

Profile——The People's Republic of China (China for short)

I . Jurisdiction Background

The People's Republic of China (China for short) is a country located in the Asia-Pacific region with a long history and splendid culture. Beijing is the capital of China, as well as the national political, cultural, international exchange and scientific and technological innovation center. Chinese is the official language of China, and Mandarin is the official standard language. China is the world's second largest economy, with a large domestic market and a strong manufacturing base.

II . Organizational Structure

China's tax authorities are divided into four tiers according to the administrative level, regional division and affiliation, among which the STA assumes responsibility for China's overall tax administration, and provincial and sub-provincial tax authorities specifically collect and administer taxes and non-tax revenues in the areas under their jurisdiction. A dual leadership management system led by the STA, as the mainstay, and the provincial (autonomous regions and municipalities directly under the Central Government) governments is implemented.

The STA has established seven dispatch institutions: one Tax Big Data and Risk Management Bureau, and six Special Commissioner Offices, which are respectively stationed in Beijing, Shenyang, Shanghai, Guangzhou, Chongqing, and Xi'an, to carry out cross-regional tax inspection and supervision and internal audit work in the local area.

III. Current Tax System

There are eighteen different kinds of taxes in China, which can be divided into three categories according to their nature.

◆ Goods and services taxes: including VAT, Excise Tax, Vehicle Purchase Tax and Customs Duty.

◆ Income taxes: including Enterprise Income Tax and Individual Income Tax.

◆ Property and behavior taxes: including Land Appreciation Tax, Real Estate Tax, Urban and Township Land Use Tax, Farmland Occupation Tax, Deed Tax, Resource Tax, Vehicle and Vessel Tax, Stamp Tax, Urban Maintenance and Construction Tax, Tobacco Tax, Vessel Tonnage Tax and Environmental Protection Tax.

IV. Overview of tax preference policies

The macro tax burden of China in the past three years: 13.77% in 2022, increased to 14.37% in 2023, and reduced to 12.97% in 2024.

In 2024, China implemented structural tax reduction and fee reduction policies, with a focus on supporting technological innovation and the development of the manufacturing sector. The government increased tax incentives for energy-saving, water-saving, environmental protection, workplace safety equipment, included digital and intelligent transformation within the scope of these incentives. Additionally, policies such as the additional deduction of research and development expenses was put into effect.

◆ VAT

To small-scale taxpayers: From January 1, 2023, to December 31, 2027, small-scale

taxpayers are exempt from VAT. For small-scale taxpayers, taxable sales subject to the 3% levy rate, the VAT will be calculated at a reduced rate of 1%, while prepaid VAT items original subject to the 3% prepayment rate will also be prepaid at the reduced rate of 1%. a reduced VAT collection rate of 1%. Those with monthly sales not exceeding 100,000 Yuan and quarterly sales not exceeding 300,000 yuan are exempted from VAT.

To General Taxpayers: From January 1, 2023, to December 31, 2027, VAT general taxpayers engaged in integrated circuit design, production and sales of advanced industrial machine tools, key functional components, and CNC systems are allowed to add 15% to the current deductible input tax amount to offset the taxable VAT amount. Advanced manufacturing enterprises are permitted to add 5% to the current deductible input tax amount to reduce the taxable VAT amount.

General taxpayers who sell software products they have developed and produced are subject to a VAT rate of 13%. For the portion of the actual VAT burden that exceeds 3%, the policy of “collecting and returning” is implemented.

◆ Enterprise Income Tax (EIT)

For small and enterprise with low-profit, the portion of annual taxable income below RMB 3 million will be subject to an effective tax rate of only 5%. Concurrently, to foster economic restructuring and innovation-driven technology, the additional deduction ratio for R&D expenses of eligible enterprises will be uniformly increased from 75% to 100%, and this measure will be implemented as a long-term institutional arrangement.

◆ Individual Income Tax (IIT)

From 1 January 2023 to 31 December 2027, the portion of annual taxable income not exceeding RMB 2 million for individual businesses will be subject to a 50% reduction in individual income tax.

V. Tax Collection and Administration

China's tax collection and administration system is composed of the State Administration of Taxation and local (provincial, municipal and county) tax authorities, responsible for the collection and administration of tax, social insurance contributions and related non-tax revenues. Tax registration, tax declaration, tax collection, tax inspection and other work are conducted in accordance with the Law of the People's Republic of China on the Administration of Tax Collection and other relevant laws, regulations and rules. In the division of duties of collection and administration, Tax authorities at the municipal and county levels should focus on specific responsibilities such as daily services, handling tax-related and fee-related matters, and risk response, and overall and complex tax and fee services and administrative responsibilities should be appropriately moved up to higher-level tax authorities.

In recent years, China's tax collection and administration system has been continuously optimized, and the standardization, convenience and precision of tax payment services and tax enforcement have been continuously improved. Improve the tax enforcement system and mechanism, promote high-quality, efficient and intelligent tax and fee services, establish and improve a new regulatory mechanism based on "credit + risk", and strengthen international tax cooperation.

China's tax collection and administration informatization has gone through the construction of Golden tax phase I, Golden tax Phase II and Golden tax Phase III. Currently, the principal component of Golden tax phase IV has been launched and completed its application promotion. We will press ahead with the building of smart taxation featuring high integration, high safety and high efficiency, which will focus on serving taxpayers and fee payers, take e-invoicing reform as a breakthrough and be driven by big data, render strong support for high-quality development.

VI. Taxpayer Services

Tax service channels: the tax service channels of China tax authority mainly include tax service hall, e-tax, self-service tax terminal etc.

◆ Tax Service Hall—concentrate on handling tax related matters, the payment of social insurance premiums and non tax income.

◆ E-Tax—includes the PC terminal and the mobile terminal. Corresponding operation scenarios and security access will be built.

◆ The self-service tax terminal—tax authority put in self-service taxation terminals in tax service halls, government affairs halls, and business districts, banks, communities and other places where taxation needs are concentrated.

Tax Services for Large businesses: The State Taxation Administration establishes a tax management organization for large enterprises and establishes and improves organizational structures nationwide. For major transaction matters such as mergers and reorganizations, related party transactions, cross-border investments, etc., corresponding professional counseling is provided at the request of large businesses to reduce their tax-related risks.

Hotline consultation service: The State Taxation Administration of the People's Republic of China has established a dedicated consultation line for natural persons on the national unified tax service hotline 12366. It provides 24-hour human service to respond the individual income tax-related consultations. In order to facilitate foreign taxpayers to work, do business and pay tax in China, the 12366 hotline has introduced bilingual services.

VII. Tax Legislation Process

In 2013, the Chinese government first clearly proposed the "implementation of the principle of statutory taxation".

In 2015, the Legal Work Committee of the Standing Committee of the National People's Congress made clear arrangements for the timing of the amendment of the 15 existing tax regulations into law or their abolition, and tax legislation entered the "fast lane". China's tax authorities actively participate in tax legislation, accelerate the process of statutory taxation, and have completed legislation for 14 types of taxes such as the Value Added Tax Law of the people's Republic of China", the "Environmental Protection Law of the People's Republic of China", the "Tobacco Tax Law of the People's Republic of China", and the " Vessel Tonnage Tax Law of the People's Republic of China". At the same time, we will methodically advance the legislation of other tax categories and the revision of *the Tax Collection and Administration Law of the People's Republic of China*.

VIII. Future Tax Reform Plan

China is launching a new round of fiscal and tax system reform. Tax system reform primarily includes:

- ◆ Advancing the legalization of taxation: comprehensively implement the principle of statutory taxation, standardize tax incentive policies and refine the support mechanisms for key areas and critical sectors.
- ◆ Improve the tax system: foster high-quality development, social equity and a unified market, while optimizing the tax structure.
- ◆ Promoting indirect tax reform: enhance the individual income tax system that combines comprehensive and classified taxation, regulate tax policies on business income, capital income, property income, implement unified taxation on labor income.
- ◆ Deepen the reform of tax collection and administration.

IX. International tax cooperation

China's deepening international cooperation in the field of tax has not only promoted cross-border investment and trade through the expansion of the tax treaty network, but also played an important role in the formulation of international tax rules, reflecting China's influence and contribution in the international tax arena.

- ◆ Expansion of the tax treaty network: China has signed tax treaties with 114 countries and regions, helping to better serve "going out" and "bringing in" enterprises.
- ◆ Belt and Road Initiative Tax Administration Cooperation Mechanism: China's tax authorities have actively participated in the tax collection and administration cooperation under the Belt and Road Initiative, created the Belt and Road Initiative Tax Administration Cooperation Mechanism, and played an important role in it.
- ◆ Participation in international tax cooperation organizations and forums: China actively participates in international tax cooperation organizations such as the Organization for Economic Cooperation and Development (OECD) and the International Monetary Fund (IMF), and has established bilateral tax cooperation relations with tax authorities of many countries.
- ◆ Investment Guidelines: China has issued a large number of country-specific investment tax guidelines to help enterprises understand the tax risks of overseas investment and provide tax-related advisory services.
- ◆ Role in the formulation of international tax rules: China has changed from a participant to a contributor in the formulation of international tax rules, and actively participated in the reform and formulation of international tax rules.

X. Others

None.