

Foreign Tax Credit System

A new step in China

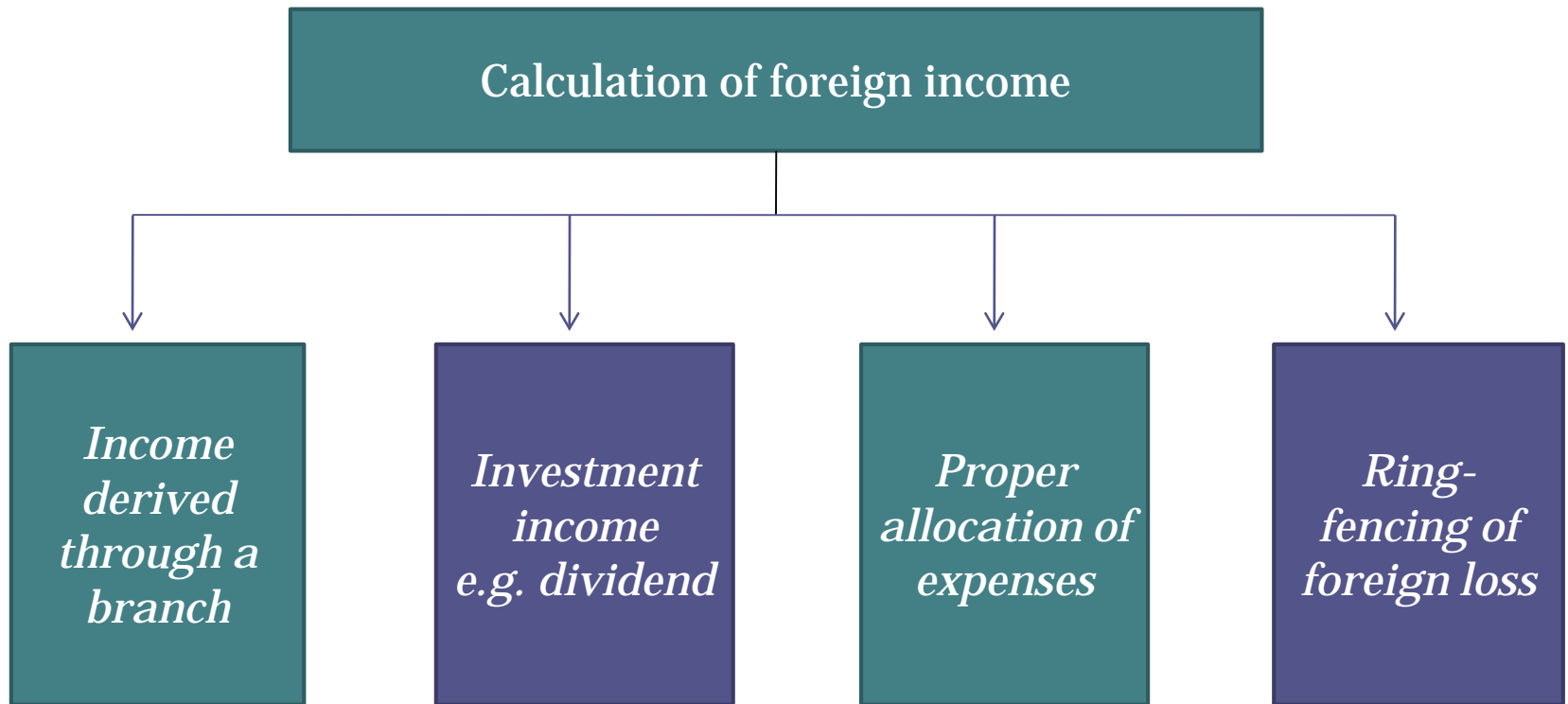
XU Yuncheng, State Administration of Taxation, PRC

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Tokyo, April 10-11, 2018

Background

- **Worldwide taxation v.s. Territorial taxation**
- **Two ways to avoid double taxation**
 - Foreign tax credit**
 - Tax exemption**

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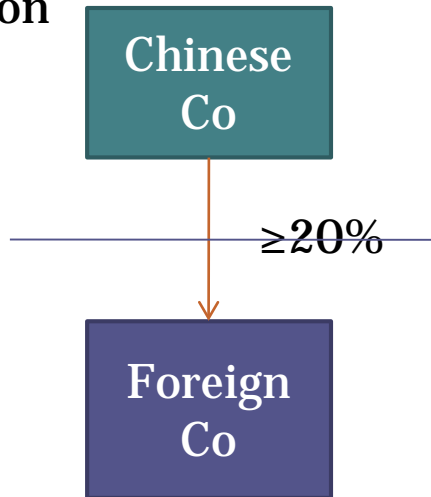
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Country-by-country and overall credit limitation

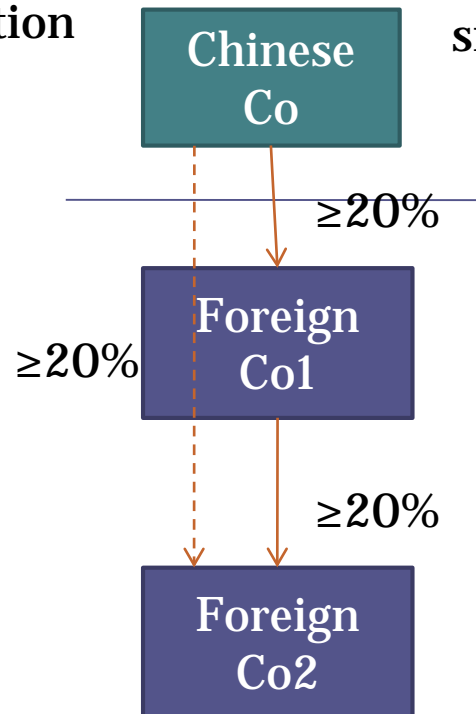
FTC limit=(total enterprise income tax(EIT)payable computed pursuant to Chinese tax law on worldwide taxable income \times (taxable income sourced from a particular country/total worldwide taxable income)

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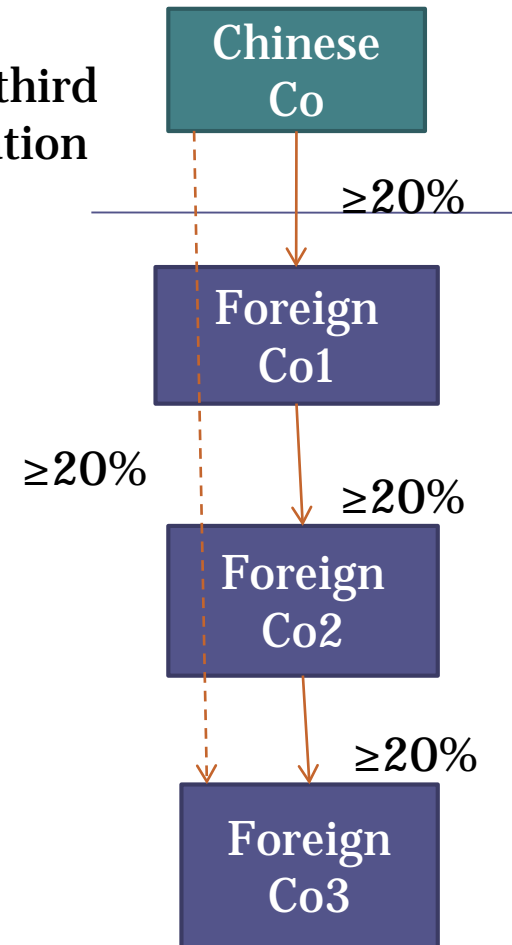
The first situation



The second situation



The third situation



New step

- **Published in Dec. 2017 and effective from Jan.1 2017 retroactively**
- **Two main change**
 - **introduce the new method which will abolish “country by country ” calculation and allow for general tax credit limit**
 - **allow for 5 tiers in the circumstance of indirect credit**

Rationales

- **The need from the accumulative outbound investment in China**
- **The alignment with current trend in corporate taxation**