

## China Taxation Tax-related Issues of Annual Party

Chinese New Year is coming, enterprises usually hold an annual party to show gratitude to customers, boost employee morale, deepen internal communication and promote strategic sharing. For the annual party, certain tax-related risks such as venue leasing, employee's reward, customer entertainment and other activities might occurs are as following:

### 1. Venue leasing

According to Chinese tax law, income by hotels, resort, and other businesses premisses providing conference venues and supporting services shall pay Value Added Tax based on 'conference and exhibition service'.

Therefore, business premises forementioned shall issue invoices in 'conference and exhibition service' instead of 'venue rental fee'.

### 2. Employee bonus

According to Chinese tax law, salary income includes salary, bonus, year-end salary raises, dividend, allowance, subsidy and other income incurred from employment.

Therefore, enterprise shall withhold and pay Individual Income Tax for cash bonus given to excellent staff in annual party as 'salary income'.

### 3. Self-produced products distributed as prizes

According to Chinese tax law, enterprises or individual business present goods of self-produced, entrusted processed or purchased to other enterprises or individuals in free shall be regarded as selling and shall pay Value Added Tax. Enterprise assets gifted to employee as reward or welfare shall be regarded as selling and shall pay Corporate Income Tax because the ownership of the assets has changed.

#### SHENZHEN 深圳

Rooms 1203-06, 12/F.  
Di Wang Commercial Centre  
5002 Shennan Road East  
Luohu District, Shenzhen, China  
中國深圳市羅湖區深南東路5002號  
地王商業中心12樓1203-06室  
T: +86 755 8268 4480

#### SHANGHAI 上海

Room 603, 6/F., Tower B  
Guangqi Culture Plaza  
2899A Xietu Road, Xuhui District  
Shanghai, China  
中國上海市徐匯區斜土路2899甲號  
光啓文化廣場B座6樓603室  
T: +86 21 6439 4114

#### BEIJING 北京

Room 303, 3/F.  
Interchina Commercial Building  
33 Dengshikou Street  
Dongcheng District, Beijing, China  
中國北京市東城區燈市口大街33號  
國中商業大廈3樓303室  
T: +86 10 6210 1890

#### SINGAPORE 新加坡

138 Cecil Street, #13-02 Cecil Court  
Singapore 069538  
新加坡絲絲街138號  
絲絲閣13樓1302室  
郵政編碼: 069538  
T: +65 6438 0116

#### TAIPEI 台北

Room 303, 3/F., 142 Section 4  
Chung Hsiao East Road  
Daan District, Taipei  
Taiwan 10688  
台灣台北市大安區忠孝東路四段  
142號3樓之3  
郵政編碼: 10688  
T: +886 2 2711 1324

#### NEW YORK 紐約

202 Canal Street, Suite 303, 3/F.  
New York, NY 10013, USA  
美國紐約州紐約市  
堅尼路202號3樓303室  
郵政編碼: 10013  
T: +1 646 850 5888

#### LONDON 倫敦

Room 319, 3/F., One Elmfield Park  
Bromley, Greater London  
BR1 1LU, UK  
英國倫敦布羅姆利  
雅茅菲爾德公園一號3樓319室  
郵政編碼: BR1 1LU  
T: +44 20 8176 3860

Therefore, enterprise shall pay Value Added Tax and Corporate Income Tax if they gift self-produced products to employees as lucky draw prize in annual party.

4. Wechat red packets gave by individual

According to Chinese tax law, if enterprises give presents to individual outside their enterprises in annual party, symposiums, celebrations and other activities, the fair value of the presents incurred shall pay Individual Income Tax as ‘contingent income’.

Hence, employees are exempted from Individual Income Tax if they receive red packets in Wechat group from enterprises management.

5. Business entertainment

According to Chinese tax law, ‘input tax deduction for domestic transportation service’ is limited to domestic passengers who sign labour contracts with enterprises and those dispatched as labour to enterprises.

Therefore, if enterprises invite clients to annual party and reimburse their transportation expenses, the relevant input tax is not allowed to be offset against output tax.

6. Purchased gift present to client

According to Chinese tax law, enterprises or individual business that present goods of self-produced, entrusted processed or purchased to other enterprises or individuals in free shall be regarded as selling and shall pay Value Added Tax. Enterprise’s assets gifted for business entertainment shall be regarded as selling and shall pay Corporate Income Tax. In addition, if gifts are presented to individuals outside the enterprises in annual party, symposiums, celebrations and other activities, the fair value of the presents incurred shall pay Individual Income Tax as ‘contingent income’.

Therefore, enterprises shall pay Value Added Tax and Corporate Income Tax if they give out purchased gifts to clients in annual party. In the meantime, enterprise shall fulfill the obligation of withholding and payment of Individual Income Tax to ‘contingent income’.

**KAIZEN Group** is equipped with experienced and highly qualified professional consultants and is therefore well positioned to provide professional advice and services in respect of the formation and registration of company, application for various business licences and permits, company compliance, tax planning, audit and accounting in China. Please call and talk to our professional consultants for details.



If you need assistance or wish to obtain more information, please visit our official website at [www.kaizencpa.com](http://www.kaizencpa.com) or contact us through the following methods:

**E:** info@kaizencpa.com **T:** +852 2341 1444

**M:** +852 5616 4140, +86 1521 9434 614

**WhatsApp/Line/WeChat:** +852 5616 4140

**Skype:** kaizencpa