unloading charges to other carriers.

Where, upon approval by the local tax bureaus for use of the transportation enterprise invoices, the units paying the Business Tax under the items of transportation offer the transportation business to other transportation enterprises and receive the price payment uniformly, the turnover shall be the balance of the total price payment received by the units after deduction of the freight paid to other transportation enterprises.

b. For travel enterprises organizing tour groups to travel outside China and subcontracting to other travel enterprises organizing tour groups to travel within China, the turnover shall be the balance of tour charges for the whole journey less the payment made to sub-contracted travel enterprises.

For travel enterprises organizing tour groups to travel within China, the turnover shall be the

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balance of tour charges for the whole journey received from the tourists less the payment of housing, meals, traffic, tickets made to other units or other travel enterprises on behalf of the tourists.

c. For the prime contractors in the construction business who sub-contract work to others, the turnover shall be the balance of the total contract sum less the payment made to the sub-contractors

d. For foreign exchange re-lending businesses, the turnover shall be the balance of interest on lending less the interest on borrowing.

e. For banks and non-bank financial institutions buying and selling foreign currencies, marketable securities and non-commodity futures, the turnover shall be the balance of the selling price less the interest on borrowing.

According to the financial accounting rules, the buying price of shares and bonds of the financial enterprises is determined the same as the balance of the purchase price of the shares and bonds less the dividend income received during holding of the shares and bonds.

For buying and selling shares, bonds, foreign exchanges and other financial products, the financial enterprises may compute and pay the Business Tax in manner of annual consolidation of the positive and negative differences appearing in different tax periods at the end of the accounting year. If the Business Tax payable thus computed out is less than the Business Tax already paid during the year, they may apply to the tax department for tax rebate. But, the negative difference after the annual consolidation shall not be allowed to carry forward to the subsequent year.

f. Where the insurers within China re-insure the insurance business with the domestic object as the insured to the overseas insurers, the turnover shall be the balance of the total insurance premiums received less the premiums paid to the overseas insurers. The overseas insurers should pay Business Tax on the premiums and the tax shall be withheld by the domestic insurers.

h. For the financial leasing units approved by the People's Bank of China or other competent department of the State to engage in financial leasing business, the turnover shall be the balance of the total price and surcharges (including the residual value) received from the lessees after deduction of the cost of the lessons on the leasing (including the purchase price of the goods, Customs Duty, VAT, Consumption Tax, freights, installation charge, insurance premium and loan interest).

i. For agency business, the turnover shall be the considerations received from the principal for agent business.

For those engaged in advertisement agency, the turnover shall be the balance of the total considerations less the advertisement announcement expenses paid to the ad companies or the

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ad announcers.

j. The turnover of the financial enterprises engaged in entrusted collection of payment (like payment of telephone fee, water charge, electric charge, gas charge, tuition fee, insurance premium, taxes) shall be the balance of the total receipts less the sum paid to the entrusting party.

The monitor and administrative charges received by the securities exchange market, goods trade market as ruled and the relevant expenses paid to the stock companies, future trade companies may be deducted from the taxable turnover.

k. Where the labor companies accept the trust of the employing units and arrange the labor force for the units that hand the wages and the social insurance, house reserves over to the labor companies for paying on behalf, the turnover shall be the balance of the total receipts from the units less the wages paid to the labor forces and the social insurance and house reserves paid for the labor forces.

l. The turnover of the installation and construction engineering does not include the value of the equipment. The specific list of the equipment shall be decided by the SAT and the local tax bureaus at provincial level.

m. Where the post and tele-communication units cooperate with other units in providing post and tele-communication services to the users and uniformly receive the charges, the balance of the total receipts of the post and tele-communication units less the payment to the cooperative parties shall be the turnover.

n. For the realty management units, the balance of the total receipts relevant to the realty management less the expenses on water, electricity, gas paid for the owners and the expenses on water, electricity, gas and rental paid for the renters shall be the turnover.

o. Where the units, individuals sell their immovable property acquired (excluding the houses acquired by individuals for less than two years) or transfer the land use right obtained by transfer, the balance of the total sales revenue or the transfer proceeds less the original value of the immovable property or the land use right shall be the turnover.

Where the units, individuals sell their immovable property obtained as debt payment or transfer the land use right obtained as debt payment, the balance of the total sales revenue or the transfer proceeds less the assessed value of the immovable property or the land use right shall be the turnover.

p. Where the logistics enterprises subcontract the business of transportation and warehousing to other units and the logistics enterprises collect the charges, the balance of the total charges collected the logistics enterprises after deduction of the spending on other items shall be basis

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for computing the Business Tax.

q. Other situations as regulated by the Ministry of Finance.

Where the payment of deductible items of turnover occurs in China, the documents for the deductible items have to be invoices or other legal valid documents. In case of payment to overseas, the documents have to be the vouchers for foreign exchanges payment, the receipts signed by the foreign companies or the financial enterprises already paying Business Tax or the loan principals that are not recovered within the accounting time limit under the financial accounting rules may be deducted from the turnover later. The interest receivable already offset and recovered overdue should be included in the turnover of the current period for paying the Business Tax..

The insurance premiums receivable of the insurance enterprises already paying Business Tax that are not recovered within the accounting time limit under the financial accounting rules may be deducted from the turnover. The premium receivable already offset and recovered overdue should be included in the turnover of the current period for paying the Business Tax.

Where the insurance enterprises open the rewarding policy for no compensation case, the premiums received actually from the policy makers shall be the turnover.

The turnover shall be computed in Renminbi. For the turnover settled in foreign currencies, it shall be converted into Renminbi according to the State official exchange rate quoted on the day of settlement or the first day of that month by the People's Bank of China (or the exchange rate worked out in line with relevant regulations), on basis of which the Business Tax payable is computed and paid.

For financial enterprises settling the turnover in foreign currencies, the conversion shall be made according to the exchange rate quoted on the same day of receiving the foreign exchange or at the end of the quarter by the People's Bank of China. For insurance enterprises settling turnover in foreign currencies, the conversion shall be made according to the exchange rate quoted on the same day of receiving the foreign exchange or at the end of the same month by the People's Bank of China.

Taxpayers should determine in advance the conversion rate to be adopted. Once determined, no change shall be allowed within one year.

Where the prices of providing taxable services, transferring intangible assets or selling immovable properties by taxpayers are obviously low without any acceptable reason, the competent tax department shall assess the turnover according to the average prices of providing similar taxable services or selling similar immovable properties by the taxpayers in the current month or in recent time or according to the prices composed of cost plus certain profits, on which the Business Tax

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will be levied.

The formula for computing the composed taxable price is:

$$\text{Composed price} = \text{Business cost or engineering cost} * (1 + \text{Cost/profit ratio}) / (1 - \text{Applicable tax rate})$$

The cost/profit ratio in above formula is decided by the local tax bureaus at provincial level.

For example, Beijing stipulates that the cost/profit ratio is 20% for entertainment business, transfer of intangible assets, sales immovable property and 5% for other taxable item.

In case of payment return after provision of taxable services, transfer of intangible assets or sales of immovable property for which the Business Tax has already levied, the tax may be returned or may be offset against the Business Tax later.



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