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# China's Digital Taxation and Annual Corporate Income Tax Reconciliation

2022 Overview and 2023 Outlook

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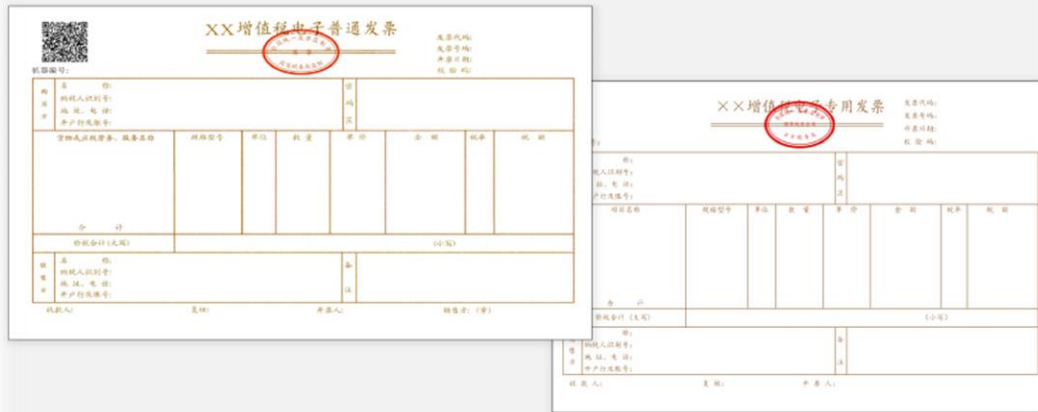


**Part 1**  
**China's Digitalization of**  
**Taxation**



# E-invoice (E-fapiao)

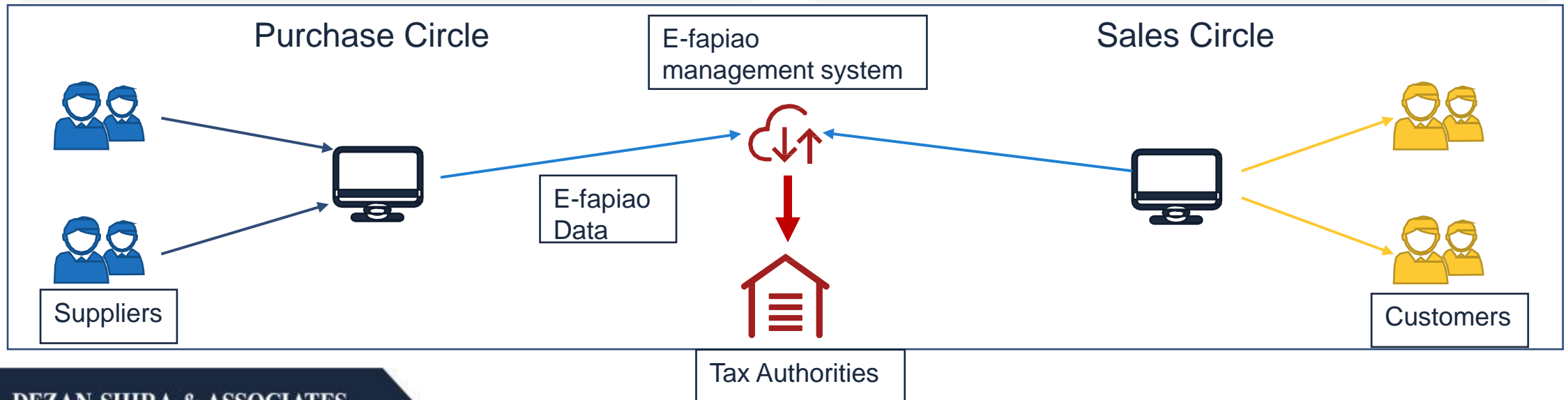
China's VAT E-Fapiao



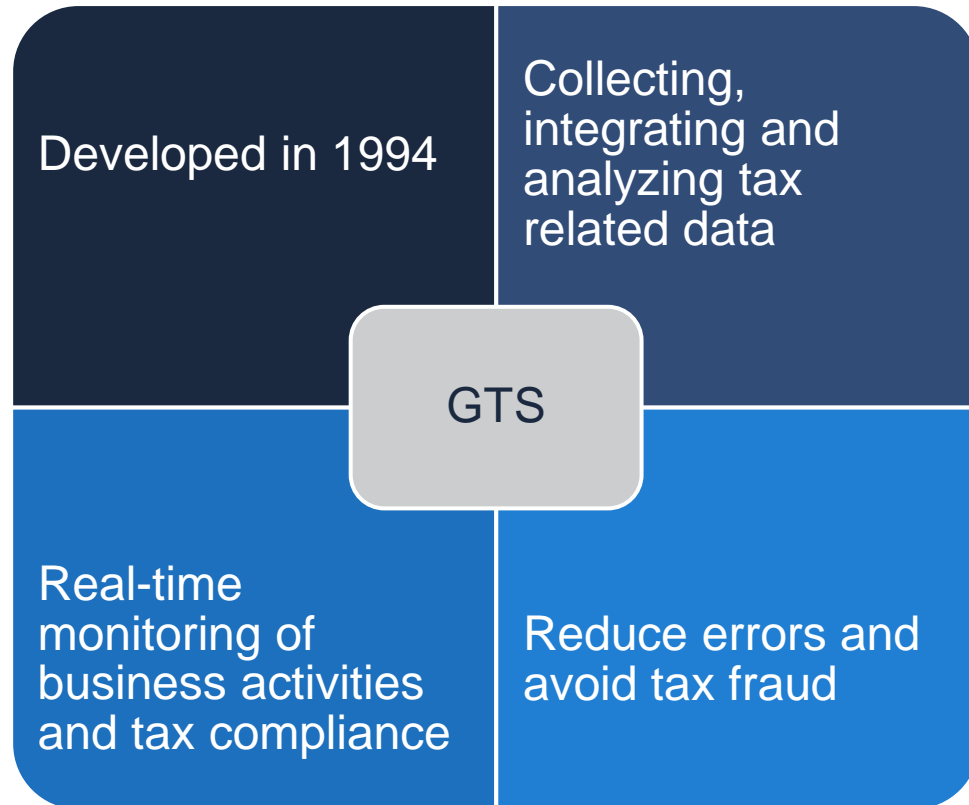
Fully Digitalized General VAT E-Fapiao



Fully Digitalized Special VAT E-Fapiao



# Golden Tax System Phase IV



# Golden Tax System Phase IV

## - Impact on Annual CIT Reconciliation



Companies must gather all the relevant financial and tax data from the previous year, including income statements, balance sheets, and tax returns.

Companies must submit a final CIT return to the tax authorities by May 31.

**GTS identify discrepancies between financial statements and tax filings.**

Companies must take action to address the issues and mitigate potential tax risks.



**Part 2**  
**2022 China CIT Policy**  
**Review**

# 2022 China CIT Policy Review

Tax Cut policy on  
small-scale and  
thin-profit  
enterprises

Increased super  
deduction ratio of  
R&D expenses

New CIT incentives  
in Qianhai and  
Nansha of  
Guangzhou



# Tax Cut policy on Small Businesses

## Preferential Tax Rate

- **2.5%** for annual taxable income up to 1 million CNY, starting from 1 January 2021 until 31 December 2022
- **5%** for annual taxable income from 1 million to 3 million CNY, starting from 1 January 2022 until 31 December 2024
- Example:

	Normal Enterprises	Qualified Small Businesses
Annual taxable income	2,000,000	2,000,000
Tax rate	25%	1,000,000*2.5% = 25,000 1,000,000* 5%=50,000
CIT payable	500,000	75,000
CIT Saving		<b>85%</b>

# Tax Cut policy on Small Businesses

## One-time Deduction on New Equipment

- Qualified small and micro enterprises
- Equipment and appliances purchased
- between **January 1, 2022, and December 31, 2022**
- **Unit value > CNY 5 million**
- Deduction Ratio:

Minimum Depreciation Period	Deductible Ratio in 2022
3 years	100%
4, 5, 10 years	50%

Industry	Headcount	Annual Revenue	Total Assets
Construction, information, transmission, leasing, business services	2,000	1 billion CNY	1.2 billion CNY
Real estate	-	200 million CNY	100 million CNY
Others	1,000	400 million CNY	-

# Tax Cut policy on Small Businesses

## One-time Deduction on New Equipment

**Example:** A small manufacturing company purchased an equipment worth **800,000 CNY** in **February 2022**. The company has less than 1,000 employees and generates less than 400 million CNY in annual revenue. The minimum depreciation period of this equipment is **10 years**.

Year	Deductible Expenses	Year	Deductible Expenses
2022	$800,000 * 50\% = 400,000$	2027	44,444.44
2023	$(800,000 - 400,000) / 9 = 44,444.44$	2028	44,444.44
2024	44,444.44	2029	44,444.44
2025	44,444.44	2030	44,444.44
2026	44,444.44	2031	44,444.48

# New Technology Innovation Incentive Policies

1

- High-tech enterprises can **fully deduct** the expenses for purchase of new equipment and appliances in Q4 2022 and enjoy a **100% super deduction**

2

- Increase the super deduction ratio from 75% to **100%** during the same period

3

- Enterprises that provide funding to non-profit scientific and technological research and development institutions, higher education institutions, and government natural science funds for **basic research** expenses are allowed to deduct the actual expenses incurred from their taxable income before tax and enjoy a 100% pre-tax additional deduction.



# New Technology Innovation Incentive Policies

## - Example

- Company X is a high-tech enterprise that plans to purchase new equipment worth 5 million yuan between October 1st and December 31st, 2022.
- The company's total taxable income for the year is 20 million yuan, and it is subject to a corporate income tax rate of 15%.
- Company X donates 2 million yuan to a non-profit scientific research organization for fund basic research projects between October 1st and December 31st, 2022.

	Amount (million CNY)
Annual taxable income	20
CIT payable (15%)	$20 \times 15\% = 3$
- Equipment expenditures	$5 \times 15\% = -0.75$
- 100% super deduction	$5 \times 15\% = -0.75$
- Donation	$2 \times 15\% = -0.3$
- 100% super deduction	$2 \times 15\% = -0.3$
<b>Total CIT savings</b>	<b>2.1</b>

# New Regional Tax Incentives in Hengqin and Nansha

	Hengqin	Nansha	Hainan
CIT – 15%	From January 1, 2021	January 1, 2022 – December 31 2026	January 1, 2020 – December 31 2024
CIT – tax exemption on offshore income	Tax exemption on the income from new overseas direct investment – applicable to tourism, modern service and high-tech industries	N/A	Tax exemption on the income from new overseas direct investment – applicable to tourism, modern service and high-tech industries
CIT – extended tax loss carryforward period	N/A	Carry forward losses up to 13 years for HNTE or technological SME	N/A
IIT - IIT subsidy or preferential policy	<ul style="list-style-type: none"> <li>15% IIT for domestic or overseas high-end talents</li> <li>Tax equalization for Macao residents</li> </ul>	<ul style="list-style-type: none"> <li>Tax equalization for Macao residents</li> <li>Tax equalization for Hong Kong residents</li> </ul>	15% IIT for domestic or overseas high-end talents



# Part 3 2023 China Tax Outlook

# 2023 China Tax Outlook







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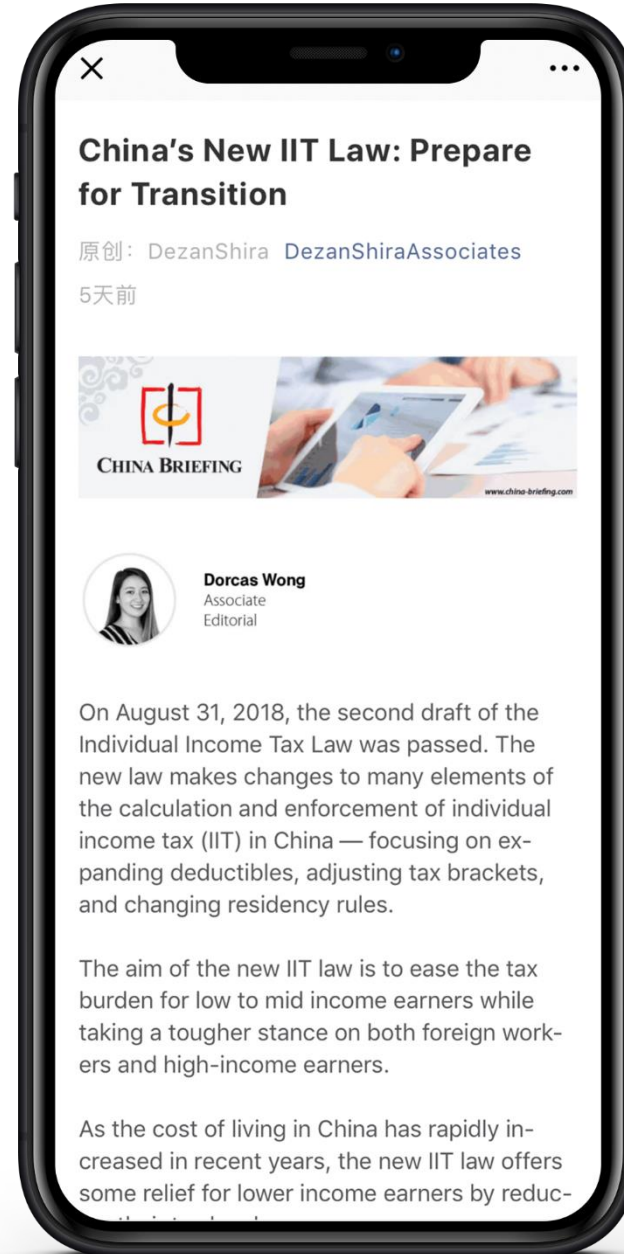


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