



Understanding Mainland China & Hong Kong's Tax Systems - A Comparison

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The respective tax systems of the People's Republic of China and Hong Kong have some key differences that a business operating in both tax jurisdictions should be aware of in order to ensure full compliance.

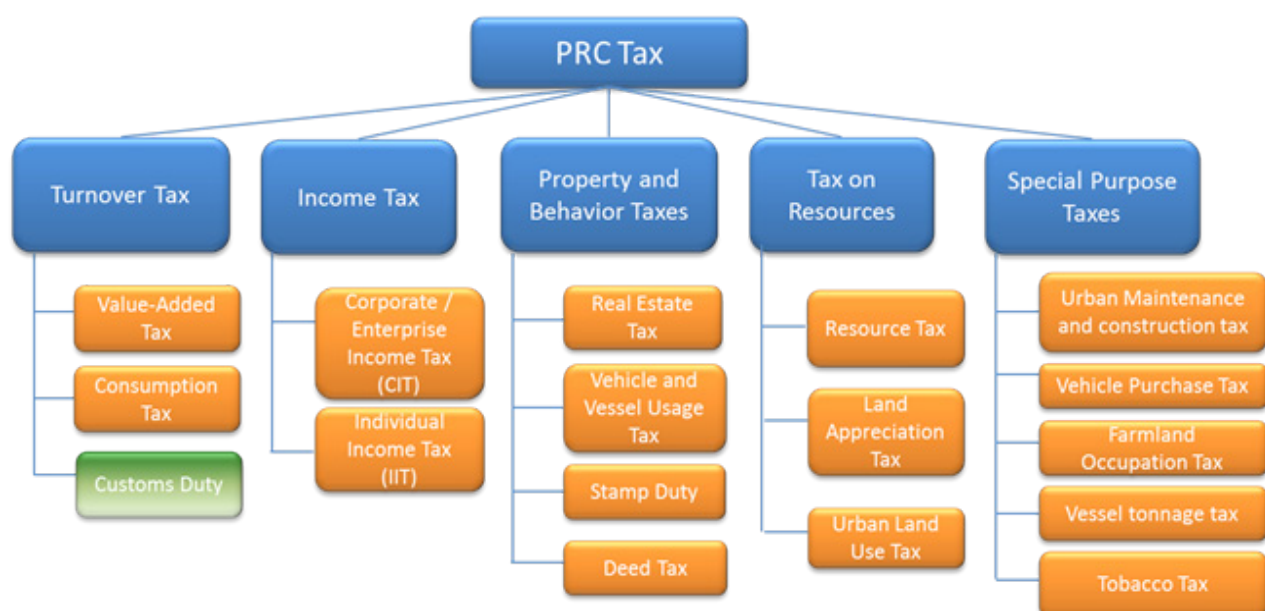
This brief article will explain the both systems and offer a simple comparison.

Mainland China

Tax is the most important source of fiscal revenue collection in the People's Republic of China ("PRC") making China more competitive as it has progressively opened up to the outside world and also promoting further development of China's national economy.

Since the tax system underwent substantial reform in 1994 and a subsequent series of policies for optimisation and refinement since, China has built a tax system that is both conducive and adaptable to the market economy.

Under the current tax system in China as of 1st May 2016, there are Five Categories of Taxes which have been organised in the below chart according to both their type and function:



* Customs duty regulated by China Customs, not Tax bureau

B2V Reform

On 5th March 2016, Premier Li Keqiang announced at the opening of the National People's Congress that Construction, Real Estate, Financial Services and Consumer / Daily Life Services sectors would be included in the final phase of "Business Tax to VAT" ("B2V") reform which has since come into effect as of 1st May, 2016.

From 1st May 2016 onwards, these four industries would be covered by Value-Added Tax ("VAT") rather than Business Tax ("BT"). As such the policy of B2V tax reform will be completed, making China's Indirect Tax System introduced in 1994 comprising of both VAT and BT obsolete.

The completion of B2V reform is expected to bring in a series of changes on VAT policy and administration which will have a profound impact on all enterprises operating in China.

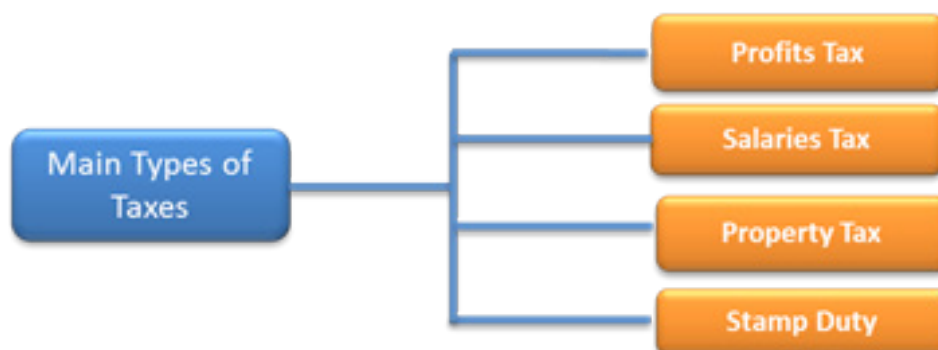
According to Circular 36, the new VAT rates for construction, real estate, financial services and consumer services are as follows:

Sector	New VAT Rate	Current BT Rate
Construction	11%	3% (possible net basis)
Financial Services	11%	5%
Real Estate	6%	5%
Consumer Services, e.g., F&B, Hospitality	6%	Generally 5%

Hong Kong's Tax System

Hong Kong has one of the most tax-friendly economies for business in the world making it a competitive destination for Foreign Direct Investment ("FDI") and establishing an investment platform for global businesses or those looking to invest into the PRC.

The tax jurisdiction of Hong Kong is regarded as both simple and stable and only imposes four direct taxes as shown in the below chart. Hong Kong's tax system also allows for specific allowances and deductions which can reduce a legal entity's tax liabilities:



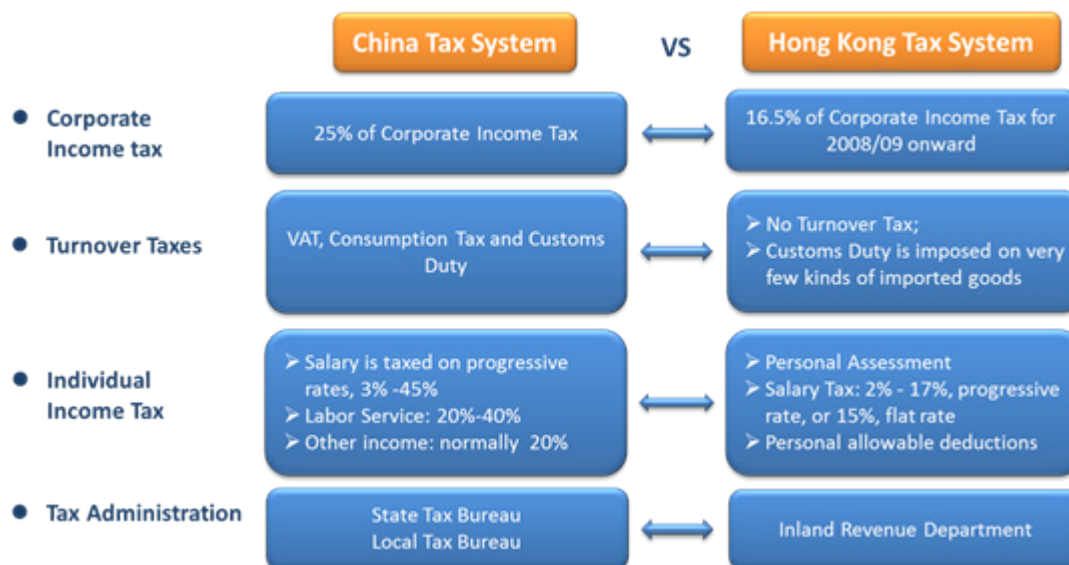
Significantly, the tax jurisdiction of Hong Kong does not levy tax on the following:

- Sales Tax or VAT
- Withholding Tax
- Capital Gains Tax
- Tax on Dividends
- Estate Tax

Based on the Territorial Principle, only Hong Kong sourced income is subject to Hong Kong income tax. Hong Kong is also known for its free port status and easy customs procedures.

Duty is levied on a narrow range of products such as tobacco (notably alcohol importing of alcoholic beverages is deemed Duty Free).

China Vs Hong Kong: A Direct Comparison of the Two Systems



Corporate Income Tax

The first point of comparison concerning Corporate Income Tax ("CIT"), China imposes a tax of 25% CIT while Hong Kong since 2008/09 onwards has implemented a comparatively low 16.5% CIT on profits.

While in Hong Kong as previously mentioned, there is no Turnover Tax and Custom Duty is imposed on a limited range of imports. The PRC following the ratification and full implementation of B2V reform applies both Consumption Tax and Customs Duty on imported goods in addition to VAT.

Individual Income Tax

Individual Income Tax ("IIT") is also taxed according to progressive rates of between 3% and 45% depending on income and applicable tax bracket. Service / Freelance Income is taxable at the rate of 20% for income of 20,000 RMB or below ranging up to 40% according to the respective income bracket. Under provision of services and income generated through freelancing, the total taxable income equates to 80% with 20% being exempted for business expenses.

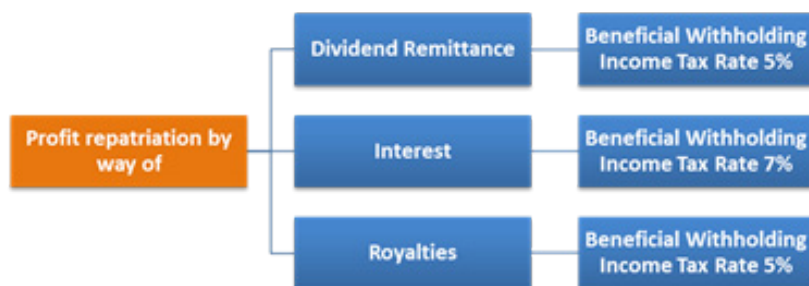
In comparison, IIT in Hong Kong is calculated according to progressive rates of between 2% and 17% or on a flat rate of 15% and personal deduction is allowed on other non-related additional income.

Optimising the PRC and Hong Kong DTA

On 1st April 2015, the PRC and Hong Kong signed the Fourth Protocol of the China-Hong Kong Double Taxation Agreement (“DTA”) in Hong Kong.

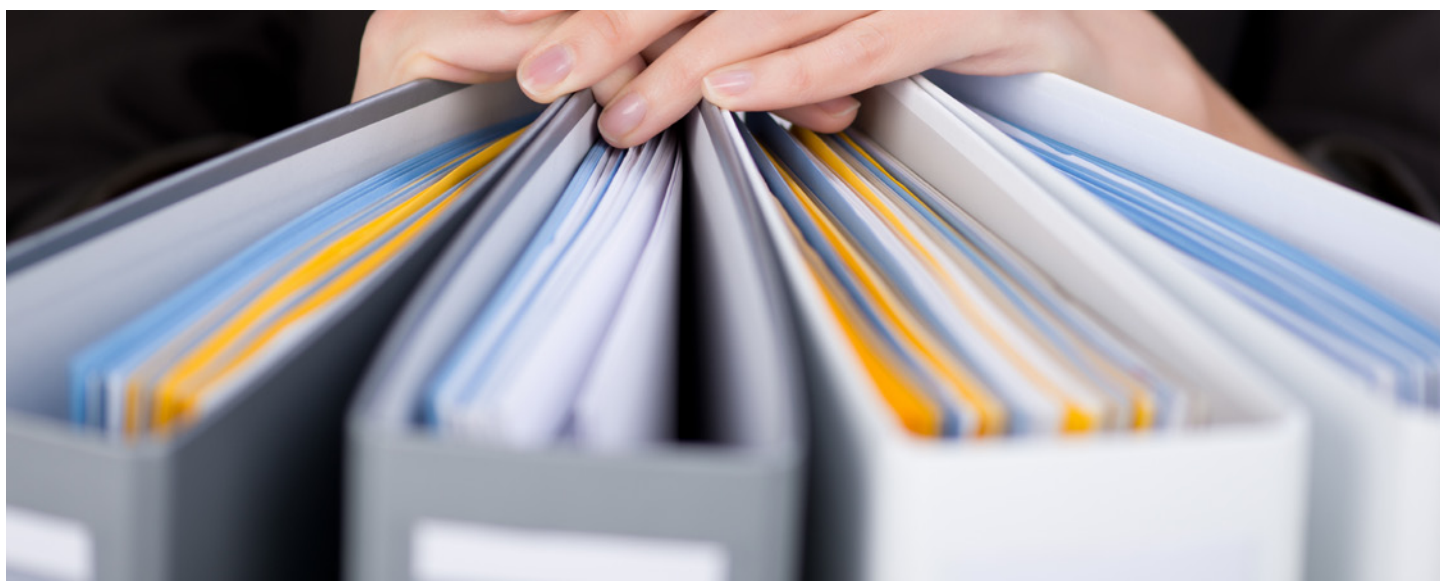
When repatriating profits from Mainland China to Hong Kong, by way of dividend remittance a withholding income tax rate of 5% is applied, while with reference to interest and royalties, a rate of 7% is levied.

Only profit derived from or arising in Hong Kong is taxable under Hong Kong profits tax. If a taxpayer can arrange their business operations outside of Hong Kong, this would be deemed as such and is therefore exempt from Hong Kong profits tax. The Fourth Protocol of the China-HK DTA brings both benefits as well as tax obligations to the taxpayer.



Both the PRC and Hong Kong authorities are committed to ensuring that the terms of the DTA are not abused and strive to work collaboratively in the facilitation and future information exchange concerning tax matters.

For more resources on Mainland China and Hong Kong tax, please contact us at enquiries@lehmanbrown.com



About Us

Founded in 2001, LehmanBrown is a China-focused accounting, taxation and business advisory firm, operating in Beijing, Shanghai, Hong Kong, Macau, Shenzhen, Guangzhou and Tianjin. Our firm also manages an extensive affiliate network, providing service throughout China and reach across the globe.

Combining years of international expertise with practical Chinese experience and knowledge, LehmanBrown offers expert advice and support to both local and international clients. Within the mid - tier, we are regarded as a market leader and our clients enjoy access to a combination of senior and experienced counsellors from both China and abroad.

At LehmanBrown we recognise that you are unique, that you have unique requirements and we are committed to providing individually tailored financial solutions. LehmanBrown is dedicated to providing personalised service by working closely with our clients to understand your individual business needs. This enables us to offer the most up-to-date and expert advice.

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雷博国际会计成立于 2001 年，是一家获得许可，主要从事有关中国范围内会计、税务和财务咨询服务的公司，在北京、上海、香港、澳门、深圳、广州和天津设有专门办事机构，正积极在全国范围内建立广泛的联合专业服务网络。

综合多年的国际经验和对中国市场的深刻理解和实践体验，我们向广大国内外的客户提供高质量的专业服务和意见帮助。在雷博国际会计的服务过程中，我们作为市场中的佼佼者，您将得到来自中国本土以及其它国家的高级资深专家热忱的咨询帮助。

我们深刻认识到每一位客户都是独一无二的，并都有其独特的业务需求。雷博国际会计承诺将根据客户的不同业务需求，为客户提供个性化的财务解决方案。我们的专业人员将密切与您合作，以充分了解您独特的业务需求，从而提供满足您所需要的高时效、高质量的专业服务。

Professional Services

Audit & Assurance

External Audit

China Statutory Audit

US GAAP Audit

IFRS Audit

Hong Kong Statutory Audit

Internal Audit

Fraud Investigation

Forensic Accounting

Special Purpose Audit

Foreign Currency Audit

Royalty Audit

Capital Verification Audit

Valuation Services

Corporate Valuation

Damage Assessment Valuation

Intellectual Property Valuation

Asset Valuation

Special Purposes Valuation

Corporate Finance

Debt Restructuring

Acquisition, Disposal & Financing

Mergers & Acquisitions

Transaction Advisory

M&A Divesture

M&A Integration

Financial Due Diligence

Business Services

Company Registration & Maintenance

Market Entry Advisory

Updating Company Certificates

Annual Inspection & Reporting

Company Secretarial Services

Company Ownership Transferring/Corporate Restructuring

Background/Credit Checking

Company Deregistration & Bankruptcy

HR Support Services

China Visa Services for Expatriates

Social Welfare Structures

Outsourcing Services

Accounting & Bookkeeping

Budgeting & Forecasting

Financial Statement Preparation

Head Office Reporting

Financial Management

Interim Financial Management

Finance Manager Function

CFO Function

Cash Flow Management

Treasury Management

Set-up of Bank Account

Payroll Services

Payroll Processing Setup

Expatriate Employees

Local Employees

Secondment & Temping Service

Chop Custodian Services

Taxation Services

Individual Tax Planning (IIT)

Tax Immigration & Investment Review

US & Overseas Personal Income Tax Planning & Filing

IIT Tax Payment Facilitation

Application for Individual Income Tax Refund

Expatriate Staff Individual Income Tax Staff Filing

Local Staff Individual Income Tax

Company Taxation (CIT)

Tax Consulting

Corporate Tax Planning

Business Restructuring

Value Chain Review

Onshore / Offshore Investment

Transfer Pricing

Tax Compliance

Tax Due Diligence

Tax Deregistration

Negotiation of Tax Penalties

Tax Refund Application

Tax Representatives for Tax Audit

VAT & Customs Duty Clearance

PRC Tax Receipt Verification

VAT Application

VAT & Sales Tax Filing

Corporate Income Tax Reporting

Specialist Accounting & Risk Management

Internal Controls

Systems

Risk Management

Sarbanes - Oxley (SOX 404)

GAAP, SEC & IFRS Compliance

US GAAP

US GAAP Financial Statement Preparation

US GAAP Conversion

Other GAAP

GAAP Conversion

Public Company Compliance

Financial Statement Preparation

IFRS

IFRS Accounting Repackaging

IFRS Financial Statement Preparation

IFRS Public Company Compliance

SEC

SEC Public Company Compliance

Legal Services

Legal Advisory

Labour Legal Advisory

Workforce Downsizing Advisory

Labour Tribunal Assistance & Advisory

Labour Law Review & Audits

Review & Preparation of Employment Contracts

Corporate Legal Advisory

Legal Due Diligence

Corporate Restructuring Advisory

Review & Preparation of Articles of Association (AoA)

Review & Preparation of JV Contracts

Review & Preparation of Repatriation Agreements

Other Legal Services

Dispute Mediation & Advisory

Trademark & Intellectual Property Advisory

Debt Collection Assistance

Litigation Support

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Beijing 北京

6/F, Dongwai Diplomatic Building, 23 Dongzhimenwai Dajie, Beijing 100600, China
中国北京市朝阳区东直门外大街 23 号，东外外交办公大楼 602
Tel: +86 10 8532 1720
Fax: +86 10 8532 2746
E-mail: beijing@lehmanbrown.com

Tianjin 天津

Unit 2901-04, The Exchange Tower 2 189 Nanjing Road, Heping District Tianjin 300051, China
中国天津市和平区南京路 189 号 津汇广场 2 座 29 层 2901-104 室
Tel: +86 22 2318 5056
Fax: +86 22 2318 5001
E-mail: tianjin@lehmanbrown.com

Shanghai 上海

Room 1501 & 1504, WanTai International Building, No. 480 North Urumqi Road, Shanghai 200040, China
中国上海市静安区乌鲁木齐北路（华山路）480 号 1501 & 1504
Tel: +86 21 6249 0055
Fax: +86 21 6288 1636
E-mail: shanghai@lehmanbrown.com

Hong Kong 香港

Suite 03, 16/F, Sino Plaza,
255-257 Gloucester Road, Causeway Bay, Hong Kong
香港铜锣湾告士打道 255-257 号信和广场 16 楼 03 室
Tel: +852 2426 6426
Fax: +852 2426 6427
E-mail: hongkong@lehmanbrown.com

Guangzhou 广州

Room 3317, China Shine Plaza, 9 Lin He Xi Road, Guangzhou 510610, China
中国广州市林和西路 9 号耀中广场 3317 室
Tel: +86 20 2205 7883
Fax: +86 20 2205 7880
E-mail: guangzhou@lehmanbrown.com

Macau 澳门

No. 367, Avenida da Praia Grande, "Keng Ou" Commercial Building #16, A & B, Macau
中国澳门南湾大马路 367 号京澳商业大厦 16 楼 AB 座
Tel: +853 2835 5015
Fax: +853 2837 1884
E-mail: macau@lehmanbrown.com

Shenzhen 深圳

Room 3206, News Building 2, Shennan Middle Road, Shenzhen 518027, China
中国深圳市深南中路 2 号新闻大厦 3206
Tel: +86 755 8209 1244
Fax: +86 755 8209 0672
E-mail: shenzhen@lehmanbrown.com



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