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Corporate Income Tax in China



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Any company doing business in China

(<https://msadvisory.com/resource/doing-business-in-china/>) must get familiar with its Corporate Income Tax (CIT) system. Whether you're setting up a local subsidiary or running a long-standing operation, understanding how CIT works is essential for maintaining compliance and avoiding unexpected liabilities.

This guide walks you through the core components of China's CIT framework, including taxpayer classification, calculation methods, applicable rates, deductions, exemptions, and the application of withholding taxes to cross-border transactions.



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The banner features the MSA logo in white on a blue background. To the right is a vertical image of water splashing. A red grid pattern is visible in the top right corner of the banner.

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Corporate Income Tax in China: Overview

Corporate Income Tax (CIT), also known as Enterprise Income Tax (EIT), applies to most businesses earning income in China. It is governed by the Corporate Income Tax Law of the People's Republic of China, which sets out how income is assessed and taxed.

The CIT is based on a company's net income for the financial year. Businesses can deduct eligible expenses and losses, and tax is then calculated on the remaining taxable income.

Companies must file and pay CIT every quarter. At the end of the tax year, an annual reconciliation is required to reflect any necessary adjustments.

For foreign-invested enterprises, understanding how the system works is especially important. This includes knowing how business entities are classified, how invoices (fapiaos (<https://msadvisory.com/what-is-a-fapiao-the-invoicing-system-in-china-explained/>)) support deductions, and what counts as an allowable expense under Chinese tax law.

Corporate Taxpayers in China

(<https://msadvisory.com>) Chinese corporate taxpayers into two main groups: resident and non-resident enterprises. The distinction affects both the scope of taxation and the reporting obligations.

| Type of Enterprise | Description |
|--------------------------|--|
| Resident Enterprises | Companies incorporated in China, or foreign companies whose management is based in China. These entities are taxed on worldwide income. |
| Non-Resident Enterprises | Foreign companies without a management presence in China. If they have a branch or generate income within China, only that China-source income is taxed. |

In other words, resident enterprises report global earnings, while non-residents are taxed more narrowly, depending on whether or not they have a local establishment.

Individual proprietorships and partnerships are excluded from CIT and instead taxed under personal income tax laws.

China CIT Calculation Method

China's CIT calculation is formula-driven, with clear guidelines for determining what counts as taxable income:



CIT Payable = (Taxable Income × Applicable Tax Rate) – Exemptions or Reductions (if eligible)

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To get to taxable income, use the following formula:

Taxable Income = Total Annual Income – Deductible Costs and Expenses – Carried Forward Losses

Key considerations:

Losses can be carried forward for up to five years, but not carried back.

Deductions are only accepted when supported by fapiao (official Chinese tax invoices).

Foreign companies unfamiliar with the fapiao system may encounter challenges in claiming expenses without proper documentation.

MSA works with clients to ensure financial compliance across all levels, helping you navigate everything from bookkeeping and invoicing requirements to quarterly filings and annual reconciliations.

CIT Exemptions/Reductions in China

While China's standard Corporate Income Tax rate applies to most companies, a variety of statutory deductions, preferential policies, and regional incentives can significantly reduce your overall tax burden.

Understanding what qualifies and how to substantiate claims with proper documentation is key to taking full advantage of China's tax relief measures.

Statutory Deductions


Chinese tax law permits several baseline deductions that companies can claim against taxable income:



| Category | Deduction Details |
|---|---|
| (https://msadvisory.com) Employee Benefits | Contributions to statutory programs such as pension, medical, unemployment, work injury, maternity, and housing funds. |
| Charitable Donations | <p>Donations to approved public welfare causes including education, disaster relief, and poverty alleviation schemes</p> <p>Deductions apply for up to 12% of annual profits.</p> |
| Environmental Protection | Investments in equipment for pollution control, energy efficiency, or water conservation. |
| Research and Development | A 75% super deduction for eligible R&D expenditures on new technologies, products, or processes. |

Additional Deductions

Some categories offer enhanced deductions that go beyond statutory levels:

| Category | Deduction Details |
|--|---|
| Advanced R&D  | Manufacturing enterprises can deduct 100% of eligible R&D expenses. This policy remains in effect as of mid-2025. |
| (https://msadvisory.com) Employment of Target Groups | 100% deduction on salaries paid to disabled workers or individuals from categories prioritized by the government. |

MSA Asia works with clients to validate eligibility, gather the right documentation (including fapiao), and ensure these deductions are correctly applied during quarterly and annual filings.

Qualification Criteria for the High-Tech Tax Break

Foreign-invested companies that focus on innovation and technological advancement may be eligible for a reduced Corporate Income Tax (CIT) rate of 15%, provided they obtain certification as a High and New Technology Enterprise (HNTE). This preferential rate is significantly lower than the standard 25% CIT rate and serves as a major incentive for companies to invest in research, development, and advanced production methods in China.

To qualify for HNTE status, companies must meet several rigorous technical and operational requirements:

Legal Establishment and Residency: The company must be legally incorporated in China (<https://msadvisory.com/service/corporate-services/china-company-registration/>) and must have been in operation for at least one full year.

Core Intellectual Property: The enterprise must own intellectual property (IP) rights for the core technologies that drive its primary products or services. This could include patents, proprietary software, or other forms of protected innovation.



Industry Classification: The business must operate in one of the high-tech sectors supported by the Chinese government. These typically include biotechnology, aerospace, advanced manufacturing, electronics, new materials, energy conservation, and information technology.

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R&D Workforce Threshold: At least 10% of the company's total workforce must be directly involved in research and development activities.

Minimum R&D Investment Ratios: The company must meet specific research and development expenditure thresholds relative to its annual revenue:

1. A minimum of 5% for companies with annual revenue less than RMB 50 million.
2. A minimum of 4% for companies earning between RMB 50 million and RMB 200 million.
3. A minimum of 3% for companies with revenue exceeding RMB 200 million.

Domestic R&D Requirement: If the company engages in collaborative research efforts with foreign institutions or companies, at least 60% of total R&D spending must be incurred within mainland China.

High-Tech Revenue Proportion: At least 60% of the company's total revenue must be derived from products or services that fall under the approved high-tech categories.

Compliance Record: The company must maintain a clean compliance history with no serious violations related to environmental regulations, production safety, or product/service quality within the previous 12 months.

Achieving HNTE status does more than just lower the tax burden. It enhances a company's reputation in the local market, improves access to government subsidies and procurement programs, and signals credibility to potential investors and clients, especially in cutting-edge sectors like pharmaceuticals, semiconductor~~es~~s, robotics, and enterprise software.

Many regional governments in China also offer additional incentives or grants to HNTE-certified businesses, making the designation even more valuable for long-term strategic planning. (<https://msadvisory.com>)

Applicable CIT Rates in China

The default CIT rate in China is 25%, applying to both domestic and foreign-resident enterprises. However, specific categories of companies can benefit from reduced rates:

Small and Low-Profit Companies

Qualifying SLPEs (Companies with annual taxable income ≤RMB 3M, <300 employees, assets ≤RMB 50M) are eligible for reduced effective CIT rates through December 31, 2027:

| Profit Bracket | Effective CIT Rate | Notes |
|----------------|--------------------|--|
| ≤ RMB 1M | 2.5% | 20% applied to 12.5% of taxable income |
| RMB 1M–3M | 5% | 20% applied to 25% of taxable income |

| | | |
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| > RMB 3M | 25% | Full standard rate |
|----------|-----|--------------------|



Other Preferential Rates

China offers several tax policy incentives based on geography and strategic sectors. (<https://msadvisory.com>)

| Industry/Region | Preferential CIT Rate |
|--------------------------------|--|
| High-Tech Enterprises | 15% (requires accreditation as described above) |
| Integrated Circuits & Software | 10% after an initial 5-year CIT exemption |
| Western Development Region | 15% for qualifying companies in Chongqing, Yunnan, Sichuan, and other inland provinces |
| Free Trade Zones/Ports | Reduced CIT rates for specific encouraged industries in areas like Hainan and Lingang |

MSA helps you identify applicable tax incentives based on your business model, sector, and location. From high-tech certifications to regional benefits, we ensure you're not leaving tax savings on the table.



Filing and Payment of China Corporate Income Tax

In China, Corporate Income Tax (CIT) must be filed and paid every quarter. Some large companies may choose to file monthly. However, this is rare and usually not practical for small or mid-sized businesses because of the extra administrative burden.
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Quarterly CIT filings are due within 15 days after the end of each quarter. At the same time, companies must make an advance tax payment. Many businesses choose to set up a tripartite agreement with their local bank and the tax authority. This allows CIT to be automatically withdrawn from their bank account.

Apart from quarterly filings, companies must also complete an annual CIT reconciliation. This is due within five months after the end of the tax year — by May 31. Because Chinese accounting standards differ from tax laws, companies often need to adjust the income they reported in their quarterly payments during this annual review.

If the company has overpaid, it can apply for a tax refund. If it has underpaid, it must pay the remaining tax owed. The annual audit and compliance checks are closely tied to this reconciliation process.

Withholding CIT in China

If your company is not based in China and doesn't have a legal presence (like a branch or office) in the country, Chinese tax still applies, but only on income earned from China.

What types of income are taxed?

Only income that comes directly from China is subject to withholding tax. This includes:

| |
|-------------------------------------|
| Dividends from Chinese subsidiaries |
|-------------------------------------|

Royalties for intellectual property like patents or trademarks

Interest from lending money to a Chinese business

Other China-source income (as defined by local tax authorities)

Who handles the tax?

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The Chinese business that's paying you is required to withhold the tax from your payment and send it to the tax bureau on your behalf. You simply receive the remaining amount.

How much tax do you pay?

This part is a bit technical, but here's the simple version:

CIT in China is normally **25%**

But since your business is overseas, you're not taxed on actual profits. Instead, tax authorities use an estimate called a "deemed profit rate" (usually 15% to 50%)

So they multiply 25% by this "deemed" profit to get your final tax

Most often, they assume a 40% profit, so you end up paying:


$$25\% \times 40\% = 10\% \text{ withholding tax}$$

This tax can be further reduced in two ways:

Applying for a lower deemed profit rate (if you can prove your profit is lower)

Claiming tax treaty benefits if your country has a Double Tax Agreement (DTA) with China.

Manage your China Corporate Income Tax, with MSA

CIT is a key part of doing business in China, whether you are setting up a local entity or just  receiving income from Chinese sources. The standard CIT rate is 25%, but the actual tax you pay can vary. Some businesses qualify for lower rates through government incentives, while non-resident companies may face withholding tax on income like dividends, interest, or royalties.
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Compliance involves more than just paying tax. Companies must file quarterly returns, complete an annual reconciliation, and manage withholding obligations properly if they are making payments to overseas parties. Mistakes or delays can lead to penalties or missed opportunities for tax relief.

MSA (<https://msadvisory.com/contact/>) supports businesses with hiring, payments, and tax compliance in China. Our team helps you stay aligned with local tax rules and apply any eligible reductions, such as treaty benefits or preferential policies. A clear understanding of CIT can save you money and help you avoid compliance issues as you grow your presence in China.



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