

## Tax Outline of WFOEs

Wholly owned foreign enterprises may be obligated to declare and pay the following taxes according to different industries:

### 1. Business Tax

#### 1.1 Taxable items and rates

There are nine taxable items under Business Tax for which all are taxed at flat rates as follows:

**Table of Business Tax Taxable Items and Rates**

Taxable items	Scope of levying	Tax rates
1. Transportation	By land (including railway, road, cable car, cableway), by water (including large river, river, lake, sea) by air, by pipeline, and by loading & unloading and delivery	3%
2. Construction	Including construction, installation, repair, decoration, tele-Communication project on agent, water conservancy, construction of road, dredge, well drilling, removing buildings, flattening soil land, setting up scaffold, dynamite	3%
3. Financial and insurance business	a. Finance: including loans making, financial leasing, transfer of financial products, financial brokerage industry and other financial b. Insurance	5% <sup>①</sup>
4. Post and tele-communications	a. Post. Including delivery of correspondence and packages, postal remittance, issuance of newspaper and magazines, sales of postal items, postal savings. b. Tele-communication. Including telegraph, fax, telephone, installation of telephone, sales of tele-items. c. Express delivery	3%
5. Culture and sports	a. Culture Including performance, broadcasting, exhibition, training, lecturing, lending of books, place for sightseeing. b. Sports. Including organizing sport matches and providing places for sport activities	3%
6. Entertainment	a. Singing halls, karaoke halls ( including night clubs, song practice rooms, love song rooms), music tea houses ( including bars), golf, games and amusement (like shooting, hunting, horse racing, game machines, Bungee Jumping, Karts, hot balloons, powered parachutes, arrow shooting, arrow throw), net bars b. Billiards, bowling	20% 5%
7. Services	Including agency, hotels, catering, tourism, warehousing, leasing, advertising, bathing, haircut, wash coloring, photo, art, picture mounting, copy out, typewriting, engraving, computation, testing, experiment, laboratory test, tape recording, video recording, duplicating, blueprint, design, drawing, surveying, prospecting(excluding aviation, drilling, well digging and explosion prospecting), packaging, consultation	5%
8. Transfer of intangible assets	Including transfer of land-use rights, patent rights, non-patent technologies, trademarks, copyrights, goodwill and film copy and display right	5%
9. Sale of immovable properties	Including sales of buildings and other attachments to land	5%

The copyright and/or other intellectual property rights of China Business Engine including related text, images, charts, sound, animation, and videos, and their arrangement on the China Business Engine website, are protected by copyright and other protective laws.

Note ① In the areas for countryside credit firm reform experiment ( including the 29 provinces, autonomous regions and municipalities directly under the State council except Hainan Province and Tibet), the Business Tax rate for the countryside credit firms may be 3%.

Any adjustment to Business Tax items and rates shall be exclusively made by the State Council.

Where taxpayers are involved in different items eligible for different tax rates, the taxpayers should respectively calculate the turnover, transfer value and/or sales value (hereinafter referred to as turnover) for different taxable items. Otherwise, the tax department shall apply the highest rate in computing the Business Tax payable.

### 1.2. 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:

$$\text{Amount of tax payable} = \text{Turnover} * \text{Applicable tax rate}$$

#### 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:

$$\text{Amount of tax payable} = 2 \text{ million yuan} * 3\% = 60000\text{yuan}$$

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 :

$$\text{Amount of tax payable} = 600,000 * 20\% = 120,000 \text{ yuan}$$

## 2. Individual Income Tax

Foreign staff should pay the individual income tax to tax bureau based on their monthly income. No matter you get money from China or not, you have to submit a monthly income verification letter with your Company letter head to Tax Bureau. Formula:

Taxable income = Monthly wages and salaries – 1600 yuan – Additional deduction (3200 yuan) – Other specified items;

Individual income tax payable = Taxable income × Applicable rate – Quick deduction

### Individual Income Tax Rates (Applicable to wage, salary income)

Grade	Monthly Taxable Income	Tax Rate (%)	Quick Deduction
1	500yuan or less	5	0
2	That part of income over 500 but not over 2,000yuan	10	25
3	That part of income over 2,000 but not over 5,000yuan	15	125
4	That part of income over 5,000 but not over 20,000yuan	20	375
5	That part of income over 20,000 but not over 40,000yuan	25	1,375
6	That part of income over 40,000 but not over 60,000yuan	30	3,375
7	That part of income over 60,000 but not over 80,000yuan	35	6,375
8	That part of income over 80,000 but not over 100,000yuan	40	10,375
9	That part of income over 100,000yuan	45	15,375

The copyright and/or other intellectual property rights of China Business Engine including related text, images, charts, sound, animation, and videos, and their arrangement on the China Business Engine website, are protected by copyright and other protective laws.

#### China Business Engine

Tel +86 21 52289730

Fax +86 21 5228-9730

#### Website

China site: [www.cbize.com](http://www.cbize.com)

Globe site: [www.cbize.net](http://www.cbize.net)

### Tax deductions and exemptions

The following items may be free from the Individual Income Tax:

Income earned by the diplomatic agents( including ambassadors, ministers, charged' affaires, and other staff of embassy with diplomatic title) and consular officers and other personnel in the embassies and consulates in China, who are exempt from tax under the provisions of the relevant laws of China.

The following items are provisionally exempt from Individual Income Tax:

1. The wages and salaries earned by foreign experts which are exempt from tax in accordance with the regulations of the State (such as the workers directly dispatched to China by the World Bank according to the WB loan agreement, the worker directly dispatched by UN to China, the workers dispatched to China by assisting countries for the assistance program, the experts coming to work in China but paid by foreign sources).
2. The house allowances, meal allowances, removal compensation, laundry allowance obtained for foreigners in non – cash form or in reimbursement, the relative visit allowance, language training allowance and children education allowance and the dividends and bonus obtained from the enterprises with foreign investment.

### 3. Value Added Tax

#### 3.1 Taxable items and rates

Please refer to the Table of VAT Taxable Items and Rates.

**Table of VAT Taxable Items and Rates**

<b>Taxable items</b>	<b>Scope</b>	<b>Rate (%)</b>
1)Exported goods	Including all types of exported goods except for some goods(such as: gold, platinum, rare earth metal ores, metallic silicon, molybdenum ore and its refined ores, steel billet, ingot, electrolytic aluminum, light and heavy sintered magnesia, metal alloy, crude oil, raw wood, natural graphite, fluorite, talcum, coke, coking coal, phosphorus, calcium carbide, silicon carbide, urea, cashmere, eel fry and some goods in aid of foreign countries) as ruled and the goods prohibited by the Central Government from exportation (such as: natural bezoars, musk ,copper, copper alloy and etc.). talcum	0
2)Agricultural products	Including grains, vegetables, tobacco (excluding re-cured tobacco), tea (including all kinds of bud tea), horticulture plants, herbs, oil plants, fiber plants, sugar plants, forestry products, other plants, aquatic products, animal husbandry products, animal skins, animal hair and other animal tissues.	13
3)Grain re-products	Including noodle, dumpling wrapper, won ton wrapper, flour wrapper, ground rice	13
4)Edible vegetable oil	Including sesame seed oil, peanut oil, bean oil, vegetable seed oil, sunflower oil, cottonseed oil, corn embryo oil, tea oil, pepper sesame oil and mixed oil made from the above oil	13
5)Tap water		13
6)Heating air, hot air, hot water, cool air	Including the heating, hot gas and hot water produced and recovered by use of industrial heat remainder	13
7)Coal gas	Including charcoal gas, generating coal gas and liquefied petroleum gas	13

The copyright and/or other intellectual property rights of China Business Engine including related text, images, charts, sound, animation, and videos, and their arrangement on the China Business Engine website, are protected by copyright and other protective laws.

**China Business Engine**

Tel +86 21 52289730

Fax +86 21 5228-9730

**Website**

China site: [www.cbize.com](http://www.cbize.com)

Globe site: [www.cbize.net](http://www.cbize.net)

8)Liquefied petroleum gas		13
9)Natural gas	Including gas well natural gas, oil well natural gas, coal well natural gas and other natural gas	13
10)Methane gas	Including natural methane gas and artificial methane gas	13
11)Coal products for resident use	Including ball coal ,cake coal, honeycomb briquette and kindle carbon	13
12)Books, newspaper, magazines	Excluding the newspaper and magazines issued by the post offices	13
13)Feed	Including single feed, mixed feed and compound feed. Excluding the grain and feed additives directly used for raising animals	13
14)Chemical fertilizers	Including nitrogenous fertilizer, phosphate fertilizer, potash fertilizer, compound fertilizer, trace element fertilizer and other fertilizer.	13
15)Agricultural chemicals	Including pesticide, bactericide, weed killer, adjusting element for plant growing, plant chemicals, micro-organic chemicals, health chemicals and other crude agricultural chemicals, preparation of agricultural chemicals	13
16)Farm machinery	Including tractors, soil flatting machinery, machinery for farmland infrastructure construction, planting machinery, machinery for plant protection, harvest machinery (excluding vehicles for agricultural use), animal husbandry machinery, fishery industry machinery (excluding motored vessels), forestry industry machinery (excluding forestry cutting machinery and logging machinery ), small farming tools (excluding parts of agricultural machinery)	13
17)Farm plastic film		13
18) Dressing metal mineral products	Including ferrous metal ores and non-ferrous metal dressing ores	13
19) Dressing non-metal mineral products		13
20)Coal	Including crude coal ,washing coal, dressing coal	13
21)Crude oil	Including natural crude oil and artificial oil	17
22)Mine sale		17
23)other goods	Including the goods sold or imported apart from the above goods	17
24)Services of processing, repairs and replacement		17

Any adjustment to the VAT rates shall be determined by the State Council.

If one taxpayer operates business of both goods and taxable services that are subject to different VAT rates, then the sales values should be accounted separately for goods and services. If not, the tax department shall apply the higher rate at all.

The formula for computing the tax payable is as follows:

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

#### 4. Corporate Income Tax

For manufacturing industry:

Taxable income=Sales profit + Other business profit + non – business income – non – business expenses

Sales profit = Net sales of the products – Sales cost of products – Tax on sales of products – Sales

The copyright and/or other intellectual property rights of China Business Engine including related text, images, charts, sound, animation, and videos, and their arrangement on the China Business Engine website, are protected by copyright and other protective laws.

China Business Engine

Tel +86 21 52289730

Fax +86 21 5228-9730

Website

China site: [www.cbize.com](http://www.cbize.com)

Globe site: [www.cbize.net](http://www.cbize.net)

expenses – Administrative expenses – Financial expenses

For commerce:

Taxable income = Sales profit + Other business profit + Non – business income – Non- business expenses

Sales profit = Net sales – Cost of sales – Tax on sales – Sales expenses- Administrative expenses – Financial expenses

For service industry:

Taxable income = Net business income + Non – business income – Non – business expenses

Net business income = Gross business income – Tax on business income – Business expenses – Administrative expenses – Financial expenses

The taxes listed in the above formulas do not include the price – exclusive VAT at all.

The taxable income for other trades shall be computed with reference to the above formulas.



The copyright and/or other intellectual property rights of China Business Engine including related text, images, charts, sound, animation, and videos, and their arrangement on the China Business Engine website, are protected by copyright and other protective laws.

**China Business Engine**

Tel +86 21 52289730

Fax +86 21 5228-9730

**Website**

China site: [www.cbize.com](http://www.cbize.com)

Globe site: [www.cbize.net](http://www.cbize.net)