China’s Taxation System and Fiscal Policy

**Course Code:**EMAE620014 **Number of credits:**3

**I. Instructor Information:**

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**II. Course Description**

This course is designed to introduce China’s taxation system and fiscal policy. It will start with a brief description of the level of China’s tax revenue, China’s tax legislation system, tax collection and administration system and the taxes payable in China. Then the course will cover the rules of China’s major taxes. Various elements such as the scope, taxpayers, taxable items, rates and incentives of these taxes will be discussed. After that, we will recall the major measures taken in China’s last two rounds of tax reform and try to forecast the possible steps of future tax reform. In addition, we will discuss China’s budget system, intergovernmental fiscal relationship and the major fiscal policy measures and their effects.

**III. Course Objectives**

Students will be expected to:

1. understand China’s overall tax structure;
2. get familiar with the determination of the tax liability of international taxpayers in China
3. be able to analyze the causes and effects of the major measures of China’s tax reform;
4. understand China’s budget structure and the arrangement of intergovernmental revenue sharing
5. be able to analyze the causes and effects of the China’s major fiscal policy measures.

**IV. Course Materials**

1. China Tax Guide (in English and Chinese), China Tax Press,2013.
2. Devonshire-Ellis, C., Scott, A., & Woollard, S. (2011). The China tax guide. Springer.
3. Report on the implementation of central and local budgets for 2012 and on draft central and local budgets for 2013,presented by Minister of Finance to CPC
4. China 2030：Building a Modern, Harmonious, and Creative High-Income Society，The World Bank & China’s Development Research Center of the State Council
5. Other reading materials about China’s taxation system and fiscal policy

**V. Course Delivery**

The main part of each class will be teacher’s instruction. Students are encouraged to express their views and participate in the class discussion. Homework will be assigned twice and there will be an open-book final exam. The teaching will be mainly based on teacher’s PPT and supplementary reading materials.

**VI. Assessment**

Students’ final grade will be evaluated according to their homework performance (20%), class discussion performance (10%) and final exam scores (70%).

**VII. Course Schedule (16 weeks)**

Part I Overview of China’s taxation system (1 weeks)

1. Tax statistics
 *( including discussion on Tax-GDP ratio)*
2. Taxes payable
 *( including discussion on tax structure and role of three major GSTs)*
3. Tax legislation
4. Tax administration
 *(including discussion on revenue-sharing system)*
5. Tax terminology

Part II Income taxes

1. Enterprise income tax(5weeks)
2. Determination of the tax liability
* Determining the gross taxable income
scope of taxation for resident enterprise vs. non-resident enterprise
gross taxable items
* Determining the net taxable income
deductible items
deductible items with limit
* Determining the gross tax payable
standard rate, reduced rate & WHT rate
* Determining the net tax payable
FTC/investment credit
1. The international aspects
* EIT for Chinese resident enterprises deriving foreign-source income
General rules of foreign tax credit

Credit limit with foreign-source income from multiple countries or of multiple items

Rules of Credit for foreign taxes paid on dividends

* EIT for Chinese non-resident enterprises deriving domestic-source income
Tax liability of non-resident enterprise

Determination of source of income

Determination of the existence of Permanent Establishments

The assessment mode for NREs

Withholding tax under tax treaties

Tax sparing credit

1. Tax incentives
* Different kinds of tax incentives
* Rules of tax incentives
1. Anti-avoidance rules
* General anti-avoidance rules (GAAR)
* Transfer pricing rules
* Thin capitalization rules
* Controlled foreign company rules
1. Individual income tax(3weeks)
2. General features of China’s IIT system
* 11 categories of taxable income
* General tax exemption and reduction
* WHT rate under tax treaties
* Tax report and assessment
1. Calculation of IIT payable for international taxpayers
* wages and salaries
	+ Determining the gross taxable income
	Definition of tax resident
	Computing length of stay
	Determination of China-source income
	Taxable income for individuals without domicile in China in practice
	+ Determining the net taxable income
	General deduction(standard deduction plus social insurance expenses)
	Special deduction for foreigners
	Additional allowance for foreigners
	Exemption for foreign experts
	+ Determining the gross tax payable
	The progressive rate schedule

Tax liability for foreigners holding posts both in China and overseas
Special rules for directors and senior managers

* + Determining the net tax payable
	Foreign tax credit
* income of individual business income
	+ Deduction rules and rate schedule
	+ Partnership and Partner’s tax
* remuneration for personal services
* remuneration for manuscripts
* royalties
* interest, dividends or bonuses
* income from lease of property
* income from transfer of property
* contingent income
* other income
1. Further discussion: Income tax of alternative business form

Part III Goods and service taxes (2weeks)

1. Value-added tax
2. Consumption tax
3. Business tax
4. Urban maintenance and construction tax and education surcharge
5. Customs duties

Part IV Property taxes and other taxes (1week)

1. House property tax
2. Urban and township land use tax
3. Vehicle and vessel tax
4. Stamp tax
5. Deed
6. Vehicle purchase tax
7. Land appreciation tax
8. Farmland occupation tax
9. Resource tax

Part V China’s tax reform (1week )

1. Tax reform from late 1970’s to the beginning of 1990’s
2. The tax reform in 1994
3. New round of tax reform
4. VAT;
* VAT Transition
* VAT Enlargement
1. Consumption tax;
2. Enterprise income tax;
3. Individual income tax;
4. Property tax;
5. Resource tax；
6. Environmental tax

Part VI China’s fiscal policy and policy (1week)

1. China’s budget system
2. China’s fiscal policy
3. China’s intergovernmental fiscal relationship

Part VII Review and final exam (2weeks)

**VIII. References**

1. Liu,Z. & Du, L. (2013). China tax guide 2012 (in Chinese and English) .China Law Press.
2. Devonshire-Ellis, C., Scott, A., & Woollard, S. (2011). The China tax guide. Springer.
3. [Report on the implementation of central and local budgets for 2014 and on draft central and local budgets for 2015,presented by Minister of Finance to CPC](http://www.npc.gov.cn/englishnpc/Speeches/2014-03/18/content_1856702.htm)
4. China 2030：Building a Modern, Harmonious, and Creative High-Income Society，The World Bank & China’s Development Research Center of the State Council
5. China tax laws, regulations and circulars (in English, translated by the instructor)
6. Other reading materials about China’s taxation system and fiscal policy