

*The People's  
Republic of China*  
Tax Facts and Figures – 2015



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## ***Foreword***

This booklet has been prepared to provide the reader with an overview of taxes levied in the People's Republic of China. The material contained in this publication was assembled on 1 January 2015 and, unless otherwise indicated, is based on information available at that time. It is not intended to cover exhaustively the subjects it addresses but rather to answer some of the important, broad questions that may arise for the reader. When specific issues arise in practice, it will be necessary to refer to the laws, regulations and interpretations of the PRC. Since the laws and regulations are still evolving and are not always uniformly interpreted, it is advisable to obtain appropriate professional advice.

If you would like more information on any of our services described on pages 25 to 26, please contact one of our specialists listed at the back of this booklet.

The commentary in this booklet does not cover taxes levied in Hong Kong and Macau, which became Special Administrative Regions of the PRC on 1 July 1997 and 20 December 1999 respectively. Hong Kong and Macau continue to retain their own tax systems and the taxes applicable in Mainland China do not apply in Hong Kong and Macau.

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# Overview

## *An overview of PRC taxes*

The People's Republic of China levies a wide range of taxes including income taxes (corporate income tax and individual income tax), turnover taxes (value added tax, business tax and consumption tax), taxes on real estates (land appreciation tax, real estate tax, arable land occupation tax, and urban and township land-use tax) and other taxes such as deed tax, stamp duty, custom duties, motor vehicle acquisition tax, vehicle and vessel tax, resource tax, urban construction and maintenance tax, vessel tonnage tax and tobacco tax.

There is no capital gains tax as such in the PRC. Gains on the sale of fixed assets are taxable as ordinary income.

## *Tax administration*

China's major tax laws are passed by the People's Congress, and the implementation regulations are formulated by the State Council. The Ministry of Finance ("MOF") and the State Administration of Taxation ("SAT") are delegated to provide interpretation and implementation of the tax laws and regulations. Meanwhile the SAT is also responsible for supervising the enforcement of the tax collection at the local levels.

The tax administration of enterprises, including domestic enterprises, foreign investment enterprises ("FIEs") and foreign enterprises ("FEs"), and individuals, including Chinese residents and foreign residents is administered by two separate lines of tax bureau, namely the local branches of the SAT and the local branches of the Local Tax Bureau. Generally, value added tax ("VAT") is administered by the local branches of the SAT whereas business tax ("BT"), individual income tax ("IIT") and other local taxes are administered by the local branches of the Local Tax Bureau. With the introduction of the corporate income tax ("CIT") in 2008, the allocation of administration duties of CIT are as follows: for enterprises established before 1 January 2009, CIT is generally handled by the local branches of the SAT; for enterprises established on or after 1 January 2009, CIT of enterprises which are mainly VAT taxpayers is generally administered by the local branches of the SAT, while CIT of enterprises which are mainly BT taxpayers is generally administered by the local branches of the Local Tax Bureau. There are adjustments and variations adopted in the tax administration from time to time.

## *Investment restrictions on foreign investors*

Foreign companies, enterprises or individuals may, subject to approval from the Ministry of Commerce or other relevant ministries, establish equity joint ventures, contractual joint ventures or wholly foreign-owned enterprises in the PRC. Starting from 1 March 2010, foreign investors are allowed to establish partnerships in China.

## Overview

The minimum registered capital of a FIE is as follows:

Amount of total investment	Minimum registered capital
US\$3 million or less	70% of total investment
US\$3-10 million	Higher of US\$2.1 million or 50% of total investment
US\$10-30 million	Higher of US\$5 million or 40% of total investment
More than US\$30 million	Higher of US\$12 million or 33.3% of total investment

According to the Industry Catalogue Guide for Foreign Investment, foreign investment is categorised as encouraged, permitted, restricted and prohibited. Listed below are some examples of the industries covered in each category.

**Encouraged:** certain agriculture, forestry, animal husbandry and fisheries projects; mining; certain manufacturing projects; production and supply of electricity, heat, gas and water; certain transportation and warehousing services; leasing and commercial service; scientific research and technical service; water, environment and public facility management; vocational skills training; service organisations for elders, handicapped and children; rest homes; certain cultural, sports and entertainment business, etc.

**Restricted:** breeding and seeds developing of new types of crop; exploration and mining of precious metal and certain ores; certain manufacturing projects (e.g. manufacturing of specified medicines, printing of publications, etc.); certain production and supply of electricity, heat, gas and water; certain transportation and telecommunications services; wholesale and retail of certain goods; banking, insurance and securities businesses; market surveys, credit investigation and rating services companies; surveying and mapping companies; higher education, high-school and pre-school educations; medical institutions; certain cultural, sports and entertainment industries and other industries that are restricted by the State or by international treaties concluded or acceded to by China; etc.

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## Overview

**Prohibited:** certain agriculture, forestry, animal husbandry and fisheries (e.g. breeding and growing of precious, high-quality breeds, production and development of genetically modified plants' seeds, etc.); mining (e.g. exploration and exploitation of radioactive minerals, rare earth, tungsten, molybdenum, tin, antimony, fluorite, etc.); certain manufacturing projects (e.g. manufacturing of Chinese patent medicine of secret prescriptions; weapons and ammunition, etc.); certain production and supply of electricity, heat, gas and water, air traffic control; postal services; wholesale and retail of tobacco products; social investigation; consulting on Chinese legal affairs; compulsory education; certain scientific research and geological exploration; certain cultural, sports and entertainment industries (e.g. news agencies, gambling, pornography, publication of books and newspaper, publication and production of audio visual products and electric publications; online publication services; auction houses and shops engaged in cultural relics, etc.) and other industries that are prohibited by the State or by international treaties concluded or acceded to by China; etc.

**Permitted:** not falling within encouraged, restricted or prohibited.

### ***Pilot Free Trade Zones***

The China (Shanghai) Pilot Free Trade Zone was officially launched on 29 September 2013. Foreign investment enterprises in the zone are applicable to a “negative list” instead of the Industry Catalogue for Foreign Investment. Except for the sectors specified in the ‘negative list’, all foreign investment enterprises and projects are subject to a record-filing system instead of the normal approval system. The government has decided to launch the second batch of free trade zones (“FTZ”) including Guangdong FTZ, Tianjin FTZ, Fujian FTZ and the extended area of Shanghai FTZ.

## ***Corporate income tax (“CIT”) law***

The CIT law which took effect from 1 January 2008 consolidates the two former separate enterprise income tax regimes, one for domestic-invested enterprises and one for FIEs and FEs, into a single regime.

### ***Concept of tax resident enterprise (“TRE”)***

Tax resident enterprise (“TRE”) is a new concept in the CIT Law. TRE refers to an enterprise established according to the Chinese law or an enterprise established according to foreign laws but with its effective management located in China. TREs are subject to CIT on worldwide income while non-TREs only on China sourced income. Enterprises registered in China are always TRE. A FE with effective management in China may also be regarded as a TRE.

### ***Tax rate for TREs***

The standard CIT rate is 25%. Lower tax rates are available for qualified enterprises (please refer to “Tax incentive policies” below).

### ***Withholding income tax rate for non-TREs***

Withholding income tax (“WHT”) rate for passive income derived by Non-TREs is 20% under the CIT Law and is reduced to 10% under the Detailed Implementation Regulations (“DIR”) of the CIT Law. This unilaterally concessionary WHT rate is applicable to dividend, interest, rental, royalty, and other passive income such as the gains from the sale or transfer of real estate property, land use right and shares in a PRC company. Dividends distributed by a FIE out of its pre-2008 profit are exempted from WHT.

WHT rates may be lower than 10% or exempted under a tax treaty.

### ***Tax incentive policies***

The CIT regime adopts the “predominantly industry-oriented, limited geography-based” tax incentive policy. Key emphasis is placed on “industry-oriented” incentives aiming at directing investments into those industry sectors and projects encouraged and supported by the State. The tax incentive policies mainly include:



# Corporate income tax (“CIT”) law

## Tax reduction and exemption

CIT may be reduced or exempted on income derived from the following projects:

Projects/industries	CIT incentive <sup>3</sup>	Valid period
Agriculture, forestry, animal-husbandry and fishery projects	Exemption or 50% reduction	All years as long as it is engaged in these projects
Specified basic infrastructure projects <sup>1</sup>	3+3 years tax holiday	Starting from the first income-generating year
Environment protection projects and energy/water conservative projects <sup>2</sup>	3+3 years tax holiday	Starting from the first income-generating year
Qualified new/high tech enterprises established in Shenzhen, Zhuhai, Shantou, Xiamen, Hainan and Pudong New Area of Shanghai newly established after 1 January 2008	2+3 years tax holiday	Starting from the first income-generating year
Software enterprises	2+3 years tax holiday	Starting from the first profit-making year
Integrated circuits (“IC”) design enterprises	2+3 years tax holiday	Starting from the first profit-making year
IC production enterprises with a total investment exceeding RMB8 billion, or which produce IC with a line-width of less than 0.25um provided that its operation period exceeds 15 years	5+5 years tax holiday	Starting from the first profit-making year
IC production enterprises which produce IC with a line-width of less than 0.8um	2+3 years tax holiday	Starting from the first profit-making year
Qualified energy-saving service enterprises	3+3 years tax holiday	Starting from the first income-generating year
Encouraged enterprises in underprivileged areas of Xinjiang	2+3 years tax holiday	Starting from the first income-generating year
Projects involving clean development mechanism (“CDM”)	3+3 years tax holiday	Starting from the first year during which the first disposal of certified emission reduction units takes place

### Notes:

1. Including harbour, wharf, airport, railway, highway, city public transportation, electric power, water resources utilisation projects, etc.
2. Including public sewage treatment, public refuse treatment, comprehensive development and utilisation of methane, technologies alteration for energy-saving and emission reduction, seawater desalination projects, etc
3. “2 + 3 years tax holiday” refers to two years of exemption from CIT followed by three years of 50% reduction of CIT; similarly, “3 + 3 years tax holiday” refers to three years of exemption plus three years of 50% reduction of applicable CIT.

## **Corporate income tax (“CIT”) law**

For income derived by a TRE from the transfer of qualified technology in a tax year, the portion that does not exceed RMB5 million shall be exempted from CIT; and the portion that exceed RMB5 million shall be allowed a half reduction of CIT.

CIT is exempted on dividend derived by a TRE from the direct investment into another TRE except for the case that the investment income is from stocks publicly traded on the stock exchanges and the holding period is less than 12 months.

CIT is exempted on income derived by non-profit-making organisations from engaging in non-profit-making activities.

### **Reduced tax rate**

Qualified new/high tech enterprises are applicable to the reduced CIT rate of 15%. An enterprise has to fulfil a set of prescribed criteria and be subject to assessment in order to be qualified as a new/high tech enterprise.

IC production enterprises with a total investment exceeding RMB8 billion, or which produce integrated circuits with a line-width of less than 0.25um are applicable to the reduced CIT rate of 15%.

Key software enterprises and IC design enterprises are eligible for a reduced CIT rate of 10%. An enterprise has to fulfil a set of prescribed criteria and be subject to an assessment in order to qualify as a key software enterprise or key IC design enterprise.

From 1 January 2009 to 31 December 2018, qualified technology-advanced service enterprises in 21 cities (such as Beijing, Shanghai, Tianjian, Guangzhou, Shenzhen, etc.) are applicable to a reduced CIT rate of 15%.

Enterprises established in the Qianhai Shenzhen-Hong Kong Modern Services Industry Cooperation Zone are applicable to a reduced CIT rate of 15% provided that the enterprise is engaged in projects that fall within the Catalogue for CIT Preferential Treatments of the zone.

Enterprises established in Zhuhai’s Hengqin New Area are applicable to a reduced CIT rate of 15% provided that the enterprise is engaged in projects that fall within the Catalogue for CIT Preferential Treatments of the area.

Enterprises established in the Pingtan Comprehensive Experimental Zone of Fujian Province are applicable to a reduced CIT rate of 15% provided that the enterprise is engaged in projects that fall within the Catalogue for Encourage Industries of the zone.

From 1 January 2011 to 31 December 2020, encouraged enterprises in the Western Regions are eligible for a reduced preferential CIT rate of 15%.

## ***Corporate income tax (“CIT”) law***

Qualified small and thin-profit enterprises are applicable to the CIT rate of 20%. If the annual taxable income is less than RMB 200,000, the CIT rate is further reduced to 10% from 1 January 2015 to 31 December 2017.

### **Reduction of revenue**

Where an enterprise uses resources specified by the State as its major raw materials to produce non-restricted and non-prohibited products, only 90% of the total income derived may be assessed as taxable total income.

### **Offset of certain venture capital investment**

For a venture capital enterprise that makes an equity investment in a non-listed small-to-medium sized new/high tech enterprise for more than 2 years, 70% of its investment amount may be used to offset against the taxable income of the venture capital enterprise in the year after the holding period has reached 2 years. Any portion that is not utilised in that year may be carried forward and deductible in the following years.

### **Investment tax credit**

Enterprises purchasing and using plant and machinery specified by the State for environmental protection, energy and water conservation, or production safety purposes may claim 10% of the investment in such equipment to offset against its CIT payable.

## ***Tax deductions and other treatments***

### **Depreciation**

Wear and tear allowances are granted on fixed assets and other capital assets used in the production of income. Production-nature biological assets are also classified as capital assets under the CIT regime and can also be depreciated. Generally the straight-line method of depreciation is allowed.

Depreciation on fixed assets and production-nature biological assets is computed beginning from the month following that in which the assets are put into use and ceasing from the month following that in which the assets are no longer used.

## Corporate income tax (“CIT”) law

Minimum depreciation periods for different kinds of assets are specified as follows:

Buildings and structures	20 years
Aircrafts, train, vessels, machinery, mechanisms and other production equipment	10 years
Appliances, tools, furniture, etc,	5 years
Means of transport other than aircrafts, trains and vessels	4 years
Electronic equipment	3 years
Production-nature biological assets in the nature of forestry	10 years
Production-nature biological asset in the nature of livestock	3 years

### Accelerated depreciation

Shorter tax depreciation life or accelerated depreciation is allowed for particular types of fixed assets due to advancement of technology or suffering from constant vibration or severe corrosion. Effective from 1 January 2014, certain fixed assets acquired on or after 1 January 2014 by companies in certain specified industries may be expensed-off in one lump sum in the year of acquisition or be depreciated with shorter appreciation life or under accelerated depreciation method.

Where shorter depreciation period method is applied, the minimum depreciation period shall not be less than 60% of the minimum depreciation period as prescribed in the CIT Law; where accelerated depreciation method is applied, double declining balance method or sum-of-years-digits method may be used.

### Intangibles

Intangible assets are amortised by the straight-line method over a period of not less than ten years or the stipulated time limit set out in the contract or agreement under which use of the intangible asset is made available.

Purchased goodwill is not deductible until the enterprise is entirely transferred or liquidated.

# **Corporate income tax (“CIT”) law**

## **Payments to affiliates**

Management fee of stewardship nature are not deductible. However, service fees paid for genuine services provided by affiliates in China or overseas and charged at arm’s length may be allowed for deduction. Other payments to affiliates, such as royalties, are also tax-deductible provided that the charges are at arm’s length.

## **Interest on loans**

Interest on loans is generally deductible. For interest expenses on borrowings from non-financial institutions by a non-financial institution, the portion that does not exceed the commercial rate is deductible.

Interest of capital nature has to be capitalised and depreciated or amortised.

The deductions of interest paid to related parties are subject to the thin capitalisation rule under the CIT law (see explained below).

## **Entertainment**

60% of the actually incurred entertainment expense is deductible but the deduction shall not exceed 0.5% of the sales or business income of that year.

## **Commercial insurance premiums for individuals**

Commercial insurance premium paid for employees and individual investors of an enterprise is not deductible unless it is paid for safety insurance for workers conducting special types of works.

## **Advertising and business promotion expenses**

Advertising expenses and business promotion expenses are deductible up to 15% (30% for certain industries) of the sales (business) income of that year unless otherwise prescribed in the tax regulations. Any excess amount is allowed to be carried forward and deductible in the following tax years.

## **Asset loss**

Asset loss (including bad debt loss) may be deductible in the tax year during which such loss is incurred, provided that supporting documents are submitted to the in-charge tax bureau before/during annual income tax reconciliation filing.

# **Corporate income tax (“CIT”) law**

## **Charitable donations**

Charitable donations are tax-deductible up to 12% of the annual accounting profit.

## **Super deductions**

R&D expenses incurred by an enterprise for new technology, new products or new craftsmanship are deductible. An extra 50% of the actual expenses incurred by the enterprise is also deductible as an incentive.

Also as incentive, 200% of the actual salary expenses paid to handicapped staff are deductible.

## **Other non-deductible expenses**

Provisions for asset impairment reserves (e.g. bad debt provisions) and risk reserves are generally not deductible unless otherwise prescribed in the tax regulations. Financial institutions and insurance companies may deduct certain provisions and reserves subject to the caps specified in the relevant tax circulars.

Non-advertising in nature and non-charitable in nature sponsorship expense is non-deductible.

## **Inventory valuation**

Inventory of commodities, finished products, work-in-progress, semi-finished goods and raw materials of an enterprise must be valued according to costs. In computing the cost of inventories that are sold or used for delivery, the enterprise may choose one of the following methods: first-in first-out, weighted average or specific identification.

## **Loss carryovers**

Tax losses incurred by an enterprise may be carried forward for a period of up to five years, subsequent to the year of the loss.

## **Treatment of dividends**

Dividends between TREs are not taxable except for the case that the dividend is from stocks publicly traded on the stock exchanges and the holding period is less than 12 months.

## **Currency**

CIT is computed in renminbi (RMB) currency. Income in foreign currency is converted into RMB for tax payment purposes.

Exchange gains or losses are generally taxable or deductible regardless whether realised or unrealised unless otherwise prescribed by the tax regulations.

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## ***Corporate income tax (“CIT”) law***

### **Deemed taxable income**

If an enterprise cannot submit complete and accurate documentation of its costs and expenses to enable its taxable income to be calculated, the Chinese tax authorities may assess a taxable income. Normally, a deemed profit percentage is applied to its gross income or turnover. This deemed profit percentage will vary depending on the industry in which the enterprise operates and will usually be between 3% and 30% for TREs and between 15% and 50% for non-TREs .

### **Foreign tax credit**

A TRE may credit against the PRC tax payable the foreign income tax already paid overseas in respect of income derived from sources outside the PRC based on a country-basket principle. However, the creditable amount may not exceed the amount of income tax otherwise payable in the PRC in respect of the non-China sourced income.

### ***Corporate restructuring***

Generally, gains (or losses) of all corporate restructuring (including debt restructuring, share acquisition, assets acquisition, merger and spin-off) shall be subject to CIT (deductible for CIT purposes) when the transaction takes place. Fair value shall be used to determine the gains or losses. Restructuring transactions meeting certain prescribed conditions are eligible for concessionary treatment, i.e. the realisation of the gain arising from the corporate restructuring may be deferred wholly or partly to later years, and the resulting tax liabilities may be effectively deferred.

### ***Special tax adjustment (anti-tax avoidance)***

The CIT regime devotes a whole chapter to cover transfer pricing rules, and advance pricing arrangements (“APA”), and introduce many new concepts for tax avoidance. This chapter is entitled "special tax adjustment".

### **Related party transactions**

All enterprises are required to conduct revenue and capital transactions with related parties on an arm’s-length basis. The Chinese tax authorities pay special attention to transfer pricing practices. If they determine a transaction is not at arm's length, they are empowered to disregard, vary or make adjustments to the related party transaction and adjust the taxable income of the enterprise.

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## **Corporate income tax (“CIT”) law**

### **Documentation of related party transactions**

China adopts stringent requirements on filing and submission of related party information for transfer pricing enforcement. Taxpayers are required to file annual related party transactions reports as part of their annual corporate income tax return package on or before the statutory filing due date which is 31 May of each year. In addition, enterprises are required to prepare transfer pricing documentation in place for inspection upon request by the Chinese tax authorities. Enterprises meeting certain conditions are exempted from such documentation requirement.

### **Cost sharing**

Cost sharing is allowed in respect of intangible assets developed and shared among related parties, and for the provision and receiving of common services (generally limited to group procurement and group marketing strategies) if the sharing basis is at arm's length and is assessed and approved by the Chinese tax authorities.

### **Controlled foreign corporation rules (“CFC Rules”)**

A CFC is an enterprise established outside China by a TRE in China. CFC rules are introduced such that undistributed profits derived by CFCs located in low-tax jurisdictions with an effective income tax rate less than 12.5% may be taxed in China as a deemed distribution to the parent company in China. A group of countries is specifically exempted from the designation of low-tax jurisdictions (“White List”) by the Chinese tax authorities.

### **Thin-capitalisation rule**

Thin-capitalisation rule is introduced to disallow interest expense arising from excessive related party loans. The safe harbour debt/equity ratio for enterprises in the financial industry is 5:1 and for enterprises in other industries is 2:1. However, if there is sufficient proof to show that the financing arrangement is at arm's length, these interests may still be fully deductible even if the ratios are exceeded.

### **General anti-avoidance rules (“GAAR”)**

There is a GAAR provision allowing the Chinese tax authorities to make adjustment to taxable revenue or taxable income where business transactions are carried out with the main purpose of reduction, exemption or deferral of tax payments. The Chinese tax authorities may commence, upon approval by the State Administration of Taxation, general anti-avoidance investigation if they suspect that an enterprise undertakes any of the following transactions: abuse of preferential tax treatments, abuse of tax treaties, abuse of corporate structure, use of tax havens for tax avoidance purposes or other arrangements that do not have a reasonable commercial purpose.



# **Corporate income tax (“CIT”) law**

## **Interest levy on tax adjustments**

Tax adjustments made by tax authorities under the special tax adjustment chapter may be subject to interest levy at the base rate for loans announced by the People’s Bank of China plus an additional interest of 5%. The period for interest levy is from 1 June of the year following the tax year in which the transaction takes place to the day the underpaid tax is settled. Under certain specified conditions, the 5% additional interest may be waived.

## **CIT filing and payment**

### **Tax period**

The tax year in the PRC is the calendar year.

### **Consolidated CIT filing**

TREs in China are not allowed to file consolidated returns on a group basis unless otherwise prescribed by the State Council. Up to now, the State Council has not yet issued any regulation to allow group consolidated CIT filing.

However, a non-TRE having two or more establishments in the PRC may select one establishment for combined tax filing and payment upon approval by the in charge tax authorities. That establishment must meet the following requirements:

- it assumes supervisory and management responsibility over the business of the other establishment(s); and
- it keeps complete accounting records and vouchers that correctly reflect the income, costs, expenses, profits and losses of the other establishment(s).

### **Tax filing**

Annual tax return has to be filed on or before 31 May following the end of a tax year (subject to local variation). Provisional reporting and payments have to be made on a monthly basis or quarterly basis which is determined by the in-charge tax authorities. Provisional payments shall be settled with 15 days following the end of each month/quarter.

# Individuals

## Individual income tax

Individuals domiciled in the PRC are subject to China individual income tax (“IIT”) on their worldwide income.

Foreign individuals residing in the PRC for less than one year are subject to IIT on their PRC sourced income only. Remuneration from foreign employers to individuals working in the PRC is exempt from tax if the individual resides in the PRC for less than 90 days in a calendar year, provided that the remuneration is not borne or paid by an establishment in the PRC. This 90-day period may normally be extended to 183 days if the individual is entitled to protection under a relevant tax treaty/tax arrangement.

Employees of foreign employers can reduce their IIT liability and be taxed based on the actual number of days residing in the PRC if certain criteria are met.

Individuals who do not domicile in the PRC but reside in the PRC between one to five years may, with approval, pay tax only on their PRC sourced income and non-PRC sourced income, the payment of which is borne by PRC establishments. They will be taxed on their worldwide income for each full year residing in the PRC from the sixth year onward.

## Individual income tax rates for employment

Income from wages and salaries is taxed according to the following progressive rates, ranging from 3% to 45%:

Monthly taxable income * (RMB)	Tax rate %
1,500 or less	3
The part > 1,500 ≤ 4,500	10
The part > 4,500 ≤ 9,000	20
The part > 9,000 ≤ 35,000	25
The part > 35,000 ≤ 55,000	30
The part > 55,000 ≤ 80,000	35
The part > 80,000	45

\* Monthly taxable income is calculated after a monthly standard deduction of RMB3,500. For foreign individuals working in China (including residents of Hong Kong, Taiwan and Macau), the standard monthly deduction is RMB4,800.

Where an individual's income tax liability is borne by the employer, the tax liability is calculated on a grossed-up basis and a different tax rate table will be used to reflect the tax-on-tax effect.

## Employment income

For IIT purposes, taxable income refers to “wages, salaries, bonuses, year-end bonus, profit shares, allowances, subsidies or other income related to job or employment”.

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## ***Individuals***

Certain employment benefits for foreign individuals could be specifically treated as not being taxable under the IIT law if certain criteria can be met. These include:

- employee housing costs (with supporting invoices) borne by an employer;
- reasonable home leave fares of 2 trips per annum for the employee (with supporting invoices);
- reasonable employee relocation and moving costs (with supporting invoices); and
- reasonable reimbursement of certain meals, laundry, language training costs and children's education expenses in the PRC (with supporting invoices).

Any cash allowance paid to cover expected work-related expenditures (such as an entertaining or travel allowance) will be fully taxable to an employee. IIT may be reduced by reimbursing specific work-related expenses incurred by an employee (which may include entertainment, health or social club fees, local travel, newspapers and journals, telephone costs, etc.) instead of paying an allowance. The expense reimbursement may not be subject to IIT if prescribed administrative procedures are followed.

### ***Income other than employment income***

#### **Privately owned businesses; sole proprietorship enterprises; business on a contract or lease basis**

Income earned by individuals from privately-owned businesses, sole proprietorship enterprises or from the operation of a business on a contract or lease basis is generally subject to IIT at progressive rates from 5% to 35%. The 35% marginal rate applies to annual taxable income (gross revenue less allowable costs, expenses and losses) over RMB100,000.

#### **Author's remuneration**

Such income is taxed at a flat rate of 20%, applied to 70% of the taxable income.

#### **Income from labour services**

Such income is taxable at 20% if the taxable income (after allowable deductions) from a single payment does not exceed RMB20,000; 30% for the portion over RMB20,000 but not exceeding RMB50,000; and 40% for the portion exceeding RMB50,000.

## ***Individuals***

### **Income from interest, dividend, transfer of property, royalty income, rental income and other income**

Such income is normally taxed at a flat rate of 20%. However, IIT may be reduced or exempted for certain income meeting certain prescribed conditions.

### **Allowable deductions**

There are specific and complex tax rules to address the deductions available for income derived from the operation of privately-owned businesses, sole proprietorship enterprises and from the operation of a business on a contract or lease basis. Certain deduction caps are similar to those applicable to companies that are subject to corporate income tax. In addition, a monthly deduction of RMB3,500 is allowed to be deducted from the net income derived from these businesses.

The following deductions are provided for income from labour services, author's remuneration, rental income, and royalty income:

- If the amount received in a single payment is not more than RMB4,000, a standard deduction of RMB800 is allowed;
- If the amount received from a single payment exceeds RMB4,000, a deduction equal to 20% of the payment is allowed.

For transfer of property, the original cost plus reasonable expenses are deductible.

No deduction is allowed against income from interest, dividend or other income.

### ***Tax filing and payment***

IIT is normally withheld from wages or salaries by employers and paid to the tax authorities on a monthly basis. Individual income tax returns must be filed within 15 days following the end of each month.

### ***Annual IIT self reporting requirement***

Starting from 1 January 2007, individuals under four circumstances are required to perform annual self-IIT reporting with the PRC tax authorities. Foreign individuals may be exempted from this obligation in certain situations.

## Other taxes

### Value-added tax (“VAT”)

The sales or importation of goods and the provision of repairs, replacement, and processing services are subject to VAT. VAT is charged at a standard rate of 17% but necessity goods, such as agricultural items, water and gas, etc., are taxed at a reduced rate of 13%. The VAT rate for small-scale taxpayers is 3%.

For general VAT taxpayers, input VAT incurred may be credited against output VAT in computing the VAT payable.

Export of goods from China may be entitled to a refund of VAT incurred on materials purchased domestically. The refund rates range from 0% to 17%. There is a prescribed formula for determining the amount of refund, under which many products do not obtain the full refund of input VAT credit and suffer different degree of export VAT costs.

In order to mitigate the multiple taxation issue associated with goods and services and to support the development of “modern service industries” in China, the State Council resolved to introduce a Pilot Program from 2012 to expand the scope of VAT to cover selected industries that were originally subject to business tax.

As of 1 January 2015, the industries selected for the Pilot Program and the applicable VAT rates (for general VAT taxpayers) are set out in the following table:

<b>Pilot industries</b>	<b>Applicable VAT rate %</b>
<b>Tangible movable property leasing service</b>	17
<b>Transportation service</b>	11
<b>Postal service</b>	11
<b>Basic telecommunications service</b>	11
<b>Value-added telecommunications service</b>	6
<b>Certain modern service industries including:</b>	6
• Research, development and technical service	
• Information technology service	
• Cultural creative service	
• Logistic auxiliary service	
• Certification and consulting service	
• Broadcasting, cinematic and television service	

Small-scale taxpayers in the above Pilot Industries are subject to the VAT rate of 3 %.

Enterprises (including foreign enterprises) providing Pilot Services are subject to VAT instead of business tax.

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## ***Other taxes***

### ***Business tax***

Enterprises may be liable to business tax instead of VAT, depending on the business or assets involved. Business tax is imposed on services provided by enterprises, except for a few prescribed services, as long as either the service provider or the service recipient is within China. In addition, the transfer of immovable properties and intangible assets in China are also liable for business tax.

Business tax is levied on gross turnover at rates between 3% and 20%. The most common rates are either 3% or 5%. Limited exemptions from business tax may apply to some services.

As indicated above, under the Pilot Program of the indirect tax reform, enterprises providing Pilot Services (including the transfer of certain intangible assets) are subject to VAT instead of business tax.

### ***Consumption tax***

Consumption tax is levied on manufacturers and importers of specified categories of consumer goods, including tobacco, alcoholic beverages, cosmetics, jewellery, fireworks, gasoline and diesel and certain petroleum products, motorcycles, automobiles, golf equipment, yacht, luxury watch, disposable chopsticks, wooden floorboard, battery and coating. The tax liability is computed based on the sales amount and/or the sales volume depending on the goods concerned. Consumption tax is imposed in addition to applicable customs duties and VAT.

### ***Urban construction and maintenance tax***

Urban construction and maintenance tax is imposed at a certain rate on the amount of China's indirect taxes (i.e. business tax, VAT, and consumption tax) payable by the taxpayer. Effectively, the taxpayers of indirect taxes are also the taxpayers of urban construction and maintenance tax. It is charged at three different rates depending on the taxpayer's location, 7% for urban areas, 5% for county areas, and 1% for other areas.

### ***Educational surcharge***

Educational surcharge is imposed at 3% on the amount of China's indirect taxes (i.e. business tax, VAT, and consumption tax) payable by the taxpayer. Effectively, the taxpayers of indirect taxes are also the taxpayers of educational surcharge.

## ***Other taxes***

### ***Local educational surcharge***

Local educational surcharge is levied at 2% on the amount of China's indirect taxes (i.e. business tax, VAT, and consumption tax) payable by the taxpayer. Effectively, the taxpayers of indirect taxes are also the taxpayers of local educational surcharge.

### ***Land appreciation tax (“LAT”)***

LAT is levied on certain gains realised from real property transactions at progressive rates from 30% to 60%, based on the “land value appreciation amount” which is the consideration received from the transfer or disposition of real property less the “total deductible amount”.

For taxpayers engaged in a real estate development business, the “total deductible amount” includes:

- the amount spent on obtaining the land use right;
- costs of real property development and construction;
- finance expenses, such as interest, may be deducted in certain circumstances. Other real property development expenses (i.e. selling and administrative) are limited to 5% of the total amount expended to acquire the land use right and the costs of real property development and construction;
- taxes in connection with the transfer of real property (generally business tax and stamp tax); and
- for taxpayers engaged in a real estate development business, an additional deduction equal to 20% of the sum of the first two cost items noted above is allowed.

For disposal of used properties, the deductible amount includes the assessed value of the used building and the taxes incurred upon the disposal.

### ***Customs duties***

Customs duty is levied on the importation of goods. It is collected by the customs authorities at the time of importation.

In general, customs duty is charged in either specific or ad valorem terms. For specific duty, a lump sum amount is charged based on a quantitative amount of the goods, e.g. RMB 100 per unit or per kg. Ad valorem duty is charged based on the customs value of the goods. Under the ad valorem system, the customs value of the goods is multiplied by an ad valorem duty rate to arrive at the amount of duty payable.

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## ***Other taxes***

The applicable duty rate is generally determined based on the origin of the goods. The origin of a product also plays a part in determining the applicability of a number of other policies such as: quotas, preferential tariffs, anti-dumping actions, countervailing duty etc. For goods originated from WTO members, the most favoured nation (“MFN”) duty rate is generally applicable unless other policy, such as preferential tariff (e.g. under a free trade agreement), anti-dumping duty and countervailing duty, is applied. Preferential tariff (which is generally lower than the MFN duty rate) may be claimed by an importer if the goods are originated from a free trade agreement (“FTA”) member and such goods are covered by the FTA. Obviously, all other conditions stipulated in the FTA, such as the FTA rules of origin, direct consignment requirements and documentation requirements, must also be satisfied by the importer to claim such benefits.

Customs duty is exempt on machinery and equipment imported by a FIE within the amount of its total investment, for its own use if the project falls within the encouraged category of the new “Catalogue Guiding Foreign Investors on Industries for Investment”, and the imported machinery or equipment is not within the listed of commodities that are non-exempted for importation.

Limited exemptions from customs duty may also apply to machinery and equipment and other goods which are temporarily imported into the PRC, provided they are re-exported. The temporary importation period is generally six months, although this period may be extended to one year. A deposit for the duty may be required.

Customs duty and VAT exemption may be allowed on importation of raw materials for contract processing or import manufacturing.

Goods may be imported into and exported out of designated Free Trade Zones without liability to customs duty or VAT.

### ***Stamp tax***

All enterprises and individuals who execute or receive “specified documentation” are subject to stamp tax. Rates vary between 0.005% on loan contracts to 0.1% for property leasing and property insurance contracts. A flat amount of RMB5 applies to certification evidencing business licences and patent, trademark or similar rights.

### ***Real estate tax***

Real estate tax is a tax imposed on the owners, users or custodians of houses and buildings. The tax rate is 1.2% of the original value of buildings. A tax reduction of 10% to 30% is commonly offered by local governments. Alternatively, tax may be assessed at 12% of the rental value.



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## ***Other taxes***

### ***Motor vehicle acquisition tax***

Motor vehicle acquisition tax at a rate of 10% of the taxable consideration will be levied on any purchase and importation of cars, motorcycles, trams, trailers, cart and certain types of trucks.

### ***Deed tax***

Deed tax, generally at rates from 3% to 5%, may be levied on the purchase or sale, gift or exchange of ownership of land use rights or real properties. The transferee/assignee is the taxpayer.

### ***Vehicle and vessel tax***

Vehicle and vessel tax is a tax that is levied on all vehicles and vessels within the PRC. A fixed amount is levied on a yearly basis. Transport vehicles are generally taxed on a fixed amount according to own weight, with passenger cars, buses and motorcycles being taxed on a fixed unit amount. Vessels are taxed on a fixed amount according to deadweight tonnage.

### ***Vessel tonnage tax***

Vessel tonnage tax is levied on any vessel entering into a port inside the territory of the PRC from overseas and is collected by the customs authorities. The tax rates are categorized into preferential rates and ordinary rates depending on the nationality of the vessels. The tax payable is computed based on the net tonnage multiplied by the applicable tax rate that is determined depending on the net tonnage and the term of tonnage tax license.

### ***Urban and township land-use tax***

Urban and township land-use tax is levied on taxpayers who utilise land within the area of city, country, township and mining districts. It is computed, on an annual basis, based on the space of area actually occupied by a taxpayer multiplied by a fixed amount per square meter that is determined by the local governments.

### ***Arable land occupation tax***

Arable land occupation tax is levied on companies and individuals who build houses or carry out non-agricultural construction on arable lands. It is computed based on the space of area actually occupied by a taxpayer multiplied by a fixed amount per square that is determined by the local governments and is settled in a lump sum.

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## ***Other taxes***

### ***Resource tax***

The exploitation of natural resources including crude oil, natural gas, coal, salt, raw metallic metals and non-metallic metals, etc. is subject to resource tax on a sales turnover or tonnage/volume basis. The range of tax rates are specified by the State Council.

### ***Tobacco tax***

Tobacco tax is levied on taxpayers who purchase tobacco leaves within the territory of the PRC. The tax is assessed at the rate of 20% on the purchasing value and shall be settled with the local tax bureau at the place of the purchase.

### ***Cultural business development levy***

Companies and individuals engaged in entertainment and advertising businesses shall pay cultural business development levy at 3% on the relevant income.

## Tax treaties/arrangements

Foreign tax relief (for PRC tax residents) and exemption or reduction in PRC tax (for foreign tax residents) may be offered under a tax treaty (or arrangement) to which the PRC is a party. Tax treaties may operate to reduce the amount of withholding income tax or CIT payable in the PRC by a FE or a foreign individual. A tax treaty may also operate to reduce the amount of overseas withholding or income tax payable by a resident of the PRC. As of 1 January 2015, the tax treaties with the following 97 countries and 2 Special Administrative Regions (“SAR”) are effective.

Albania	India	Philippines
Algeria	Indonesia	Poland
Armenia	Iran	Portugal
Australia	Ireland	Qatar
Austria	Israel	Romania
Azerbaijan	Italy	Russia
Bahrain	Jamaica	Saudi Arabia
Bangladesh	Japan	Seychelles
Barbados	Kazakstan	Singapore
Belarus	Korea, Rep. of	Slovak Republic
Belgium	Kuwait	Slovenia
Bosnia and Herzegovina	Kyrgyzastan	South Africa
Brazil	Laos	Spain
Brunei	Latvia	Sri Lanka
Bulgaria	Lithuania	Sudan
Canada	Luxembourg	Sweden
Croatia	Macao SAR	Switzerland
Cuba	Macedonia	Syria
Cyprus	Malaysia	Tajikistan
Czech Republic	Malta	Thailand
Denmark	Mauritius	Trinidad and Tobago
Ecuador	Mexico	Tunisia
Egypt	Moldova	Turkey
Estonia	Mongolia	Turkmenistan
Ethiopia	Morocco	Ukraine
Finland	Nepal	United Arab Emirates
France	Netherlands	United Kingdom
Georgia	New Zealand	United States
Germany	Nigeria	Uzbekistan
Greece	Norway	Venezuela
Hong Kong SAR	Oman	Vietnam
Hungary	Pakistan	Yugoslavia
Iceland	Papua New Guinea	Zambia

## ***Foreign exchange administration***

Foreign exchange transactions are administered by the State Administration of Foreign Exchange (“SAFE”) and its branches.

The regulatory administration on foreign exchange transactions by a FIE depends on whether the transaction is a current account item or a capital account item. Under the PRC Foreign Exchange Administration Regulations, current account items refer to ordinary transactions within the context of international receipts and payments, including balance of payments from trade, labour services, unilateral transfers, etc. Capital account items refer to items of increase or decrease in debt and equity due to inflow or outflow of capital within the context of international receipts and payments, including direct investment, all forms of loans, investment in securities, etc.

For most of the transactions that fall under the category of capital account items, prior approval from the SAFE are still needed.

Generally, if a transaction falls under the category of current account items, a FIE can purchase and sell foreign currency through designated banks on the interbank foreign exchange trading system without prior approval of the SAFE. When a FIE has to make a payment in foreign currency, it can instruct its bank to pay from its foreign exchange account. In the meantime, it should provide supporting documents such as contracts, invoices and shipping documents to the bank.

To speed up the process of RMB internationalisation, companies in China are now allowed to use RMB settlement when conducting cross-border trade with overseas companies. Since 2011, the Chinese governmental authorities have also released several rules allowing certain specified capital account transactions to be conducted in RMB.

## ***Our services and solutions in China***

PwC offers a wide range of tax and business advisory solutions to companies with operations in the PRC. These include:

### **Accounting services**

Initial set-up of accounting system, cashier services, prepare PRC books in compliance with PRC statutory requirements, compilation of management accounts.

### **Corporate restructuring**

Advise on share transfers, transfers of businesses, reorganisations of the capital and assets of enterprises, and liquidations.

### **Corporate tax compliance**

Preparation and submission of corporate income tax and turnover tax returns.

### **Customs & trade solutions**

Assist in identifying import and export savings opportunities and compliance needs.

### **Distribution strategies**

Advise on strategies to optimise the opportunities in China's distribution market within the latest legal framework.

### **Domestic enterprise tax service**

Assist domestic enterprises in China in optimizing tax efficiency and effectiveness and enhancing the value of the enterprise in response to their business demands in areas such as cross-border trading, outbound investment, initial public offering, stock incentive and merger and acquisition transactions, etc.

### **Establishment of representative offices and PRC wholly foreign-owned enterprises**

Set up representative offices and PRC entities, obtain business licenses and tax registrations, confirm for appropriate tax reporting methods, tax compliance, etc.

### **Financial services**

Advise enterprises and institutions in the financial services sector on tax issues relating to their domestic and cross-border financial transactions. Also provide solutions on tax exposures such as permanent establishment and transfer pricing, etc.

### **Foreign contractors**

Tax effective structuring for foreign contractors involving in China power plants and other infrastructure projects, contract reviews, registrations, tax bureau negotiations, compliance requirements.

### **Health check of PRC operations**

Diagnose compliance of PRC operations with relevant rules and regulations and suggest corrective actions and options to improve tax efficiency.

## ***Our services and solutions in China***

### **Indirect tax administration**

Assist in actively managing indirect tax processes and exploring indirect tax saving opportunities.

### **Market entry advice**

Assist in developing entry strategies and setting up entities and offices within China.

### **Mergers and acquisitions — due diligence reviews**

Perform a full-scope due diligence review or a specific procedures review of regulatory risks and tax exposures.

### **Payroll services**

Assist in setting up initial payroll, payroll calculation and prepare employee pay slips, prepare and file employees' PRC individual income tax returns and assist in settling tax payment.

### **PRC individual income tax consulting and compliance services**

Help companies with foreign employees working in China to devise tax effective compensation package, register their employees with the tax authorities, and prepare their monthly individual tax filings. Develop tax equalisation programs for China assignees.

### **Structuring of investment and financing**

Advise on appropriate ownership structures and financing methods to maximise returns.

### **Tax controversy services**

Help clients proactively prevent, efficiently manage and favourably resolve tax controversies and disputes. Services offered include tax ruling application, tax policy formulation, tax audit defense, handling queries from tax authorities and negotiating tax settlements, etc.

### **Tax valuation advisory**

Provide one stop solutions to China tax valuation issues from planning, documentation preparation to dispute resolution.

### **Transfer pricing**

Perform a risk assessment review of transfer pricing policies and related exposures, reporting requirements, documentation of policies, tax consulting, obtaining Advance Pricing Agreements, etc.

### **Value chain transformation (VCT)**

Help organisations optimise business, tax and legal operating models during value chain changes by providing integrated advisory, tax and legal services.

## ***Our leaders***

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### ***Asia Pacific Chairman / Executive Chairman, China, Hong Kong, Singapore and Taiwan***

---

#### **Silas Yang**

+852 2289 2288

silas.yang@hk.pwc.com

---

### ***Head of Tax China, Hong Kong, Singapore and Taiwan***

---

#### **Peter Ng**

+86 (21) 2323 1828

peter.ng@cn.pwc.com

---

### ***China South and Hong Kong Tax Leader***

---

#### **Reynold Hung**

+852 2289 3604

reynold.hung@hk.pwc.com

---

### ***China Central Tax Leader***

---

#### **Peter Ng**

+86 (21) 2323 1828

peter.ng@cn.pwc.com

---

### ***China South Tax Leader***

---

#### **Charles Lee**

+86 (755) 8261 8899

charles.lee@cn.pwc.com

---

### ***China North Tax Leader***

---

#### **Edwin Wong**

+86 (10) 6533 2100

edwin.wong@cn.pwc.com

---

### ***Singapore Tax Leader***

---

#### **Chris Woo**

+65 6236 3688

chris.woo@sg.pwc.com

---

### ***PwC Taiwan Tax and Legal Services Leader***

---

#### **Howard Kuo**

+886 (2) 2729 5226

howard.kuo@tw.pwc.com

## ***PwC contacts***

PwC China, Hong Kong, Singapore and Taiwan work together on a collaborative basis, subject to local applicable laws. With close to 2,500 tax professionals and over 150 tax partners in Hong Kong, Macao, Singapore, Taiwan and 17 cities in Mainland China, PwC's Tax and Business Service Team provides a full range of tax advisory and compliance services in the region. Leveraging on a strong international network, our dedicated China Tax and Business Service Team is striving to offer technically robust, industry specific, pragmatic and seamless solutions to our clients on their tax and business issues locally.

For any China tax queries, please contact your client service partner or any one of the following partners in charge of or resident in the locations listed:

---

### ***Beijing***

---

#### **Edwin Wong**

+86 (10) 6533 2100

edwin.wong@cn.pwc.com

---

### ***Chengdu***

---

#### **William Xu**

+86 (28) 6291 2018

william.xu@cn.pwc.com

---

### ***Chongqing***

---

#### **Robert Li**

+86 (21) 2323 2596

robert.li@cn.pwc.com

---

### ***Dalian***

---

#### **Rex Chan**

+86 (10) 6533 2022

rex.c.chan@cn.pwc.com

---

### ***Guangzhou***

---

#### **Daisy Kwun**

+86 (20) 3819 2338

daisy.kwun@cn.pwc.com

---

### ***Hangzhou***

---

#### **Jenny Chong**

+86 (21) 2323 3219

j.chong@cn.pwc.com

---

### ***Hong Kong***

---

#### **Jeremy Ngai**

+852 2289 5616

jeremy.cm.ngai@hk.pwc.com

---

### ***Macao***

---

#### **Grace Cheung**

+853 8799 5121

grace.cheung@hk.pwc.com



## ***PwC contacts***

---

### ***Nanjing***

---

**Jane Wang**

+86 (21) 2323 2896  
jane.y.wang@cn.pwc.com

---

### ***Ningbo***

---

**Ray Zhu**

+86 (21) 2323 3071  
ray.zhu@cn.pwc.com

---

### ***Qingdao***

---

**Helen Zhang**

+86 (532) 8089 1815  
helen.h.zhang@cn.pwc.com

---

### ***Shanghai***

---

**Peter Ng**

+86 (21) 2323 1828  
peter.ng@cn.pwc.com

---

### ***Shenyang***

---

**Rex Chan**

+86 (10) 6533 2022  
rex.c.chan@cn.pwc.com

---

### ***Shenzhen***

---

**Charles Lee**

+86 (755) 8261 8899  
charles.lee@cn.pwc.com

---

### ***Singapore***

---

**Lennon Lee**

+65 6236 3728  
lennon.kl.lee@sg.pwc.com

---

### ***Suzhou***

---

**Mike Chiang**

+86 (21) 2323 2892  
mike.chiang@cn.pwc.com

---

### ***Taiwan***

---

**Howard Kuo**

+886 (2) 2729 5226  
howard.kuo@tw.pwc.com

---

### ***Tianjin***

---

**Kelvin Lee**

+86 (22) 2318 3068  
kelvin.lee@cn.pwc.com

---

### ***Wuhan***

---

**Amanda Cao**

+86 (21) 2323 3019  
amanda.f.cao@cn.pwc.com

---

### ***Xiamen***

---

**Charles Lee**

+86 (755) 8261 8899  
charles.lee@cn.pwc.com

---

### ***Xi'an***

---

**Elton Huang**

+86 (21) 2323 3029  
elton.huang@cn.pwc.com

## ***PwC contacts***

To make enquiries about our China tax specialist services, please feel free to contact the following lead specialist partners:

---

### ***China business and investment advisory***

---

#### **Anthea Wong**

+852 2289 3352  
anthea.wong@hk.pwc.com

---

### ***Customs and international trade***

---

#### **Damon Paling**

+86 (21) 2323 2877  
damon.ross.paling@cn.pwc.com

---

### ***Domestic enterprises tax services***

---

#### **Elton Huang**

+86 (21) 2323 3029  
elton.huang@cn.pwc.com

---

### ***Financial services***

---

#### **Matthew Wong**

+86 (21) 2323 3052  
matthew.mf.wong@cn.pwc.com

---

### ***Indirect tax***

---

#### **Alan Wu**

+86 (10) 6533 2889  
alan.wu@cn.pwc.com

---

### ***International assignment services/ human resources services***

---

#### **Mandy Kwok, National Leader**

+852 2289 3900  
mandy.kwok@hk.pwc.com

---

### ***Edmund Yang, North region***

+86 (10) 6533 2812  
edmund.yang@cn.pwc.com

---

### ***Stacy Kwok, Central region***

+86 (21) 2323 2772  
stacy.kwok@cn.pwc.com

---

### ***Jacky Chu, South region***

+852 2289 5509  
jacky.chu@hk.pwc.com

---

### ***International tax services***

---

#### **Edwin Wong**

+86 (10) 6533 2100  
edwin.wong@cn.pwc.com

---

### ***Mergers and acquisitions***

---

#### **Jeremy Ngai**

+852 2289 5616  
jeremy.cm.ngai@hk.pwc.com

## ***PwC contacts***

---

### ***National tax policy services***

---

#### **Matthew Mui**

+86 (10) 6533 3028  
matthew.mui@cn.pwc.com

---

### ***Registration and corporate compliance services***

---

#### **Matthew Wong**

+86 (21) 2323 3052  
matthew.mf.wong@cn.pwc.com

---

### ***Research & development tax services***

---

#### **Roger Di**

+86 (10) 6533 2268  
roger.di@cn.pwc.com

---

### ***Tax accounting services***

---

#### **Terry Tam**

+86 (21) 2323 1555  
terry.sy.tam@cn.pwc.com

---

---

### ***Tax controversy services***

---

#### **Xiaoying Chen**

+86 (10) 6533 3018  
xiaoying.chen@cn.pwc.com

---

### ***Tax valuation advisory***

---

#### **Ray Zhu**

+86 (21) 2323 3071  
ray.zhu@cn.pwc.com

---

### ***Transfer pricing***

---

#### **Spencer Chong**

+86 (21) 2323 2580  
spencer.chong@cn.pwc.com

---

### ***Value chain transformation***

---

#### **Jenny Chong**

+86 (21) 2323 3219  
j.chong@cn.pwc.com

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