BoardRoom
Smart Business Solutions

# Asia Tax Insights – China

## Foreign Trade and Investment: Navigating Policy Changes in China

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# Foreign Trade and Investment: Navigating Policy Changes in China

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### China's Guidelines on Tax Policies for Stabilising Foreign Trade and Foreign Investments (Revised Version)

On 16 January 2024, the **China State Administration of Taxation ("SAT")** has taken a significant step towards enhancing transparency and supporting businesses by releasing the *Guidelines on Tax Policies for Stabilizing Foreign Trade and Foreign Investments (Revised Version)*.

In this comprehensive guideline, SAT outlines 51 effective tax support policies and tax administration service measures aimed at stabilising foreign trade and investment. 19 of these policies focus on stabilising foreign trades that cover various aspects, such as offering service facilitation for exported goods and services, addressing VAT implication on cross-border transactions and navigating tax implications on foreign trade. The remaining 32 of these tax policies are strategically designed to stabilise foreign investments, presenting favourable tax incentives aimed at encouraging foreign investments We have summarised several key policies that are pertinent to businesses that engage in foreign trade or foreign investment.

| No. | Preferential Policy | Preferential Contents |
| --- | --- | --- |
| **1.** | VAT refund or exemption for exported goods and services. | • Manufacturing companies<br>Exempted from VAT, with the corresponding input tax deducted and the remaining balance refunded.<br><br>• Trading companies<br>Exempted from VAT, with the corresponding input tax refunded. |
| **2.** | Zero VAT rate or VAT exemption for cross-border activities. | • Taxpayers can apply for zero VAT rate or VAT exemption for cross border supply of eligible services and intangible assets.<br><br>• Taxpayers have the option not to apply for zero VAT rate for the following next 36 months. |
| **3.** | Temporary withholding tax exemption for overseas investors' direct investment profits. | Starting from 1 January 2018, profits allocated to overseas investors by resident enterprises in China for domestic direct investment are temporarily not subject to withholding tax, subject to meeting specified conditions. |

| No. | Preferential Policy | Preferential Contents |
|---|---|---|
| **4.** | Tax treaty benefits for non-resident taxpayers. | Non-resident taxpayers with Corporate Income Tax ("CIT") or Individual Income Tax ("IIT") obligation in China, may follow the self-assessment principle in claiming tax treaty benefits and retaining relevant records for any future inspection. |
| **5.** | IIT preferential policy for foreign individuals. | • From 1 January 2019 to 31 December 2027, foreign individuals who satisfy the resident criteria, may claim special deduction for IIT or enjoy IIT exemption for certain allowances relating to housing, language training, child's tuition, etc.<br><br>• The chosen option by the foreign individual remains unchanged within a tax year. |

## Key Takeaway

The SAT's revised guidelines offer a roadmap for businesses to capitalise on opportunities and contribute to the stability and growth of their ventures in China. As businesses continue to navigate the dynamic landscape of foreign trade and investment, a proactive and informed approach to tax policies becomes paramount.

## References

You can find out more at:
https://fgk.chinatax.gov.cn/zcfgk/c100022/c5220505/content.html

# How we can help

Embracing a client-centric approach, our Regional Tax Team is committed to delivering strategic tax and transfer pricing solutions, ensuring compliance and maximising opportunities for our clients across diverse tax jurisdictions.

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