

GoGBA go-to guide



Taxation in the Greater Bay Area (II)

Individual income tax, consumption tax and stamp tax

With the development of the Guangdong-Hong Kong-Macao Greater Bay Area 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 individual income tax, consumption tax and stamp tax in the GBA and other provinces and cities in Mainland China (based on the latest official information as of August 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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Individual income tax

What is individual income tax?

Individual income tax is the third-largest tax type in Mainland China, with the first being value-added tax and the second enterprise income tax. A resident individual shall pay individual income tax for any income sourced within and outside the territory of Mainland China according to the provisions of the law; a non-resident individual shall pay individual income tax for any income sourced within the territory of Mainland China according to the provisions of the law.

The <u>Individual Income Tax Law of the People's Republic of China</u>, revised in 2018, makes clear distinctions between resident individuals and non-resident individuals.

Resident individual

Any individual who has a domicile within the territory of Mainland China or who has no domicile but has stayed within the mainland territory for an aggregate of 183 days or longer in a single tax year is considered a resident individual. A resident individual shall pay individual income tax for any income sourced within and outside the territory of Mainland China according to the provisions of the law.

1 January -31 December

of the calendar year



Non-resident individual

Any individual who has no domicile and does not stay within the territory of Mainland China or who has no domicile but has stayed within mainland territory for less than 183 days in aggregate is considered a non-resident individual. A non-resident individual shall pay individual income tax for any income sourced within the territory of Mainland China according to the provisions of the law.

Taxpayer:
Income earner



Withholding agent:

Unit or person that effects the income payment

The new Individual Income Tax Law introduces anti-tax avoidance rules targeting arrangements aimed at reducing, exempting or deferring tax payments.

Taxable items •

Income from wages and salaries

2 Income derived from remuneration for labour

3 Income derived from author's remuneration

4 Income derived from royalties

5 Income derived from business operations

6 Income from interests, dividends and bonuses

Income from the lease of property

Income from the transfer of property

9 Incidental income

Resident individuals

Obtaining income from 1 - 4 listed above, individual income tax

will be calculated on a consolidated basis for the tax year

Non-tax residents Obtaining income from 1 - 4 listed above, individual income tax

will be calculated on the basis of each month or payment

Taxpayers Obtaining income from 5 - 9 listed above, individual income tax

will be calculated separately in accordance with the provisions of the

Individual Income Tax Law

The taxation authority of the State Council shall determine other taxable income items obtained by an individual.

Individual income includes income in cash, income in kind, income in negotiable securities and income in economic benefits of other forms. For income in kind, the amount of taxable income shall be calculated based on the price indicated on the certificate obtained. In case there is no certificate for income in kind or the price indicated on the certificate is evidently low, the amount of taxable income shall be assessed by reference to the market price. For income in negotiable securities, the amount of taxable income shall be assessed based on the par value and market price. For income in economic benefits of other forms, the amount of taxable income shall be assessed by reference to the market price.

Individual income tax rates and computation

Comprehensive income

Progressive tax rate ranging from

3% - 45%

(See the tax rate schedule on P.7)

Business operation income

Progressive tax rate ranging from

5% - 35%

(See the tax rate schedule on P.7)

Income from interests, dividends and bonuses, lease of property and transfer of property and contingent income

Proportional tax rate of

20%

Taxable item

- Income from wages and salaries
- Income derived from remuneration for labour
- 3 Income derived from author's remuneration
- 4 Income derived from royalties

Calculation method (Resident)

Taxable income =
annual income – Rmb60,000
– special deduction items –

- additional special deduction items
- other deduction items

Calculation method (Non-resident)

Taxable income = monthly income – Rmb5,000

Taxable income is based on the income derived from remuneration for labour, author's remuneration and royalties

Taxable item

- 5 Income derived from business operations
- Income from interests, dividends and bonuses
- Income from the lease of property
- 8 Income from the transfer of property
- Incidental income

Calculation method (Resident and non-resident)

Taxable income = total income - costs and expenses - losses

Taxable income = amount received in each payment

Taxable income = amount received in each payment – Rmb800 = amount received in each payment – amount received in each payment x 20%

Taxable income = income - original value - reasonable expenses

Taxable income = amount received in each payment

- Where a tax resident obtains income from items 1 to 4 in the above table (hereinafter referred to as "comprehensive income"), the individual income tax for that tax year shall be calculated on a consolidated basis. Where a non-tax resident obtains income from items (1) to (4) in the above table, the individual income tax shall be calculated on the basis of each month or payment. Where a taxpayer obtains income from items 5 to 9 in the above table, the individual income tax shall be calculated separately in accordance with the provisions of the Individual Income Tax Law.
- The taxable amount of income derived from remuneration for personal services, author's remuneration and royalties shall be the balance thereof after a 20% deduction. (For amount received in each payment under Rmb4,000, taxable income = amount received in each payment – Rmb800; for amount received in each payment over Rmb4,000 (included), taxable Income = amount received in each payment x (1-20%).)
- The amount of income derived from author's remuneration shall be calculated at 70%.

Individual income tax exemption and reduction items • •

Individual income tax exemption items

- A Awards for achievements in such fields as science, education, technology, culture, public health, sports and environmental protection granted by people's governments at the provincial level, ministries and commissions under the State Council, units of the Chinese People's Liberation Army at or above the corps level, or by foreign or international organisations
- Interest on national debts and financial debentures issued by the State
- Subsidies and allowances given according to the uniform regulations of the State
- 3 4 5 6 Welfare benefits, pensions for the family of the deceased and relief payments
- Insurance indemnities
- Military severance pay and demobilisation pay for army personnel
- Settlement pay, severance pay, retirement pay, as well as full-pay retirement pension for veteran cadres and their living allowances, received by cadres, staff and workers according to the uniform regulations of the State
- 8 Income, exempted from tax according to the provisions of the relevant laws of Mainland China, of diplomatic representatives and consular officers and other personnel of foreign embassies and consulates in Mainland China
- Income exempted from tax as stipulated in the international conventions to which the Chinese 9 Government has acceded or in agreements it has signed
- 10 Other income exempted from tax with the approval of the department of finance under the State Council

The above 10 items of tax exemption are submitted by the State Council to the Standing Committee of the National People's Congress for record-filing.

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According to <u>Announcement No. 10 issued by the Ministry of Finance and the State Taxation Administration on the Income Tax Policies for Supporting Epidemic Prevention and Control</u>, the following items shall be exempted from individual income tax:

- 1 Temporary work subsidies and bonuses received by medical staff and epidemic prevention and control workers in accordance with government-prescribed standards for participation in epidemic prevention and control are exempt from individual income tax. Government-prescribed standards include the standards of subsidies and bonuses set by the governments at all levels. Temporary work grants and bonuses for personnel involved in epidemic prevention and control as prescribed by the provincial and higher-level governments shall be applied mutatis mutandis.
- 2 The medicine, medical supplies and protective gear (excluding cash) given to individuals for the prevention of pneumonia caused by novel coronavirus infection shall not be counted as income from wages and salaries and shall be exempt from personal income tax.

Individual income tax reduction items

Individual income tax may be collected at a reduced rate under any of the circumstances listed below. The degree of tax reduction and the validity period thereof shall be determined by the people's government of a province, autonomous region or municipality directly under the Central Government, and be submitted to the standing committee of the people's congress at the same level for record-filing:

- Income paid to the disabled, the elderly living alone, and family members of martyrs
- Income paid to those who suffers huge losses as a result of natural disaster
- The State Council may specify other circumstances for tax reduction and require them to be submitted to the Standing Committee of the National People's Congress for record-filing

Tax payable calculation for individual income tax • •

Tax payable calculation for comprehensive income							
Grade	Taxable income (tax included)	Taxable income (tax excluded)	Rate (%)	Quick calculation deduction			
1	Not over Rmb3,000	Not over Rmb2,910	3	0			
2	Over Rmb3,000 to 12,000	Over Rmb2,910 to 11,010	10	210			
3	Over Rmb12,000 to 25,000	Over Rmb11,010 to 21,410	20	1,410			
4	Over Rmb25,000 to 35,000	Over Rmb21,410 to 28,910	25	2,660			
5	Over Rmb35,000 to 55,000	Over Rmb28,910 to 42,910	30	4,410			
6	Over Rmb55,000 to 80,000	Over Rmb42,910 to 59,160	35	7,160			
7	Over Rmb80,000	Over Rmb59,160	45	15,160			

Note 1: Annual taxable income referred to in the above table refers to the balance of the comprehensive income of a resident individual after deducting expenses of Rmb60,000 and special deductions, special additional deductions and other deductions determined in accordance with the law for each tax year in accordance with Article 6 of the Individual Income Tax Law of the People's Republic of China.

Note 2: Non-resident individuals who receive income from wages and salaries, labour remuneration, author's remuneration and royalties shall calculate the tax payable after monthly conversion in accordance with the above table.

Tax payable calculation for business operation income							
Bracket	Taxable income (tax included)	Taxable income (tax excluded)	Rate (%)	Quick calculation deduction			
1	Not over Rmb3,000	Not over Rmb28,500	5	0			
2	Over Rmb30,000 to 90,000	Over Rmb28,500 to 82,500	10	1,500			
3	Over Rmb90,000 to 300,000	Over Rmb82,500 to 250,500	20	10,500			
4	Over Rmb300,000 to 500,000	Over Rmb250,500 to 390,500	30	40,500			
5	Over Rmb500,000	Over Rmb390,500	35	65,500			

Note: Annual taxable income referred to in the above table refers to the balance after deducting costs, expenses and losses from the total income in each tax year in accordance with Article 6 of the Individual Income Tax Law of the People's Republic of China.

Preferential Individual Income Tax (IIT) Policy for the GBA

Based on the spirit of the Notice on Preferential Individual Income Tax Policy for the Guangdong-Hong Kong-Macao Greater Bay Area (Caishui [2019] No.31), the Guangdong Department of Finance, the Guangdong Department of Science and Technology Department, the Guangdong Department of Labour and Social Security and other relevant authorities issued the Notice on Continuing to Implement the Preferential Individual Income Tax Policy in the Guangdong-Hong Kong-Macao Greater Bay Area (Yuecaishui [2019] No.31)* on 31 December 2020.

The authorities announced that they would continue to implement the preferential IIT policies in the GBA, provide overseas high-level and urgently-needed talents (including Hong Kong and Macao permanent residents) who work in the GBA with subsidies according to the difference between one's IIT paid on eligible personal income and 15% of the taxable value of the same eligible income and grant IIT exemption treatment for the subsidies.

Subsidy amount = Amount of IIT paid on eligible personal income – the taxable value of eligible personal income × 15%

Notice on Preferential Individual Income Tax Policy for the Guangdong-Hong Kong-Macao Greater Bay Area (Caishui [2019] No.31)

http://www.chinatax.gov.cn/n810341/n810755/c4148969/content.html

Notice on Continuing to Implement the Preferential Individual Income Tax Policy in the Guangdong-Hong Kong-Macao Greater Bay Area (Yuecaishui [2019] No.31)

http://czt.gd.gov.cn/gkmlpt/content/3/3164/post_3164405.html#86



* The Notice is valid from 1 January 2020 to 31 December 2023.

The annual taxable income of individually owned businesses not exceeding Rmb1,000,000 shall be subject to one-half reduced individual income tax

For individually owned businesses, individual income tax on the portion of annual taxable income not exceeding Rmb1,000,000 will be halved based on the preferential policy already in force. These preferential policies are effective between 1 January 2021 and 31 December 2022.

Tax reduction and exemption calculation:

Tax reduction and exemption =

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tax payable on the part of the business income of individually owned of businesses not exceeding Rmb1 million

tax credit from other policies other policies exceeding Rmb1 million

tax credit from other policies exceeding Rmb1 million

tax able income of individually owned businesses not exceeding Rmb1 million
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Note: The amount of tax reduction and exemption is entered into the "Amount of Tax Reduction and Exemption" column of the corresponding business income tax return, with the attachment of the "Individual Income Tax Reduction and Exemption Report Form".

Policy basis:

- 1. <u>Announcement of the Ministry of Finance and the State Taxation Administration on Implementing the Preferential Income Tax Policies for Small Low-Profit Enterprises and Individually-owned Businesses (Announcement No. 12 [2021])</u>
- 2. <u>Announcement of the State Taxation Administration on Matters Concerning the</u>
 <u>Implementation of Preferential Income Tax Policies Supporting the Development of Small Low-Profit Enterprises and Individually-owned Businesses (Announcement No.8 [2021])</u>

Consumption tax

What is consumption tax?

Units and individuals that produce, process under contracts or import the consumption goods prescribed in the Interim Regulation of the People's Republic of China on Consumption Tax in the People's Republic of China and other units and individuals that sell the consumption goods as prescribed in the regulation as determined by the State Council shall be consumption taxpayers, and shall pay consumption tax according to the regulation.

Taxable items

Units and individuals that produce, process under contracts, retail or import the following taxable consumption goods in Mainland China:





























Tax rates for consumption tax

Consumption tax items and rates shall be governed by the Schedule of Consumption Tax Items and Rates. The corresponding tax rates or unit tax amounts are determined according to different tax items or subitems by using proportional tax rates and fixed tax rates:

Proportional tax rate:

Specific tax:

5% - 35% Rmb0.1 - 250



Tax payable calculation

The payable amount of consumption tax shall be calculated by volume or by value, or a combination of the two (hereinafter referred to as composite method). The formulas are:

For tax payable by volume, taxes payable = sales value × proportional tax rate

For tax payable by value, taxes payable = quantity of sales × specific tax

For the composite method, taxes payable = sales value × proportional tax rate + quantity of sales × specific tax



The taxes payable on the taxable consumption goods sold by a taxpayer shall be calculated in renminbi. Where any taxpayer calculates it in a currency other than renminbi, the amount shall be converted into renminbi. The taxes payable on imported taxable consumption goods shall be calculated on the basis of the composite taxable value. If the taxable amount is calculated by volume, the composite taxable value shall be calculated according to the following formula:

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Composite taxable value = (customs value + tariff) ÷
(1 – proportional consumption tax rate)
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If the composite method is adopted to calculate the taxable amount, the composite taxable value shall be calculated according to the following formula:

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Composite taxable value = (customs value + tariff + import quantity × specific consumption tax) ÷

(1 – proportional consumption tax rate)
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Export policies and preferential tax

- Exemption and rebate: exportation of goods by foreign trade enterprises with export rights
- Exemption but no rebate: exportation of goods produced by production enterprises with export rights; or such goods exported by foreign trade enterprises as commissioned by foreign enterprises
- No exemption and no rebate: the exportation of taxable goods by other commercial and trading enterprises
- Consumption tax payable by enterprises that produce saloon cars, off-road vehicles and minibuses with low pollution emissions is reduced by 30%

Consolidated declaration of value-added tax and consumption tax

Starting from 1 August 2021, value-added tax and consumption tax are eligible for consolidated declaration with urban maintenance and construction tax, education surcharges and local education surcharges, respectively. The Value-Added Tax and Surcharges Return (Applicable to General Taxpayers), Value-Added Tax and Surcharges Return (Applicable to Small-Scale Taxpayers), Value-Added Tax and Surcharges Prepayment Return and the Schedules Thereto, and Consumption Tax and Surcharges Return are also launched.

Stamp tax

What is stamp tax •

Entities and individuals that conclude taxable certificates or conduct securities transactions within the territory of Mainland China, or entities or individuals outside the territory of Mainland China that conclude taxable certificates that are used within the territory of Mainland China shall be taxpayers of stamp tax, and shall pay stamp tax in accordance with the provisions of the Stamp Tax Law of the People's Republic of China.

"Taxable certificates" refer to the contracts, certificates of property rights transfer and business account books listed in the Table of Taxable Items and Tax Rates for Stamp Tax as attached to the Stamp Tax Law of the People's Republic of China. "Securities transactions" refer to the transfer of stocks and stock-based depositary receipts that are traded on legally-established stock exchanges and other nationwide securities trading venues approved by the State Council.*

* Stamp tax on securities transactions shall be imposed on the transferor instead of the transferee of a securities transaction.

Stamp tax calculation and tax rates • • • • • •

The taxable items and tax rates for stamp tax shall be implemented according to the Table of Taxable Items and Tax Rates for Stamp Tax as attached to the Stamp Tax Law of the People's Republic of China. The amount of stamp tax payable shall be calculated by multiplying the tax basis by the applicable tax rate.

The tax basis for stamp tax include:

- 1 The tax basis for a taxable contract shall be the amount listed in the contract, excluding the amount of value-added tax listed*
- 2 The tax basis for a taxable certificate of property rights transfer shall be the amount listed in the certificate of property rights transfer, excluding the amount of value-added tax listed*
- 3 The tax basis for a taxable business account book shall be the aggregate amount of the paid-up capital (capital stock) plus the amount of the capital reserves recorded in the business account book

- 4 The tax basis for a securities transaction shall be the transaction value
- * Where a taxable contract or a certificate of property rights transfer does not list the amount, the tax basis for stamp tax shall be determined according to the amount actually paid.

The following documents are exempt from stamp tax:

- Duplicates or transcripts of taxable certificates
- 2 Taxable certificates concluded by foreign embassies, consulates or representative offices of international organisations in China for the acquirement of premises, which shall be exempt from taxes in accordance with laws
- 3 Taxable certificates concluded by the Chinese People's Liberation Army and the Chinese People's Armed Police Force
- 4 Sales contracts for the purpose of purchasing agricultural means of production or selling agricultural products and agricultural insurance contracts, which are concluded by farmers, family farms, farmers' professional cooperatives, rural collective economic organisations and villagers' committees
- 5 Interest-free loan contracts or loan contracts with discount interest, and the loan contracts concluded by international financial institutions for providing preferential loans to China
- 6 Certificates of property rights transfer concluded by property owners for donating property to government, schools, social welfare institutions, and charitable organisations
- Sales contracts concluded by non-profit health institutions for the procurement of drugs or medical materials
- 8 Electronic orders concluded by individuals and e-commerce operators

The State Council may, according to the needs of national economic and social development, prescribe stamp tax reduction or exemption in cases such as meeting residents' housing demands, carrying out restructuring and reorganisation of enterprises, bankruptcy, and supporting the development of small and micro enterprises, and shall submit such reductions or exemptions to the Standing Committee of the National People's Congress for the record.

Taxable item	Tax rate	Remarks
Contracts (referring to written contracts):		
Loan contracts	0.005% of the loan amount	Referring to loan contracts concluded between a banking financial institution or any other financial institution established upon approval of the banking regulatory authority of the State Council and a borrower (excluding interbank lending contracts)
Financing lease contracts	0.005% of the rent	
Sales contracts	0.03% of the price	Referring to contracts on the sale of movable property (excluding contracts on the sale of movable property, to which one party is an individual)
Work contracts	0.03% of the remuneration	
Construction project contracts	0.03% of the price	
Transport contracts	0.03% of transportation costs	Referring to freight contracts of multi- modal transport contracts (excluding pipeline transport contracts)
Technology contracts	0.03% of the price, remuneration or royalty	Excluding certificates of transfer of patent rights and rights to use technological know-how
Lease contracts	0.1% of the rent	
Contracts for custody of property	0.1% of the safekeeping fee	
Warehousing contracts	0.1% of the warehousing fee	
Property insurance contracts	0.1% of the insurance premium	Excluding reinsurance contracts

Taxable item

Certificates of property rights transfer:

Certificates of assignment of land use right

Certificates of transfer of land use right and ownership of constructions and structures such as buildings (excluding the transfer of rights to contractual management of land and rights to management of land)

Certificates of equity transfer (excluding those subject to stamp tax on securities transactions)

Certificate of transfer of the exclusive right to use trademarks, copyrights, patent rights and rights to use technological know-how

Tax rate

0.05% of the price

0.05% of the price

0.05% of the price

0.03% of the price

Remarks

Transfer shall include trading (sale), inheriting, gift, exchange and partition

Taxable item

Business account books

Securities transactions

Tax rate

0.025% of the aggregate amount of paid-up capital (capital stock) plus the amount of the capital reserves

0.1% of the transaction value

Remarks



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

Guangzhou Tax Service, State Taxation Administration – Expats in China: How Do You Pay Taxes (video)

https://guangdong.chinatax.gov.cn/gdsw/gzsw_yjl_zczy_sszn/2021-09/22/content_5d722bf0f7b6430a985d34b282fa8daa.shtml

Preferential Individual Income Tax (IIT) Policies in the Guangdong-Hong Kong-Macao Greater Bay Area

http://www.cnbayarea.org.cn/service/tax/#page/1

State Taxation Administration- Guidelines for the Consolidation of Value-Added Tax, Consumption Tax, Surtax and Surcharges Returns

http://www.chinatax.gov.cn/chinatax/n810351/n810906/c5168154/content.html

Authority of Qianhai Shenzhen-Hong Kong Modern Service Industry Cooperation Zone of Shenzhen Municipality - Preferential Individual Income Tax Policies

http://qh.sz.gov.cn/tzqh/yhzc/gsyh/

Application Guidelines for the Preferential Individual Income Tax Policy in the Guangdong Hong Kong - Macao Greater Bay Area of the Zhuhai Municipality

http://www.zhuhai.gov.cn/zw/fggw/zfgb/2019n/201912/zcjd/content/post_2532385.html

Richful Deyong

http://www.rf.hk/

























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]

