# General Office of the State Council Printed and Distributed the Circular Concerning the Plan for the Division of Labor of Departments on Implementing Several Opinions of the State Council on Futher Handling Well the Utilization of Foreign Investment

Guo Ban Han [2010] No. 128

Relevant departments of the State Council

The Plan for the Division of Labor of Departments on Implementing Several Opinions of the State Council on Futher Handling Well the Utilization of Foreign Investment (hereinafter referred to as the Plan for the Division of Labor), which has been approved by the State Council, is hereby printed and distributed to you, and please carry it out seriously.

Relevant departments shall earnestly carry out and implement the spirit of the Several Opinions of the State Council on Futher Handling Well the Utilization of Foreign Investment (Guo Fa [2010] No. 9), specify responsibilities, strengthen leadership, fullfil their own duties and firmly implement the work, also further detail the work related to themselves as prescribed in the Plan for the Division of Labor and promptly formulate specific measures and organize the implementation as soon as possible. In case the same work is involved in many departments, the departments shall conduct close cooperation and the lead department shall strengthen coordination. The National Development and Reform Commission(NDRC) and the Ministry of Commerce (MOFCOM) shall submit the status of the annual completion of vorious works to the State Council together with related departments, and the General Office of the State Council will carry out inspection on the implementation of key works at an appropriate time.

General Office of the State Council August 18, 2010

## Plan for the Division of Labor of Departments on Implementing Several Opinions of the State Council on Futher Handling Well the Utilization of Foreign Investment

- Optimize the structure of foreign investment utilization
- The Catalogue for the Guidance of Foreign Investment Industries shall be amended in accordance with the requirements for Chinese economic growth and combined with the state industrial restructuring and revitalization plan to expand the open fields and encourage foreign investment in high-end manufacturing, hi-tech industry, modern service industry and new energy and energy-saving and environmental protection industry, and place severe restrictions on "high-polluting, high-energy-consuming and resource-dependent" and low-level and overcapacity expansion projects. (NDRC and MOFCOM with the first being the lead department, the same below)
- (11) The policies and measures as prescribed in the the state industrial restructuring and revitalization plan shall be applied to qualified foreign-invested enterprises. (NDRC and the MIIT)
- (III) Priority shall be given to the foreign investment projects intensively using land encouraged by the state in land use, which shall be executed at 70% of the corresponding land with the ranking not lower than the land they occupy upon the determination of the minimum land transfer price as prescribed in the State Standard for the Minimum Price of Transfer of Land for Industry Use. (Ministry of Land and Resources)
- (IV) Foreign investment shall be encouraged in the hi-tech enterprises and the recognition on hi-tech enterprises shall be improved. (MOST, MOF and SAT together with such departments as NDRC, MOFCOM and MIIT)

- (V) Domestic and foreign enterprises shall be encouraged to enhance RAD cooperation and qualified foreign investment enterprises shall be supported to cooperate with domestic enterprises and research institutes to apply for the scientific development projects and innovation capacity building projects of the state. (NDRC, MOST and MOF)
  - And application shall be filed for the recognition of the establishment of the national-level technology center. (NDRC, MOST, MOF, GAC, and SAT)
- (VI) Transnationals shall be encouraged to set up such functional agencies as regional headquarters, R&D centers, procurement centers, finance management centers, settlement centers and cost and profits accounting centers within China (MOFCOM, SAFE, CBRC, NDRC, MOF and SAIC)
  - Qualified scientific development products imported and indeed needed by foreign-funed R&D centers shall be exempt from import tariff and the added value tax and consumption tax in the import prior to December 31, 2010. (MOF, MOFCOM, GAC and SAT)
- (VII) Supporting policy shall be implemented and improved to encourage foreign investment in the services outsourcing industry and introduction of advanced technology and management experience so as to raise the international competitiveness of the services outsourcing industry of China. (MOFCOM)
- Guide foreign investment in the central and western area and increase of investment
- (VIII) In compliance with the amended Catalogue for the Guidance of Foreign Investment Industries and the supplementary amendment to the Catalogue for Foreign Investment in Competitive Industries in the Central and Western Area, labor-intensive items shall be increased to encourage foreign invested enterprises to develop qualified labor-intensive industries in the central and western area. (NDRC and MOFCOM)
- CCX) Preferential policies for business income tax shall be continuously subject to qualified domestic and foreign-funded enterprises in the central and western area to maintain the good trend of absorbing foreign investment. (WOF, NDRC, MOFCOM and SAT)
- (X) The strength in the open policies and technology and capital supporting for the shif of foreign-funded enterprises in the east to the central and western area shall be intensified and administrative services shall be simultaneously improved to provide convenience while handling the formalities of industry and commerce, taxation, foreign exchange and social security. (NDRC, MOFCOM, MOF, MOHRSS, SAIC, AQSIQ, SAT and SAFE)
  - Foreign-funded banks shall be encouraged and guided to establish agencies and operate business in the central and western area. (CBRC)
- (XI) The east and the central and western area shall be encouraged to be market-oriented to jointly set up development zones by means of mandatory administration and investment cooperation in the principle of complementary advantages, industrial linkage and benefit sharing. (NDRC and MOFCOM)
- Promote the diversification of foreign investment utilization
- (XII) Foreign investment shall be encouraged in such forms as participation and M&A to participate in the reform and restructuring and merger and reorganization of domestic enterprises. A-share listed companies shall be supported to introduce strategic investors from home and abroad. And regulations shall be conducted for foreign investors to participate in securities investment and corporate M&A within China. (MOPCOM, CSRC, NDRC and MIIT)
  - Antitrust scrutiny shall be executed by force of law. (MOFCOM, NDRC and SAIC taking responsibilitis in accordance with the duties)
  - Foreign-capital M&A security review system shall be accelerated to be set up. (NDRC and MOF(COM)
- (MIII) Overseas capital market shall be utilized to continuously bolster qualified enterprises to be listed overseas in accordance with the state development strategy and their own situations to make full use of two markets and two kinds of resources to constantly improve competitiveness. (CSMC, NDRC and MOFCOM)
- (VIV) The pilot program on utilizing foreign investment to set up small and medium-sized enterprises bonding companies shall be sped up. (NDRC and MOPCOM)

- Foreign investors shall be encouraged to establish venture investment enterprises, initiatives shall be taken to utilize private equity funds and the withdrawal mechanism shall be improved. (NDRC, MOFCOM, SAIC, CSRC and SAFE)
- (W) Qualified forcign investment enterprises shall be supported to conduct initial public offering and issue corporate bonds and medium-term notes to widen the financing channels to guide financial institutions to continuously intensify the credit support for foreign investment enterprises. Overseas subject engaging in issuing RMB bonds within China shall be steadily being expanded. (PBOC, CSRC, CBRC, NDRC and MOFCOW)

Deepen the reform of the foreign investment management system

- (VVI) Encourage and permission projects with total investment (inclusive of increase of capital) as prescribed in the Catalogue for the Guidance of Foreign Investment Industries shall be verified and approved by relevant departments of local governments unless otherwide provided for by the Catalogue for the Investment Items Verified and Approved by Governments. (NDRC)
  - Relevant departments of the State Council may delegate the approval items in the charge of themselves to local governments under the premise of strengthening supervision and administration unless otherwide specified by laws and regulations, with the establishment of foreign investment enterprises in the service industry (exclusive of finance and telecommunication services) verified and approved by local governments according to relevant provisions. (MOPCOM and other departments)
- (AVII) The contents of verification and approval shall be adjusted and approval procedures shall be simplified to narrow the scope of verification and approval to the largest extent to enhance the transpancy of verification and approval. Verification and approval items involved in foreign investment shall be fully cleared to shorten the approval time. Approval procedures shall be improved to gradually carry out the formating approval of contract and articles of association for foreign investment enterprises nationwide and strongly implement online administrative licensing to regulate administrative acts on the basis of trial and summing up experience. (MOFCOM and NDRC)

Create a good environment of investment

(XVIII) Development zones shall be regulated and promoted to exert their role of carrier and platform in institutional innovation, scienfic and technical leading, industrial agglomeration, land consolidation and other aspects. (NDRC, Ministry of Land and Resources, MOHURD, MOST and MOFCOM)

Qualified provincial-level development zones shall be supported to upgrade and qualified national-level development zones to expand and adjust the locations. (with MOPCOM and MOST taking the lead according to duties and Ministry of Land and Resources, MOHURD and NDRC participating)

Qualified provincial-level development zones shall be supported to expand and adjust locations. (NDRC, Ministry of Land and Resources, MOHURD, MOST and MOFCOW)

Supporting policies and measures shall be prepared to speed up the construction of border economic cooperation zones. (MOFCOM, MOF, Ministry of Land and Resources and MOHURD)

(XIV) Foreign exchange management of foreign investment enterprises shall be further improved and the procedures of settlement of foreign exchange capital for foreign investment enterprises shall be simplified. (SAFE)

Foreign investment enterprises operating business by law but failing to make contribution on time temporarily for lack of capital shall be allowed to prolong the deadline of contribution. (SAIC and MOFICOM)

(XX) Investment promotion shall be stepped up and strength of recommendation and introduction of absorbing foreign investment from key countries and regions and industries shall be enhanced to extensively publicize Chinese policies for foreign investment utilization. Initiatives shall be taken to participate in multilateral investment cooperation to combine "absorb foreign investment" and "go abroad" to boost the cross-border investment policy environment to be constantly improved. (MOFCOM and NDRC)

## Several Opinions of the State Council on Further Utilizing Foreign Capital

Guo Fa [2010] No. 9

People's governments of provinces, autonomous areas and municipalities directly under the central government, ministries and commissions and departments directly under the State Council:

Utilizing foreign capital is the important content in China's basic state policy of opening up to the outside world. China has positively been attracting foreign investment and promoted industrial upgrading and technical progress since the opening up, with foreign-invested enterprises being the important component of the national economy. At present, Chinese advantage over utilizing foreign capital remains obvious. For the purpose of raising the quality and level of utilizing foreign capital and better giving full play to utilizing foreign capital in boosting scientific innovation, industrial upgrading and regional coordinated and balanced development, the following opinions are hereby put forward:

#### Optimize the structure of utilizing foreign capital

- (1) The Catalogue for the Guidance of Foreign Investment Industries shall in accordance with the economic growth of China and combining the national industrial restricturing and revitalization plan he revised to expand the open areas and encourage foreign capital to high-end manufacturing, high and new technology industry, modern service industry, new energy and energy-saving and environmental protection industry and "High-polluting, high-energy-consuming and resource-dependent" and low-level and overcapacity expansion projects strictly restricted.
- (2) The policies and measures in the national industrial restructuring and revitalization plan shall be simultaneously subject to qualified foreign-invested enterprises.
- (3) The priority of land use shall be given to the national encourage foreign-invested intense land use projects, which shall be executed based on no less than 70% of the corresponding land as prescribed in the National Standards for the Minimum Transfer Prices of Land for Industrial Purposes after confirming the minimum price.
- (4) Foreign investment in hi-tech enterprises shall be encouraged and hi-tech enterprise recognition improved and perfected.
- (5) Domestic and foreign enterprises shall be encouraged to strengthened R&D cooperation and qualified foreign-invested enterprises supported to cooperate with domestic enterprises and research institutes to apply for the national scientific development projects and innovation capability construction projects and the recognition of the establishment of the national technical center.
- (6) Transnational companies shall be encouraged to set up such functional institutes as regional headquarters, R&D centers, purchase centers, finance management centers, settlement center and cost and profit calculation centers within China. No tariffs and value-added tax and consumption tax of import shall be levied on the products for scientific development use indeed needed by qualified foreign-funded R&D centers prior to December 31, 2010, and
- (7) Supporting policies shall be implemented and perfected to encourage foreign investment in the service outsourcing industry so as to bring in advanced technologies and management experience to raise the international competitiveness of China's service outsourcing industry.
- Guide foreign capital to central and west China and increase of investment
- (8) In accordance with the amendment of the Catalogue for the Guidance of Foreign Investment Industries, the Catalogue of Priority Industries for Foreign Investment in the Central-Western Region shall be supplemented to add the items of labor-intense projects and encourage foreign businessmen to develop the labor-intense industries qualified for environmental protection in the central and western region.
- (9) The preferential policies of enterprise income tax shall be continuously subject to qualified domestic and foreign-invested enterprises in the central and west China to maintain the good momentum of growth in attracting foreign investment in the region.
- (10) The shift of foreign-invested enterprises in the east to the central-western region shall be strengthened the support in policy opening and supporting technologies and funds, and simultaneously, administrative services perfected to provide facility in handling such procedures as industry and commerce, taxation, foreign exchange and social insurance and encourage and guide foreign-funded banks to set up branches and conduct business in the central and west China.

- (11) The cast and the central-western region shall be encouraged to be market-oriented to jointly construct development zones in the principle of complementing advantages each other, industrial combination and jointly sharing profits in the forms of mandatory management and investment cooperation.
- Promote diversification of utilizing foreign capital
- (12)Foreign capital shall be encouraged to participate in the restructuring and merger of domestic enterprises by means of equity participation and acquisition, A-share listed companies supported to bring in domestic and overseas strategic investors, regulations s made for foreign capital participating in domestic securities investment and acquisition and antitrust scrutiny executed according to law and the establishment of the system of foreign capital merger and acquisition security scrutiny sped up.
- (13) Qualified enterprises shall be continuously supported to utilize overseas capital market to be listed in overseas market and make full use of two markets and two kinds of resources to constantly raise competitiveness in accordance with the national development strategy and self-development.
- (14) The pilot project in utilizing foreign capital to set up the minor enterprises guarantee companies shall be advanced and foreign businessmen encouraged to invest to set up investment enterprises, private equity and investment funds proactively utilized and exit mechanism perfected.
- (15) Qualified foreign-invested enterprises shall be bolstered to publicly issue stocks, corporate bonds and medium-term notes within China to widen financing channel and financial institutes guided to continuously strengthen support of credit loan for foreign-invested enterprises. The scale of overseas subjects issuing Renminbi within China shall be steadily expanded.
- Deepen the reform of the foreign investment management system
- (1b)The projects of encouragement and permission in the Catalogue for the Guidance of Foreign Investment Industries with the total investment (inclusive of increase of capital) below USD300m shall be approved by local governments except those approved by relevant departments under the State Council as prescribed in the Catalogue of Investment Projects Approved by the Government. Relevant departments under the State Council may authorize the local government to approve their responsible items under the premise of strengthening supervision except that laws and regulations specifically provide the projects shall be approved by relevant department under the State Council. The establishment of foreign-invested enterprises in the service area (exclusive of funance and telecommunication service) shall be approved by local government according to relevant provisions.
- (17) Approval contents shall be adjusted and approval procedures shall be simplified to narrow the approval and check scale to the maximum and strengthen the transparency of approval. Full clearance of approval items related to foreign investment shall be made to shorten the time of approval, improve the approval mode, gradually conduct the format approval of contract and article of association of foreign-invested enterprises across the country on the basis of conducting pilot program and summing up experience and strongly promote online administrative licensing and regulate administrative acts.
- Create a good investment environment
- (18)Development zone development shall be regulated and promoted to exert the carrier and platform role of development zones in institutional innovation, scientific leading, industrial cluster and land consolidation. Qualified provincial development zones shall be supported to upgrade and qualified national and provincial development zones supported to expand districts and adjust the locations of districts, with the policies and measures to speeding up the construction of border economic cooperation zones to formulate.
- (19) Foreign exchange management of foreign-invested enterprises shall be further perfected and the procedures of foreign exchange capital settlement for foreign-invested enterprises simplified. The foreign-invested enterprises operating by law but temporarily failing to make contribution on time for lack of capital shall be allowed to extend the deadline of contribution.
- (20) Investment promotion shall be intensified to strengthen the promotion and introduction to key countries, regions and industries to publicize Chinese policies of utilizing foreign capital and positively participate in multilateral investment cooperation to combine "absurb foreign capital" and "expand export" to boost the constant improvement of cross-border investment policy environment.
  - Relevant departments under the State Council and local people's governments at all levels shall reach an uniform consensus, adhere to the guideline of positively and effectively utilizing foreign capital, insist on self-independence, select foreign capital amid the best and boost the combination of "absorb foreign capital" and "bring in advancement" to constantly raise the quality of utilizing foreign capital, and also sum up the experience of reform and opening up and combine the new situation and requirements to further enhance reform and innovation and raise the facilitation to create a more open and optimized environment of environment so as to fully raise the level of utilizing foreign capital.

April 6, 2010

# Circular of the Ministry of Finance and the State Administration of Taxation concerning Lowering the Export Rebate Rates for Some

CommoditiesCai Shui [2007] No. 90Each department (bureau) of public finance, and state taxation bureau of each province, autonomous region, municipality directly under the Central Government and each city specifically designated in the state plan:The export rebate rates for some commodities have been adjusted upon approval of the State Council. The related matters are hereby noticed as follows:1. Cancel the export tax rebates for the following commodities:(1) Endangered animals and plants, and their products;(2) The mineral products such as salt, solvent naphtha, cement, liquefied propane, liquefied butane and liquefied petroleum gas;(3) Fertilizer (not including urea and diammonium phosphate for which the tax rebates have been cancelled);(4) Chemical product such as chlorine, dyestuffs (excluding fine chemical products);(s) Metal carbides and activated carbon products;(6) Leather;(7) Some wood boards and oneoff wood products;(8) Ordinary plain carbon welded pipe products (excluding petroleum casing pipes);(9) Simple products processed from nonferrous metals such as non-alloyed aluminum bars;(10) Segmented vessels and nonmotor vessels. See Appendix 1 for the names and HS codes of the specific commodities. 2. Lower the rates of export tax rebate for the following commodities:(1) The rate of export tax rebate for vegetable oil shall be lowered to 5%;(2) The rate of export tax rebate for some chemical products shall be lowered to 9% or 5%;(3) The rate of export tax rebate for plastic, rubber and their products shall be lowered to 5%;(4) The rate of export tax rebate for boxes shall be lowered to 11%, and the rate of export tax rebate for other leather and fur products shall be lowered to 5%;is) The rate of export tax rebate for paper products shall be lowered to 5%;iii) The rate of export tax rebate for garments shall be lowered to 11%;(7) The rate of export tax rebate for shoes, caps, umbrellas, and feather products, etc. shall be lowered to 11%;(8) The rate of export tax rebate for some stone materials, ceramic, glass, pearls, jewelries, precious metals and their products shall be lowered to 5%;(9) The rate of export tax rebate for some steel products (petroleum casing pipes excluded) shall be lowered to 5%, but the oceanographic engineering structures for domestic sale as stipulated in the "Circular of the Ministry of Finance and the State Administration of Taxation Concerning the Application of VAT Rebate to Oceanographic Engineering Structures" (Cai Shui [2003] No. 46) shall still be governed by the original rate of tax rebate;(10) The rate of export tax rebate for other base metals and their products (not including export rebates commodities which have been cancelled or which are being cancelled, as well as aluminum foils, aluminum pipes and aluminum structures, etc.) shall be lowered to 5%;(11) The rate of export tax rebate for planers, slotting machines, cutting machines, and broaching machines, etc. shall be lowered to 11%, and the rate of export tax debate for diesel engines, pumps, fans, exhaust valves and the parts thereof, rotary furnaces, coke furnaces, sewing machines, staplers, golf carts, oversnow vehicles, motorcycles, bicycles, trailers, elevators and the parts thereof, faucets, soldering machines, etc. shall be lowered to 9%;(12) The rate of export tax rebate for furniture shall be lowered to 11% or 9%;(13) The rate of export tax rebate for clocks, watches, toys and other miscellaneous products, etc. shall be lowered to 11%;(14) The rate of export tax rebate for some wood products shall be lowered to 5%;(15) The rate of export tax rebate for viscose fiber shall be lowered to 5%. See Appendix 2 for the names and HS codes of the specific commodities. 3. The following commodities shall be duty free when exported:Peanut kernels, canvas, decorative carved boards, postage stamps, duty stamps, etc. See Appendix 3 for the names and HS codes of the specific commodities. 4. Implementation FimeThe export rebate rates which have been adjusted for the commodities mentioned above shall be enforced as of July 1, 2007. The specific implementation time shall be the date of export as indicated on the customs' "Declaration Form for the Export of Goods (specially used for export rebates)". The original rebate rate shall be permitted to continue to apply to the export enterprise if it has signed a vessel export contract relating to cancelled export rebates before July 1, 2007, and brought the export contract (original copy and counterpart) to the taxation authority responsible for export rebate taxes for registration and archival filing before July 20, 2007, the export tax rebate treatment shall be considered as having been cancelled in case it fails to handle the procedures for archival filing before July 20, 2007. For the export equipment and building materials involved in a long-term foreign contracted engineering project for which an export enterprise eligible for foreign contracted engineering won the bid before July 1, 2007 or in a contract for long-term foreign contracted engineering including an unchangeable price which the enterprise concluded before July 1, 2007, the original export tax rebate rate shall be permitted to continue applying to the enterprise if the effective bid-winning certificate (original copy and duplicate), or the concluded contract for long-term foreign contracted engineering (original copy and duplicate) and the list of engineering estimation had been bought by the enterprise to the taxation authority responsible for export tax rebates for registration and archival filing before July 20, 2007. The adjusted export tax rebate policies shall apply if it fails to handle the procedures for archival filing before July 20, 2007. Appendixes: 1. List of Commodities the Export Rebates of Which Are Cancelled (omitted)2. List of Commodities the Export Rebate Rates of Which Are Lowered (omitted)3. List of Commodities Which Will be Duty Free (omitted) The Ministry of Finance The State Administration of Taxation June 19, 2007

Official Reply of the State Administration of Taxation about the Starting Time of the Implementation of Corporate Income Tax Deduction and

Exemption for Newly Founded Enterprises Guo Shui Han [2007] No. 365The State Taxation Bureau of Jiangsu Province: We have received your Request for Instructions about the Starting Time of the Implementation of Corporate Income Tax Deduction and Exemption for Newly Founded Enterprises (Su Guo Shui Fa [2007] No.16). Upon study, we hereby render a reply as follows: It is provided in Article 30 of the Notice of the State Administration of Taxation on Printing and Distributing the Measures for the Administration of Tax Deduction and Exemption (for Trial Implementation) (Guo Shui Fa [2005] No. 129) that: "The present Measures shall enter into force as of October 1, 2005. Where there is any previous provision conflicting with the present Measures, the latter shall prevail.", and Paragraph 2 of Article 15 of the Appendix provides that: "The production and operation day, as the starting time for the implementation of tax deduction and exemption for a newly founded enterprise, shall be the day when the related taxpayer gains its first income." The two provisions may only be applicable to the enterprises set up after October 1, 2005. The judgment on whether a taxpayer may enjoy the preferential policy on tax deduction and exemption for newly founded enterprises shall be based on the time of its establishment instead of the time when the application for tax deduction and exemption is made. As regards an enterprise set up prior to October 1, 2005 and gains the first income after October 1, 2005, the deducted or exempted taxes shall be calculated subject to the provision of the Official Reply of the State Administration of Taxation about Standards for the Implementation of Income Tax Preferences for Newly Founded Enterprises (Guo Shui Han [2003] No.1239). The State Administration of TaxationMarch 27th, 2007

Order of the President of the People's Republic of ChinaNo. 63The Enterprise Income Tax Law of the People's Republic of China has been adopted at the 5th Session of the 10th National People's Congress of the People's Republic of China on March 16, 2007. It is hereby promulgated and shall go into effect as of January 1,

2008. President of the People's Republic of China Hu Jintao March 16, 2007 Enterprise Income Tax

Law of the People's Republic of China(Adopted at the 5th Session of the 10th National People's Congress of the People's Republic of China on March 16, 2007) Contents Chapter I General Rules Chapter II Taxable Income Amount Chapter III Payable Tax Amount Chapter IV Preferential Tax Treatments Chapter V Withholding by Sources Chapter VI Special Adjustments to Tax Payments Chapter VII Administration of Tax LevyChapter VIII Supplementary Rules Chapter I General Rules Anticle 1. The enterprises and other organizations which have incomes (hereinafter referred to as the enterprises) within the territory of the People's Republic of China shall be payers of the enterprise income tax and shall pay their enterprise income taxes according to the present Law. The sole individual proprietorship enterprises and partnership enterprises are not governed by the present law. Anicle? Enterprises are classified into resident and non-resident enterprises. The term "resident enterprise" as mentioned in the present Law means an enterprise which is set up under Chinese law within the territory of China, or set up under the law of a foreign country (region) but whose actual management organ is within the territory of China. The term "non-resident enterprise" as mentioned in the present Law means an enterprise which is set up under the law of a foreign country (region) and whose actual management organ is not within the territory of China but who has organs or establishments within the territory of China, or who does not have any organ or establishment within the territory of China but who has incomes sourced in China. Article 3 For its incomes sourced from both inside and outside the territory of China, a resident enterprise shall pay the enterprise income tax. In case a non-resident enterprise sets up an organ or establishment within the territory of China, it shall pay enterprise income tax on its incomes sourced inside the territory of China and incomes sourced outside the territory of China but actually connected with the said organ or establishment. In case a non-resident enterprise has no organ or establishment within the territory of China, or its incomes have no actual connection to its organ or establishment inside the territory of China, it shall pay enterprise income tax on the incomes sourced inside the territory of China. Anicle 4 The enterprise income tax shall be levied at the rate of 25%. In case a non-resident enterprise obtains incomes as mentioned in Paragraph 3, Article 3 of the present Law, the tax rate shall be 20%. Chapter 11 Taxable Income Amountaniele 5 The balance after the tax-free and tax-exempt incomes, each deduction item as well as the permitted remedies for losses of the previous year(s) being deducted from an enterprise's total income amount of each tax year shall be the taxable income amount. Anicle 6 An enterprise's total income amount refers to the monetary and non-monetary incomes from various sources and includes:(1) income from selling goods(2) income from providing labor services; in income from transferring property; equity investment gains, such as dividend, bonus;(5) interest incomes;(6) rental income;(7) royalty income;(8) income from accepting donations; and(9) other incomes. Article 7 The tax-free income refers to the following incomes which are included in the total income amount(1)) The treasury appropriations(2) The administrative fees and the governmental funds which are levied in accordance with the law and fall under the treasury administration; and (3) Other tax-free incomes as prescribed by the State Council. Article 8 When calculating the taxable income amount, the reasonable expenditures which actually happened and have actual connection with the business operations of an enterprise, including the costs, expenditures, taxes, losses, etc. may be deducted. Anick o As regards an enterprise's expenditures for public welfare

donations, the portion within 12% of the total annual profits is permitted to be deducted. Article 10 When calculating the taxable income amount, none of the following expenditures may be deducted:(1) Such equity investment gains as dividend, bonus paid to the investors;(2) Payment for enterprise income tax;(3) Late fee for taxes;(4) Pecuniary punishment, fines, and losses of confiscated properties; (5) Expenditures for donations other than those prescribed in Article 9;(6) Sponsorship expenditures;(7) Unverified reserve expenditures;(8) Other expenditures in no relation to the obtainment of revenues; Article 11 An enterprise's depreciations of fixed assets, which are calculated pursuant to the related provisions, are permitted to be deducted in the calculation of the taxable income amount. As regards any of the following fixed assets, no depreciation may be calculated for deduction:(1) The fixed assets which have not yet been put into use, among which houses and buildings are not included;(2) The fixed assets which are rented in through commercial lease;(3) The fixed assets which are rented out through finance leasing;(4) The fixed assets for which depreciation has been fully allocated but which are still in use;(5) The fixed assets in no relation to the business operations;(6) The land which is separately evaluated and entered into account as an item of fixed asset; and on Other fixed assets for which no depreciation may be calculated for deduction. Anicle 12 An enterprise is allowed to deduct the amortized expenditures of intangible assets calculated under the related provisions when calculating the taxable amount of incomes. For the following intangible assets, no amortized expense may be calculated:(1) The intangible assets, which are developed by the enterprise itself and the expenditures have been deducted when calculating the taxable income amount;(2) The self-created business reputation;(3) The intangible assets in no relation to the business operations; and 4) Other intangible assets for which no amortized expense may be calculated for deduction. Aniele 13 The following expenditures incurred by an enterprise shall be deemed as long-term deferred expenditures when calculating the taxable income amount. Those amortized pursuant to the related provisions are permitted to be deducted:(1) The expenditures for rebuilding a fixed asset, for which depreciation has been fully allocated(2) The expenditures for rebuilding a rented fixed asset(3) The expenditures for heavily repairing a fixed asset; and(4) Other expenditures which shall be deemed as long-term deferred expenditures. Article 14 When calculating the taxable income amount, an enterprise may not deduct the costs of the investment assets during the period of external investment. Article 13 In case an enterprise uses or sells its inventories, it is permitted to deduct the costs of the inventories calculated pursuant to the related provisions when calculating the taxable income amount. Article to In case an enterprise transfers an asset, it is permitted to deduct the net value of the asset when calculating the taxable income amount. Article 17 An enterprise may not offset the losses of its overseas business organs against the profits of its domestic business organs in the consolidated calculation of its enterprise income taxes. Anicle 18 The losses suffered by an enterprise during a tax year may be carried forward and made up by the incomes during subsequent years, however, the carry-forward period may not exceed 5 years. Anuele 19 In case a non-resident enterprise obtains incomes as prescribed in Paragraph 3, Article 3 of the present Law, the following approaches shall be adopted in calculation of its the taxable income amount:(1) As regards dividends, bonuses and other equity investment gains, interests, rentals and royalties, the taxable income amount shall be the total income amount; (1) As regards incomes from assigning property, the taxable income amount shall be the balance of the total income amount less the net value of the property; and(3) As regards other incomes, the taxable income amount shall be calculated according to the approaches as mentioned in the preceding two items by analogy. Anicle 20 The specific scope and standards of revenues and deductions, as well as the concrete tax treatment methods of assets as prescribed in this Chapter shall be constituted by the treasury and tax administrative departments under the State Council. Aniste 21 If the enterprise's financial or accounting treatment method does not comply with any tax law or administrative regulation when calculating the taxable income amount, the tax law or administrative regulation shall prevail. Chapter III Payable Tax Amount Anicle 22 The payable tax amount shall be the balance of the taxable amount multiplied by the applicable tax rate minus the tax amounts deducted and exempted as prescribed in the present Law. Anicle 23 In case an enterprise has already paid overseas the enterprise tax for the following incomes, it may deduct it from the payable tax amount of the current period. The limit of tax credit shall be the payable tax amount on such incomes calculated under the present Law. The part exceeding the limit of tax credit may, during the five subsequent years, be offset from the balance of the limit of tax credit of each year minus the tax amount which ought to be offset in the current year:(1) A resident enterprise's taxable incomes sourced from outside the territory of China; and(2) Taxable incomes obtained outside the territory of China by a non-resident enterprise having organs or establishments inside the territory of China, but having actual connection with such organs or establishments. Anicle 24 As regards the dividends, bonuses and other equity investment gains earned outside the territory of China by a resident enterprise from a foreign enterprise which it controls directly or indirectly, the portion of income tax on this income paid outside the territory of China by the foreign enterprise the territory of China may be treated as the allowable tax credit of the resident enterprise's overseas income tax amount and be deducted within the limit of tax credit as provided for in Article 23 of the present Law. Chapter IV Preferential Tax Treatments Article 25 The important industries and projects whose development is supported and encouraged by the state shall enjoy the preferential treatments in enterprise income tax. Aniete to An enterprise's following incomes of shall be tax-free ones:(1) The interest incomes

from treasury bonds;(2) Dividends, bonuses and other equity investment gains generated between qualified resident enterprises; in Dividends, bonuses and other equity investment gains which are obtained from a resident enterprise by a non-resident enterprise with organs or establishments inside the territory of China and have actual connection with such organs or establishments; and 1 Incomes of qualified not-for-profit organizations. Anicle 27 As regards the following incomes, the enterprise income tax may be exempted or reduced:(1) The incomes generated from the engagement in agriculture, forestry, husbandry and fishery,(2) The incomes generated from investment in the business operations of the important public infrastructure projects supported by the state;(3) The income generated from the projects of environmental protection, energy and water saving and satisfying the related requirements;(4) The incomes generated from transferring technologies and satisfying the related requirements; andis) The income as provided for in Paragraph 3, Article 3 of the present Law. Article 28 As regards a small meagreprofit enterprise satisfying the prescribed conditions, the enterprise income tax shall be levied at a reduced tax rate of 20%. As regards important high-tech enterprises necessary to be supported by the state, the enterprise income tax shall be levied at the reduced tax rate of 15%. Afficie 29 The autonomous organ of an autonomous region of ethnic minorities may determine to reduce or exempt the enterprise income tax by enterprises within the said autonomous region. In case the decision on deduction or exemption is made by an autonomous prefecture or county, it shall be reported to the people's government of the province, autonomous region, or municipality directly under the Central Government for approval. Article 30 An enterprise may additionally calculate and deduct the following expenditures in the calculation of the taxable income amount:(1) The expenditures for researching and developing new technologies, new products and new techniques; and(2) The wages paid to the disabled employees or other employees encouraged to hire by the State. Anice 31 In case a startup investment enterprise engages in important startup investments necessary to be supported and encouraged by the state, it may deduct a certain proportion of the investment amount from the taxable income amount. Article 32 In case an enterprise surely needs to accelerate the depreciation of any fixed asset by virtue of technological progress or for any other reason, it may curtail the term of depreciation or adopt a method for accelerated depreciation. Anicle 33 As regards the incomes earned by an enterprise from producing products complying with the industrial policies of the state by comprehensively utilizing resources, the income may be downsized in the calculation of the amount of taxable incomes. Anicle 34 As regards the amount of an enterprise's investment in purchasing special equipment for protecting environment, saving energy and water, work safety, etc., the tax amount may be deducted at a certain rate. Article 35 The specific measures for the preferential tax treatments as referred to in the present Law shall be constituted by the State Council Anicle 36 The State Council may constitute special preferential policies on the enterprise income tax in case the national economic and social development so requires, or the business operations of enterprises have been seriously affected by emergencies and other factors, and submit them to the Standing Committee of the National People's Congress for archival filling. Chapter V Withholding by Sourcesanicle 37 The payable income taxes on the incomes obtained by a non-resident enterprise as prescribed in Paragraph 3, Article 3 of the present Law shall be withheld by sources, with the payer acting as the obligatory withholder, who shall withhold the tax amount from each payment or payment due. Article 38 As regards the payable income taxes on the incomes obtained by a non-resident enterprise within the territory of China from undertaking engineering projects or providing labor services, the payer of the project price or remuneration may be designated as the obligatory withholder by the tax organ. Anicle 10 In case the obligatory withholder has failed to withhold the income tax which ought to be withheld according to Articles 37 and 38 of the present Law or is unable to perform the withholding obligation, the taxpayer shall pay them at the place where the income has occurred. In case the taxpayer fails to do so, the tax organ may recover the payable tax of the enterprise from its other income items within the territory of China which ought to be paid by the payer. Anicle 40 A obligatory withholder shall, within 7 days after the date of withholding, turn over to the state treasury the tax payments which it withholds every time and submit a form of report on the withheld enterprise income taxes to the local tax organ. Chapter VI Special Adjustments to Tax Payments Anticle 41 As regards a transaction between an enterprise and its affiliated parties, in case the taxable revenue or income of the enterprise or its affiliated parties reduces by virtue of the failure to conform to the arms length principle, the tax organ may, through a reasonable method, make an adjustment. As regards the costs of an enterprise and its affiliated parties for jointly developing or accepting intangible assets, or jointly providing or accepting labor services, they shall, when calculating the taxable income amount, apportion them according to the arms length principle. Afficle 42 An enterprise may propose the pricing principles and calculation methods for the transactions between it and its affiliated parties to the tax organ, the tax organ and the enterprise shall, upon negotiations and confirmation, achieve an advance pricing arrangement. Article 43 When an enterprise submits its annual enterprise income tax returns to the tax organ, an annual report on the affiliated transactions between it and its affiliated parties shall be attached. When the tax organ investigates into the affiliated transactions, the enterprise and its affiliated parties, as well as other enterprises in relation to the affiliated transactions under investigation, shall, according to the related provisions, provide the related materials. Anicle 44 In case any enterprise

refuses to submit the materials on transactions which happened between it and its affiliated parties, or provides any false or incomplete material, on the basis of which the true information about the affiliated transactions cannot be reflected, the tax organ may determine upon check its taxable income amount. Article 45 As regards an enterprise which is set up in a country (region) where the actual tax burden is apparently lower than the tax rate as prescribed in Paragraph 1 of Article 4 of the present Law by a resident enterprise or controlled by an resident enterprise or by a Chinese resident, in case it fails to distribute the profits or decreases the distribution not by virtue of reasonable business operations, the portion of the aforesaid profits attributable to this resident enterprise shall be included in its incomes of the current period. Article to As regards an enterprise's interest expenditures for any credit investments and equity investments accepted from its affiliated parties, in excess of the prescribed criterion, the enterprise may not deduct them when calculating the taxable income amount. Aniele 47 In case an enterprise makes any other arrangement not for any reasonable commercial purpose, which causes the decrease of its taxable revenue or income, the tax organ may, through a reasonable method, make an adjustment. Aniele 48 In case the tax organ makes an adjustment to a tax payment pursuant to the provisions in this Chapter so that it is necessary to recover the tax payment in arrears, it shall do so and charge an additional interest according to the provisions of the State Council. Chapter VII Administration of Tax LevyAmele 40 The administration for levying enterprise income taxes shall be subject to the Law of the People's Republic of China on Administering Tax Levy in addition to the present Law. Anicle 50 The tax payment place of a resident enterprise shall be its registration place unless it is otherwise provided for in any tax law or administrative regulation. But in case its registration place is outside the territory of China, the tax payment place shall be the place at the locality of its actual management organ. As regards a resident enterprise which has set up operational organs without legal person status inside the territory of China, it shall, on a consolidated basis, calculate and pay its enterprise income taxes. Anick 51 In case a non-resident enterprise earns any income as prescribed in Paragraph 2, Article 3 of the present Law, the tax payment place shall be the place at the locality of the organ or establishment. In case a non-resident enterprise has set up two or more organs or establishments within the territory of China, it may choose to have its main organ or establishment make a consolidated payment of the enterprise income tax upon the examination and approval of the tax organ. As regards a non-resident enterprise which earns any income as prescribed in Paragraph 3, Article 3 of the present Law, the place at the locality of the obligatory withholder shall be the tax payment place. Article 52 Enterprises may not pay their enterprise income taxes on a consolidated basis unless it is otherwise prescribed by the State Council Article is Enterprise income taxes shall be calculated on the basis of a tax year, which is from January 1 to December 31 of the Gregorian calendar year. In case an enterprise's business operations are started or terminated in the middle of a tax year, which leads to its actual business operation period in this tax year shorter than 12 months, its actual business operation period shall constitute a tax year. When an enterprise is under liquidation according to law, the liquidation period shall be a tax year. Afficies a Enterprise income taxes shall, on the monthly or quarterly basis, be paid in advance. An enterprise shall submit an enterprise income tax return for advance payment to the tax organ and pay the tax in advance within 15 days after the end of a month or quarter. An enterprise shall submit an annual enterprise income tax return for the settlement of tax payments to the tax organ and settle the payable or refundable amount of taxes within 5 months after the end of each year. When an enterprise submits an enterprise income tax return, the financial statements and other related materials shall be attached in accordance with the related provisions. Aniele 55 In case an enterprise terminates its business operation in the middle of a year, it shall apply to the tax organ for calculating and paying the enterprise income taxes of the current period within 60 days after the actual date for terminating its business operations. Before the deregistration formalities are handled, an enterprise shall make a declaration to the tax organ and pay the enterprise income taxes on the basis of the income of the liquidation. Anicle 56 Enterprise income taxes to be paid pursuant to the present law shall be calculated on the basis of RMB. In case any income is calculated on the basis of a currency other than RMB, the taxes shall, after such income converted into RMB, be calculated and paid.Chapter VIII Supplementary Rules Article 57 In case an enterprise has already been set up before the promulgation of the present Law and enjoys low tax rates in accordance with the provisions of the tax laws and administrative regulations in force at that time, it may, in accordance with the provisions of the State Council, continue to enjoy the preferential treatments within five years as of the promulgation of the present Law and gradually transfer to the tax rate as prescribed in the present Law. In case an enterprise enjoys the preferential treatment of tax exemption for a fixed term, it may, after the promulgation of this Law, continue to enjoy such treatment in accordance with the provisions of the State Council until the fixed term expires. However, if an enterprise has failed to enjoy the preferential treatment by virtue of failure to make profits, the term of preferential treatment may be counted as of the year when the present Law is promulgated. As regards high-tech enterprises which are newly established with the key support of the State within the particular areas set up by law for developing foreign economic cooperation and technological exchanges or the areas enjoying the abovementioned special policies as provided for by the State Council, they may enjoy transitional preferential tax treatments. The specific measures thereof shall be constituted by the State Council. As regards other enterprises falling within the

encouraged category as already determined by the State Council, they may, according to the provisions of the State Council, enjoy the preferential treatment of tax reduction or exemption. Aniste \$8 In case any provision in a tax treaty concluded between the government of the People's Republic of China and a foreign government is different from the provisions in the present Law, the provision in the said treaty shall prevail. Aniste \$9 The State Council shall constitute a regulation for implementing the present Law. Aniste &0 The present law shall go into effect as of January 1, 2008. The Income Tax Law of the People's Republic of China Concerning Foreign-funded Enterprises and Foreign Enterprises as adopted on April 9, 1991 at the 4th Session of the Standing Committee of the 7th National People's Congress and the Interim Regulation of the People's Republic of China Concerning Enterprise Income Tax as promulgated on December 13, 1993 by the State Council shall be concurrently abolished.

# The Standing Committee of the National People' Congress of the People' Republic of China 2007-03-16

# Circular of State Administration of Taxation on Disseminating the Export

Tax Refund Rate Library of 2007 Guo Shui Han [2007] No. 242 The competent departments of taxation in all provinces, autonomous regions, municipalities directly under the Central Government and cities specially designated in the state plan:In accordance with the current policy of export tax refund/exemption, State Administration of Taxation has, on the basis of Import and Export Tax Regulations of 2007 issued by the customs (10-digit e-version), compiled the Export Tax Refund Rate Library of 2007 (No. 20070301A). Now it is distributed to the competent departments of taxation at various levels and hereby notified:1, The Export Tax Refund Rate Library is under the "programme releasing" folder of FTP Communication Server (100.16.125.25) of the Department of Import and Export Taxation Administration, State Administration of Taxation. The competent departments of taxation shall download it and the administrator of the export refund examination system shall upgrade the original export refund rate library. Meanwhile, the competent departments of taxation at various levels shall timely send the upgrade packages of export refund rate library (Foreign Trade Enterprise Export Refund Application System 9.0 and Manufacturing Enterprise Export Refund Application System 7.0) to the exporting enterprises. The competent departments of taxation at various levels shall timely report the problems found in the execution of the export tax refund rate library to (the Department of Import and Export Taxation Administration of) the State Administration of Taxation. No change or modification of export tax refund rate is allowed without the permission of the State Administration of Taxation. State Administration of TaxationFebruary 28, 2007

Income Tax Law of the People's Republic of China for Enterprises with Foreign Investment and Foreign Enterprises

2007-05-19 10:00

From: Article type:Original

actually operating for a period of less than 12 months in any tax year due to such factors as merger or shut-down shall use the actual period of operations as the tax year. Enterprises that undergo liquidation shall use the period of liquidation as the tax year.

Article 9 "The competent authority for tax affairs under the State Council" mentioned in Article 8, paragraph 3 and Article 19, paragraph 3, Item (4) of the Tax Law and Article 72 of these Rules refers to the Ministry of Finance and the State Tax Bureau.

#### Chapter II Computation of Taxable Income

Article 10 "The formula for the computation of taxable income" mentioned in Article 4 of the Tax Law is as follows:

- (1) Manufacturing:
- (a) taxable income = (profit on sales) + (profit from other operations)
- (b) profit on sales = (net sales) (cost of products sold) (taxes on sales) [ (selling expenses) + (administrative expenses) + (finance expenses) ];
- (c) net sales = (gross sales) [ (sales returns) + (sales discounts and allowances) ]:
  - (d) cost of products sold = (cost of products manufactured for the period)
- (e) cost of products manufactured for the period = (manufacturing costs for the period) + (inventory of semi-finished products and products in process at the beginning of the period) (inventory of semi-finished products and products in process at the end of the period);
- (f) manufacturing costs for the period = (direct materials consumed in production for the period) + (direct labour) + (manufacturing expenses).
  - (2) Commerce:
  - (a) taxable income = (profit on sales) + (profit from other operations)
- (b) profit on sales = (net sales) (cost of sales) (taxes on sales) [ (selling expenses) + (administrative expenses) + (finance expenses) ];
- (c) net sales = (gross sales) [ (sales returns) + (sales discounts and allowances) ]:
- (d) cost of sales = (inventory of merchandise at the beginning of the period) + { (purchase of merchandise during the period) [ (purchase returns) + (purchase discounts and allowances) ] + (purchasing expenses) } (inventory of merchandise at the end of the period).
  - (3) Service trades:
- (a) taxable income = (net business income) + (non-operating income) -(non-operating expenses);
- (b) net business income = (gross business income) [ (taxes on business income) + (operating expenses) + (administrative expenses) + (finance expenses) ].
- (4) Other lines of business: Computations shall be made with reference to the above formulas.

as a legal person pursuant to the laws of China and which is responsible for the management, operations and control over such enterprise.

Income from production and business operations and other income derived by the branches within or outside China of an enterprise with foreign investment shall be consolidated by the head office for purposes of the payment of income tax.

Article 6 "Income derived from sources inside China" mentioned in Article 3 of the Tax Law refers to:

- (1) income from production and business operations derived by enterprises with foreign investment and foreign enterprises which have establishments or places in China, as well as profits (dividends), interest, rents, royalties and other income arising within or outside China actually connected with establishments or sites established in China by enterprises with foreign investment or foreign enterprises;
- (2) the following income received by foreign enterprises which have no establishments or sites in China:
  - (a) profits (dividends) earned by enterprises in China:
- (b) interest derived within China such as on deposits or loans, interest on bonds, interest on payments made provisionally for others, and deferred payments;
  - (c) rentals on property leased to and used by lessees in China;
- (d) royalties such as those received from the provision of patents, proprietary technology, trademarks and copyrights for use in China;
- (e) gains from the transfer of property, such as houses, buildings, structures and attached facilities located in China and from the assignment of land-use rights within China;
- (f) other income derived from China and stipulated by the Ministry of Finance to be subject to tax.

Article 7 In respect of Chinese-foreign contractual joint ventures that do not constitute legal persons, each partner thereto may separately compute and pay income tax in accordance with the relevant tax laws and regulations of the State; income tax may, upon approval by the local tax authorities of an application submitted by such enterprises, be computed and paid on a consolidated basis in accordance with the provisions of the Tax Law.

Article 8 "Tax year" mentioned in Article 4 of the Tax Law begins on January 1 and ends on December 31 under the Gregorian Calendar.

Foreign enterprises that have difficulty computing taxable income in accordance with the tax year stipulated in the Tax Law may, upon approval by the local tax authorities of an application submitted by such enterprises, use their own 12-month fiscal year as the tax year.

Enterprises commencing business operations in the middle of a tax year or

#### Chapter I General Provisions

Article 1 These Rules are formulated in accordance with the provisions of Article 29 of the Income Tax Law of the People's Republic of China for Enterprises with Foreign Investment and Foreign Enterprises (hereinafter referred to as the "Tax Law").

Article 2 "Income from production and business operations" mentioned in Article 1, paragraph 1 and paragraph 2 of the Tax Law means income from production and business operations in manufacturing, mining, communications and transportation, construction and installation, agriculture, forestry, animal husbandry, fishery, water conservation, commerce, finance, service industries, exploration and exploitation, and in other trades.

"Income from other sources" mentioned in Article 1, paragraph 1 and paragraph 2 of the Tax Law means profits (dividends), interest, rents, income from the transfer of property, income from the provision or transfer of patents, proprietary technology, income from trademark rights and copyrights as well as other non-business income.

Article 3 "Enterprises with foreign investment" mentioned in Article 2, paragraph 1 of the Tax Law and "foreign companies, enterprises and other economic organizations which have establishments or places in China and engage in production or business operations" mentioned in Article 2, paragraph 2 of the Tax Law are, unless otherwise especially specified, generally all referred to as "enterprises" in these Rules. "Establishments or places" mentioned in Article 2, paragraph 2 of the Tax Law refers to management organizations, business organizations, administrative organizations and places for factories and the exploitation of natural resources, places for contracting of construction, installation, assembly, and exploration work, places for the provision of labor services, and business agents.

Article 4 "Business agents" mentioned in Article 3, paragraph 2 of these Rules means companies, enterprises and other economic organizations or individuals entrusted by foreign enterprises to engage as agents in any of the following:

- representing principals on a regular basis in the arranging of purchases and signing of purchase contracts and the purchasing of commodities on commission;
- (2) entering into agency agreements or contracts with principals, storing on a regular basis products or commodities owned by principals, and delivering on behalf of principals such products or commodities to other parties; and
- (3) having authority to represent principals on a regular basis in signing of sales contracts or in accepting of purchase orders.

Article 5 "Head office" mentioned in Article 3 of the Tax Law refers to the central organization which is established in China by an enterprise with foreign investment

Article 11 The computation of taxable income of an enterprise shall, in principle, be on an accrual basis.

The following income from business operations of an enterprise may be determined by stages and used as the basis for the computation of taxable income:

- (1) Where products or commodities are sold by installment payment methods, income from sales may be recognized according to the invoice date of the products or commodities to be delivered; income from sales may also be recognized according to the date of payment to be made by the buyer as agreed upon in the contract;
- (2) Where construction, installation and assembly projects, and provision of labour services extend beyond one year, income may be recognized according to the progress of the project or the amount of work completed:
- (3) Where the processing or manufacturing of heavy machinery, equipments and ships for other enterprises extends beyond one year, income may be recognized according to the progress of the project or amount of work completed.

Article 12 Where Chinese-foreign contractual joint ventures operate on the basis of product-sharing, the partners thereto shall be deemed to receive income at the time of the division of the products; the amount of income shall be computed according to the price sold to third party or with reference to prevailing market prices.

Where foreign enterprises are engaged in the co-operative exploration of petroleum resources, the partners thereto shall be deemed to receive income at the time of the division of the crude oil; the amount of income shall be computed according to a price which is adjusted periodically with reference to the international market prices of crude oil of similar quality.

Article 13 In respect of income obtained by enterprises in the form of nonmonetary assets or rights and interests, such income shall be computed or appraised with reference to prevailing market prices.

Article 14 "Exchange rate quoted by the State exchange control authorities" mentioned in Article 21 of the Tax Law refers to the buying rate quoted by the State Administration of Exchange Control.

Article 15 In respect of income obtained by enterprises in foreign currency, upon payment of income tax in quarterly instalments in accordance with the provisions of Article 15 of the Tax Law, taxable income shall be computed by converting the income into Renminbi according to the exchange rate quotation on the last day of the quarter. At the time of final settlement following the end of the year, no recomputation and reconversion need be made in respect of income in a foreign currency for which tax has already been paid on a quarterly basis; only that portion of the foreign currency income of the entire year for which tax has not been paid

shall, in respect of the computation of taxable income, be converted into Renminbi according to the exchange rate quotation on the last day of the tax year.

Article 16 Where an enterprise is unable to provide complete and accurate certificates of costs and expenses and is unable to correctly compute taxable income, the local tax authorities shall determine the rate of profit and compute taxable income with reference to the profit level of other enterprises in the same or similar trade. Where an enterprise is unable to provide complete and accurate certificates of revenues and is unable to report income correctly, the local tax authorities shall appraise and determine taxable income by the use of such methods as cost (expense) plus reasonable profits.

When the tax authorities appraise and determine profit rates or revenues in accordance with the provisions of the preceding paragraph, and where other treatment is provided by the laws, regulations and rules, such other treatment shall be applicable.

Article 17 Foreign air transportation and ocean shipping enterprises engaged in international transport business shall use 5% of the gross revenues from passenger and cargo transport and shipping services arising within China as taxable income.

Article 18 Where an enterprise with foreign investment invests in another enterprise within China, the profits (dividends) so obtained from the enterprise receiving such investment may be excluded from taxable income of the enterprise; however, expenses and losses incurred in such above-mentioned investments shall not be deducted from taxable income of the enterprise.

Article 19 Unless otherwise stipulated by the State, the following items shall not be itemized as costs, expenses or losses in the computation of taxable income:

- expenses in connection with the acquisition or construction of fixed assets;
- (2) expenses in connection with the transfer or development of intangible assets:
  - (3) interest on capital;
  - (4) various income tax payments;
- (5) fines for illegal business operations and losses due to the confiscation of property;
  - (6) surcharges and fines for overdue payment of taxes;
- (7) the portion of losses due to natural disasters or accidents for which there has been compensation;
- (8) donations and contributions other than those used in China for public welfare or relief purposes:
  - (9) royalties paid to the head office:
  - (10) other expenses not related to production or business operations.

Article 20 Reasonable administrative expenses paid by a foreign enterprise with an establishment or site in China to the head office in connection with production or business operations of the establishment or site shall be permitted to be itemized as expenses following agreement by the local tax authorities after an examination and verification of documents of proof issued by the head office in respect of the scope of the administrative expenses, total amounts, the basis and methods of allocation, which shall be provided together with an accompanying verification report of a certified public accountant.

Administrative expenses in connection with production and business operations shall be allocated reasonably between enterprises with foreign investment and their branches.

Article 21 Reasonable interest payments incurred on loans in connection with production and business operations shall be permitted to be itemized as expenses following agreement by the local tax authorities after an examination and verification of documents of proof, which shall be provided by the enterprises in respect of the loans and interest payments. Interest paid on loans used by enterprises for the purchase or construction of fixed assets or the transfer or development of intangible assets prior to the assets being put into use shall be included in the original value of the assets. "Reasonable interest" mentioned in the first paragraph of this Article refers to interest computed at a rate not higher than normal commercial lending rates.

Article 22 Entertainment expenses incurred by enterprises in connection with production and business operations shall, when supported by authentic records or invoices and vouchers, be permitted to be itemized as expenses subject to the following limits:

- (1) Where annual net sales are 15 million yuan (RMB) or less, not to exceed 0.5% of net sales; for that portion of annual net sales that exceeds 15 million yuan (RMB), not to exceed 0.3% of that portion of net sales.
- (2) Where annual gross business income is 5 million yuan (RMB) or less, not to exceed 1% of annual gross business income; for that portion of annual gross business income that exceeds 5 million yuan (RMB), not to exceed 0.5% of that portion of annual gross business income.

Article 23 Exchange gains or losses incurred by enterprises during preconstruction or during production and business operations shall, except as otherwise provided by the State, be appropriately itemized as gains or losses for that respective period.

Article 24 Salaries and wages, and benefits and allowances paid by enterprises to employees shall be permitted to be itemized as expenses following agreement by the local tax authorities after an examination and verification of the submission of wage scales and supporting documents and relevant materials.

Foreign social security premiums paid by enterprises to employees working in China shall not be itemized as expenses.

Article 25 Enterprises engaged in such businesses as credit and leasing operations may, on the basis of actual requirements and following approval by the local tax authorities of a report thereon, provide year-by-year bad debt provisions, the amount of which shall not exceed 3% of the amount of the year-end loan balances (not including inter-bank loans) or the amount of accounts receivable, bills receivable and other such receivables, to be deducted from taxable income of that year.

The portion of the actual bad debt losses incurred by an enterprise which exceeds the bad debt provisions of the preceding year may be itemized as a loss in the current year; the portion less than the bad debt provisions of the previous year shall be included in taxable income of the current year.

Bad debt losses mentioned in the preceding paragraph shall be subject to approval after examination and verification by the local tax authorities.

Article 26 "Bad debt losses" mentioned in Article 25, paragraph 2 of these Rules refers to the following accounts receivable:

- (1) due to the bankruptcy of the debtor, collection is still not possible after the use of the bankruptcy assets for settlement;
- (2) due to the death of the debtor, collection is still not possible after the use of the estate for repayment;
- (3) due to the failure of the debtor to fulfil repayment obligations for over two years, collection is still not possible.

Article 27 Accounts receivable already itemized as bad debt losses which are recovered in full or in part by an enterprise in a subsequent year shall be included in taxable income of the year of recovery.

Article 28 Foreign enterprises with establishments or places in China may, except as otherwise provided by the State, deduct as expenses foreign income tax, which has been paid on profits (dividends), interest, rents, royalties and other income received from outside China and actually connected with such establishments or places.

Article 29 "Net assets or remaining property" mentioned in Article 18 of the Tax Law means the amount of all assets or property following deduction of various liabilities and losses upon the liquidation of an enterprise.

Chapter III Tax Treatment for Assets

Article 30 "Fixed assets of enterprises" means houses, buildings and structures, machinery, mechanical apparatus, means of transport and other such equipment,

appliances and tools related to production and business operations with a useful life of one year or more. Items not in the nature of major equipment which are used for production or business operations and which have a unit value of 2,000 yuan (RMB) or less, or with a useful life of two years or less may be itemized as expenses on the basis of actual consumption.

Article 31 The valuation of fixed assets shall be based on original cost.

The original cost of purchased fixed assets shall be the purchase price plus transportation expenses, installation expenses and other related expenses incurred prior to the use of the assets.

The original cost of fixed assets manufactured or constructed by an enterprise itself shall be the actual expenses incurred in their manufacture or construction.

The original cost of fixed assets treated as investments shall, giving consideration to the degree of wear and tear of the fixed assets, be such reasonable price as is specified in the contract, or a price appraised with reference to the relevant market price plus the relevant expenses incurred prior to the use thereof.

Article 32 Depreciation of fixed assets of an enterprise shall be computed commencing with the month following the month in which they are first put into use. The computation of depreciation shall cease in the month following the month in which the fixed assets cease to be used.

All investments made during the development stage by enterprises engaged in the exploitation of oil resources shall, taking the oil (gas) field as a unit, be aggregated and treated as capital expenditures; the computation of depreciation shall begin in the month following the month in which the oil (gas) field commences commercial production.

Article 33 In respect of the computation of depreciation of fixed assets, the salvage value shall first be estimated and deducted from the original cost of the assets. The salvage value shall not be less than 10% of the original value; any request for retaining a lower salvage value or not salvage value must be approved by the local tax authorities.

Article 34 Depreciation of fixed assets shall be computed using the straight-line method. Where it is necessary to use any other method of depreciation, an application may be filed by an enterprise which, following examination and verification by the local tax authorities, shall be reported level-by- level to the State Tax Bureau for approval.

Article 35 The computation of the minimum useful life in respect of the depreciation of fixed assets is as follows:

(1) for houses and buildings: 20 years;

- (2) for railway rolling stock, ships, machinery, mechanical apparatus, and other production equipment: 10 years;
- (3) for electronic equipment and means of transport other than railway rolling stock and ships, as well as as such fixtures, tools and furnishings related to production and business operations: 5 years.

Article 36 Depreciation of fixed assets in the nature of investments during the development stage and subsequent stages of an enterprise engaged in the exploitation of oil resources may be computed on a consolidated basis without retaining salvage value; the period of depreciation shall not be less than six years.

Article 37 "Houses and buildings" mentioned in Article 35, Item (1) of these Rules means houses, buildings and attached structures used for production and business operations, and living quarters and welfare facilities for employees, the scope of which is as follows:

- -- houses, including factory buildings, business premises, office buildings, warehouses, residential buildings, canteens, and other such buildings;
- -- buildings, including towers, ponds, troughs, wells, racks, sheds (not including temporary, simply constructed structures such as work sheds and vehicle sheds), fields, roads, bridges, platforms, piers, docks, culverts, gas stations as well as pipes, smokestacks, and enclosing walls that are detached from buildings, machinery and equipment;

Facilities attached to buildings and structures mean auxiliary facilities that are inseparable from buildings and structures and for which no separate value is computed, including, for example, building and structure ventilation and drainage systems, oil pipelines, communication and power lines, elevators and sanitation equipment.

Article 38 The scope of railway rolling stock, ships, machinery, mechanical apparatus and other production equipment mentioned in Article 35, Item (2) of these Rules is as follows:

- -- "railway rolling stock" includes various types of locomotives, passenger coaches, freight cars, as well as auxiliary facilities on rolling stock for which no separate value is computed;
- -- "ships" includes various types of motor ships as well as auxiliary facilities on ships for which no separate value is computed;
- -- " machinery, mechanical apparatus and other production equipment" includes various types of machinery, mechanical apparatus, machinery units, production lines, as well as auxiliary equipment such as various types of power, transport and conduction equipment.

Article 39 The scope of electronic equipment, means of transport other than railway rolling stock and ships mentioned in Article 35, Item (3) of these Rules is as follows:

-- "electronic equipment" means equipment comprising mainly integrated

circuits, transistors, electron tubes and other electronic components whose primary functions are to bring into use the application of electronic technology (including software), including computers as well as computer-controlled robots, and digital-control or program-control systems.

-- "means of transport other than railway rolling stock and ships" includes airplanes, automobiles, trams, tractors, motor bikes (boats), motorized sailboats, sailboats, and other means of transport.

Article 40 Where, for special reasons, it is necessary to shorten the useful life of fixed assets, an application may be submitted by an enterprise to the local tax authorities which following examination and verification shall be reported level-by-level to the State Tax Bureau for approval.

Fixed assets which for special reasons as mentioned in the preceding paragraph require the useful life to be shortened include:

- (1) machinery and equipment subject to strong corrosion by acid or alkali and factory buildings and structures subject to constant shaking and vibration;
- (2) machinery and equipment operated continually year-round for the purpose of raising the utilization rate or increasing the intensity of use:
- (3) fixed assets of a Chinese-foreign contractual joint venture having a period of cooperation shorter than the useful life specified in Article 35 of these Rules and which will be left with the Chinese party upon termination of the cooperation.

Article 41 Enterprises which acquire used fixed assets having a remaining useful life shorter than the useful life specified in Article 35 of these Rules may, following agreement by the local tax authorities after examination and verification of certifying documents so submitted, compute depreciation according to the remaining useful life.

Article 42 Where expenditures incur during the course of the use of fixed assets due to increased value caused by expansion, replacement, reconstruction and technical innovation of fixed assets, the original value of fixed assets shall be increased; where the period of use of fixed assets can be extended, the useful life shall be appropriately extended and the computation of depreciation adjusted accordingly.

Article 43 No further depreciation shall be allowed in respect of fixed assets which can be continued to be used after having been fully depreciated.

Article 44 The balance of proceeds from the transfer or disposal of fixed assets by an enterprise shall, after deduction of the under preciated amount or the salvage value and handling fees, be entered into the profit and loss account for the current year.

Article 45 Depreciation of fixed assets received as gifts by enterprises may be computed on the basis of reasonable valuation.

Article 46 Patents, proprietary technology, trademarks, copyrights, land-use rights and other intangible assets of enterprises shall be appraised on the basis of the original value.

For alienated intangible assets, the original value shall be the actual amount paid based on a reasonable price. For self-developed intangible assets, the original value shall be the actual amount of expenditure incurred in the course of development. For intangible assets used as investment, the original value shall be such reasonable price as is stipulated in the agreement or contract.

Article 47 The amortization of intangible assets shall be computed using the straight-line method. Intangible assets transferred or assigned or used as investments, where the useful life is stipulated in the agreement or contract, may be amortized over the period of that useful life; the amortization period in respect of intangible assets for which no useful life has been stipulated or which have been developed internally shall not be less than ten years.

Article 48 Reasonable exploration expenses incurred by enterprises engaged in the exploitation of petroleum resources may be amortized against income from oil (gas) fields that have already commenced commercial production. The amortization period shall not be less than one year.

Where operation of a contract field owned by a foreign oil company is terminated due to failure to find commercially viable oil (gas), and where ownership of the contract for the exploitation of petroleum (gas) resources is not continued and management organizations or offices for carrying on operations for the exploitation of petroleum (gas) resources are no longer maintained in China, reasonable exploration expenses already incurred in respect of the terminated contract field shall, upon examination and confirmation and the issuance of certification by the tax authorities, be permitted to be amortized against production income of a newly owned contract field when the new contract for cooperative exploitation of oil (gas) resources is signed within ten years from the date of the termination of the old contract.

Article 49 Expenses incurred by enterprises during the period of organization shall be amortized beginning with the month following the month in which production and business operations commence; the period of amortization shall not be less than five years. The period of organization mentioned in the preceding paragraph means the period from the date of approval of the organization of the enterprise to the date of commencement of production and business operations (including trial production and trial business operations).

Article 50 Inventories of merchandise, finished products, goods in process, semifinished products, raw materials, and other such materials of enterprises shall be valued at cost. Article 51 Enterprises may choose one of the following such methods: first-in, first-out; moving average; weighted average or last-in, first-out as the method of computing actual costs in respect of the delivery or receipt and use of goods in stock.

Once a method of valuation has been adopted for use, no change shall be made thereto. Where a change in the method of valuation is indeed necessary, the matter shall be reported to the local tax authorities for approval prior to the commencement of the next tax year.

Chapter IV Business Dealings Between Associated Enterprises

Article 52 "Associated enterprises" mentioned in Article 13 of the Tax Law refers to companies, enterprises and other economic units that have any of the following relationships with other enterprises:

- (1) relationships in respect of existing direct or indirect ownership of or control over such matters as finances, business operations or purchases and sales:
- (2) direct or indirect ownership of or control over it and another by a third party;
  - (3) any other relationship in respect of an association of reciprocal interests.

Article 53 "Business transactions between independent enterprises" mentioned in Article 13 of the Tax Law means business dealings carried out between unassociated and unrelated enterprises on the basis of arm's length prices and common business practices. Enterprises have a duty to provide to the local tax authorities relevant materials such as standard prices and charges in respect of business dealings with their associated enterprises.

Article 54 Where prices in respect of purchase and sales transactions between an enterprise and its associated enterprises are not based on independent business dealings, adjustments may be made thereto by the local tax authorities according to the following arrangements and methods of determination:

- (1) based on prices of the same or similar business activities between independent enterprises;
- (2) based on the level of profits obtained from resales in respect of unassociated and unrelated third party prices;
  - (3) based on costs plus reasonable expenses and profit margin;
  - (4) based on any other reasonable method.

Article 55 Where interest paid or received in respect of accommodating financing between an enterprise and an associated enterprise exceeds or is lower than the amount that would be agreed upon by unassociated and unrelated parties, or where the rate of interest exceeds or is lower than the normal rate of interest in respect of similar business, adjustments may be made thereto by the local tax

authorities with reference to normal rates of interest.

Article 56 Where labour service fees paid or received in respect of the provision of labour services by an enterprise to an associated enterprise are not based on business dealings between independent enterprises, adjustments may be made thereto by the local tax authorities with reference to the normal fee standards of similar labour activities.

Article 57 Where the valuation or the receipt or payment of usage fees in respect of such business dealings as the transfer of property or the granting of rights to the use of property between an enterprise and an associated enterprise is not based on business dealings between independent enterprises, adjustments may be made thereto by the local tax authorities with reference to amounts that would be agreed to by unassociated and unrelated parties.

Article 58 Management fees paid by an enterprise to an associated enterprise shall not be expensed.

Chapter V Withholding at Source

Article 59 "Taxable income on profits, interest, rents, royalties and other income" mentioned in Article 19, paragraph 1 of the Tax Law shall, except as otherwise stipulated by the State, be computed on the basis of gross income. Gross royalties obtained from the provision of patents and proprietary technology include fees for blueprint materials, technical services and personnel training, as well as other related fees.

Article 60 "Profits" mentioned in Article 19 of the Tax Law means income derived from the right to profits according to the proportion of investment, equity rights, stockholding, or other non-debt profit-sharing rights.

Article 61 "Other income" mentioned in Article 19 of the Tax Law includes gains from the transfer of property such as houses, buildings and structures and attached facilities within China and land-use rights. "Gains" mentioned in the preceding paragraph means the amount remaining from the receipt on transfer minus the original value of the property. Where foreign enterprises are unable to provide correct certification of the original value of the property, the original value of the property shall be determined by the local tax authorities according to the specific circumstances thereof.

Article 62 "The amount of payment" mentioned in Article 19, paragraph 2 of the Tax Law means cash payments, payment by remittances, and amounts paid by account transfers, as well as amounts in equivalent cash value paid in non-cash assets or rights and interests.

Article 63 "Profits obtained from an enterprise with foreign investment" mentioned

in Article 19, paragraph 3, Item (1) of the Tax Law means income obtained from profits of an enterprise with foreign investment following the payment or the reduction of or exemption from income tax in accordance with the provisions of the Tax Law.

Article 64 "International finance organizations" mentioned in Article 19, paragraph 3, Item (2) of the Tax Law means financial institutions such as the International Monetary Fund, the World Bank, the Asian Development Bank, the International Development Association, and the International Fund for Agricultural Development.

Article 65 "Chinese State banks" mentioned in Article 19, paragraph 3, Item (2) and Item (3) of the Tax Law means the People's Bank of China, the Industrial and Commercial Bank of China, the Agricultural Bank of China, the Bank of China, the People's Construction Bank of China, the Bank of Communications of China, the Investment Bank of China, and other financial institutions authorized by the State Council to engage in credit businesses such as foreign exchange deposits and loans.

Article 66 The scope of the reduction of or exemption from income tax on royalties provided for in Article 19, paragraph 3, Item (4) of the Tax Law is as follows:

- (1) royalties received in providing proprietary technology for the development of farming, forestry, animal husbandry and fisheries:
- (a) technology provided to improve soil and grasslands, develop barren mountainous regions and make full use of natural conditions;
- (b) technology provided for the supplying of new varieties of animals and plants and for the production of pesticides of high effectiveness and low toxicity;
- (c) technology provided such as to advance scientific production management in respect of farming, forestry, fisheries and animal husbandry, to preserve the ecological balance, and to strengthen resistance to natural calamities;
- (2) royalties received in providing proprietary technology for scientific institutions, institutions of higher learning and other scientific research units to conduct or cooperate in carrying out scientific research or scientific experimentation;
- (3) royalties received in providing proprietary technology for the development of energy resources and expansion of communications and transportation;
- (4) royalties received in providing proprietary technology in respect of energy conservation and the prevention and control of environmental pollution;
- (5) royalties received in providing the following proprietary technology in respect of the development of important fields of science and technology:
- (a) production technology for major and advanced mechanical and electrical equipment:
  - (b) nuclear power technology;
  - (c) production technology for large-scale integrated circuits;
- (d) production technology for photoelectric integrated circuits, microwave semi-conductors and microwave integrated circuits, and manufacturing technology

for microwave electron tubes:

- (e) manufacturing technology for ultra-high speed computers and microprocessors;
  - (f) optical telecommunications technology;
- (g) technology for long-distance, ultra-high voltage direct current power transmission; and
- (h) technology for the liquefaction, gasification and comprehensive utilization of coal.

Article 67 In respect of income of foreign enterprises engaged in China in construction, installation, assembly, and exploration contracting work, and provision of labour activities such as consulting, management and training, the tax authorities may designate the parties paying the contracted amounts and labour service fees as tax withholding agents.

#### Chapter VI Tax Preferences

Article 68 Pursuant to the provisions of Article 6 of the Tax Law, the granting of any necessary preferential treatment in respect of enterprise income tax to enterprises with foreign investment that are encouraged by the State shall be implemented in accordance with the provisions of the relevant laws and administrative rules and regulations of the State.

Article 69 "Special economic zones" mentioned in Article 7, paragraph 1 of the Tax Law means the special economic zones of Shenzhen, Zhuhai, Shantou and Xiamen and the Hainan Special Economic Zone established by law or established upon approval of the State Council; "economic and technological development zones" mentioned therein means the economic and technological development zones in the coastal port cities established upon approval of the State Council.

Article 70 "Coastal economic open zones" mentioned in Article 7, paragraph 2 of the Tax Law means those cities, counties and districts established as coastal economic open zones upon approval of the State Council.

Article 71 "Imposition of enterprise income tax at the reduced rate of 15%" mentioned in Article 7, paragraph 1 of the Tax Law shall be limited to income obtained by enterprises from production and business operations in the respective areas so specified in Article 7, paragraph 1 of the Tax Law. "Imposition of enterprise income tax at the reduced rate of 24%" mentioned in Article 7, paragraph 2 of the Tax Law shall be limited to income obtained by enterprises from production and business operations in the respective areas so specified in Article 7, paragraph 2 of the Tax Law.

Article 72 "Enterprises with foreign investment of a production nature" mentioned in Article 7, paragraph 1 and paragraph 2 and Article 8, paragraph 1 of the Tax Law means enterprises with foreign investment engaged in the following

#### industries:

- (1) machine manufacturing and electronics industries;
- (2) energy resource industries (not including exploitation of oil and natural gas);
  - (3) metallurgical, chemical and building material industries;
  - (4) light industries, and textiles and packaging industries;
  - (5) medical equipment and pharmaceutical industries;
  - (6) agriculture, forestry, animal husbandry, fisheries and water conservation;
  - (7) construction industries;
- (8) communications and transportation industries (not including passenger transport):
- (9) development of science and technology, geological survey and industrial information consultancy directly for services in respect of production and services in respect of repair and maintenance of production equipment and precision instruments:
- (10) other industries as specified by the tax authorities under the State Council.

Article 73 "Imposition of enterprise income tax at the reduced rate of 15%" mentioned in Article 7, paragraph 3 of the Tax Law applies to the following:

- (1) production-oriented enterprises with foreign investment established in the coastal economic open zones, special economic zones and in the old urban districts of municipalities where economic and technological development zones are located and which are engaged in the following projects:
  - (a) technology-intensive or knowledge-intensive projects;
- (b) projects with foreign investments of over US \$ 30 million and having long periods for return on investment;
  - (c) energy resource, transportation and port construction projects;
- (2) Chinese-foreign equity joint ventures engaged in port and dock construction:
- (3) financial institutions such as foreign capital banks and Chinese- foreign banks established in the special economic zones and other areas approved by the State Council, where the capital contribution of the foreign investor or the funds for business activities allocated by the head office bank to the branch bank exceeds US \$ 10 million, and where the period of operations is ten years or more;
- (4) production-oriented enterprises with foreign investment established in the Pudong New Area of Shanghai, as well as enterprises with foreign investment engaged in energy resource and transport construction projects such as airports, ports, railways, highways and power stations;
- (5) enterprises with foreign investment recognized as high or new technology enterprises established in the State high or new technology industrial development zones designated by the State Council, as well as enterprises with foreign investment recognized as new technology enterprises established in the new technology industrial development experimental zone of the municipality of Beijing;
  - (6) enterprises with foreign investment engaged in projects encouraged by the

State and established in other areas stipulated by the State Council. Enterprises with foreign investment in projects listed in Item (1) of the preceding paragraph shall, following approval by the State Tax Bureau of an application submitted by such enterprises, be subject to enterprises income tax at the reduced tax rate of 15%.

Article 74 "The period of business operations" mentioned in Article 8, paragraph 1 of the Tax Law means the period commencing on the date an enterprise with foreign investment actually begins production or business operations (including trial production and trial business operations) and ending on the date the enterprise ceases production or business operations.

Enterprises with foreign investment that pursuant to the provisions of Article 8, paragraph 1 of the Tax Law may enjoy treatment in respect of reductions of or exemptions from enterprise income tax shall submit to the local tax authorities for examination and verification such circumstances as the lines of business in which engaged, names of major products, and the period of operations decided upon. No treatment in respect of reductions of or exemptions from enterprise income tax shall be enjoyed without examination and verification and agreement thereof.

Article 75 "The relevant provisions promulgated by the State Council before the entry into force of this Law" mentioned in Article 8, paragraph 2 of the Tax Law means the following provisions in respect of exemptions from or reductions of enterprise income tax promulgated or approved for promulgation by the State Council:

- (1) Chinese-foreign equity joint ventures engaged in port and dock construction where the period of operations is 15 years or more shall, following application by the enterprise and approval thereof by the tax authorities of provinces, autonomous regions, or municipalities directly under the Central Government of the location and commencing with the first profit-making year, be exempt from enterprise income tax from the first year to the fifth year and subject to enterprise income tax at a rate reduced by one half for the sixth year through the tenth year.
- (2) Enterprises with foreign investment established in the Hainan Special Economic Zone and engaged in infrastructure facility projects such as airports, harbours, docks, highways, railways, power stations, coal mines and water conservation, and enterprises with foreign investment engaged in the development of and operations in agriculture where the period of operations is 15 years or more shall, following application by the enterprise and approval thereof by the tax authorities of Hainan Province and commencing with the first profit-making year, be exempt from enterprise income tax from the first year to the fifth year and subject to enterprise income tax at a rate reduced by one half for the sixth year through the tenth year.
- (3) Enterprises with foreign investment established in the Pudong New Area of Shanghai and engaged in construction projects such as airports, ports, railways, highways and power stations where the period of operations is 15 years or more

shall, following application by the enterprise and approval thereof by the tax authorities of the municipality of Shanghai and commencing with the first profit-making year, be exempt from enterprise income tax from the first year to the fifth year and subject to enterprise income tax at a rate reduced by one half for the sixth year through the tenth year.

- (4) Enterprises with foreign investment established in the special economic zones and engaged in service-oriented industries where the amount of the foreign investment exceeds US \$ 5 million and the period of operations is ten years or more shall, following application by the enterprise and approval thereof by the tax authorities of the special economic zone and commencing with the first profitmaking year, be exempt from enterprise income tax in the first year and subject to enterprise income tax at a rate reduced by one half for the second and third years.
- (5) Financial institutions such as foreign capital banks and Chinese- foreign banks established in the special economic zones and other areas approved by the State Council where the capital contribution of the foreign investor or the funds for business activities allocated by the head office bank to the branch bank exceeds US \$ 10 million and the period of operations is ten years or more shall, following application by the enterprise and approval thereof by the local tax authorities and commencing with the first profit-making year, be exempt from enterprise income tax in the first year and subject to enterprise income tax at a rate reduced by one half for the second and third years.
- (6) Chinese-foreign equity joint ventures recognized as high or new technology enterprises and established in the State high or new technology industrial development zones designated by the State Council where the period of operations is ten years or more shall, following application by the enterprise and approval thereof by the local tax authorities and commencing with the first profit-making year, be exempt from enterprise income tax in the first year and second year. Enterprises with foreign investment established in the special economic zones and the economic and technological development zones shall be governed by the preferential tax provisions of the special economic zones and the economic and technological development zones. Enterprises with foreign investment established in the new technology industrial development experimental zone of the municipality of Beijing shall be governed by the preferential tax provisions of the new technology industrial development experimental zone of the municipality of Beijing.
- (7) Export-oriented enterprises invested in and operated by foreign businesses for which in any year the output value of all export products amounts to 70% or more of the output value of the products of the enterprise for that year may pay enterprise income tax at the tax rate specified in the Tax Law reduced by one half after the period of enterprise income tax exemptions or reductions has expired in accordance with the provisions of the Tax Law. However, export-oriented enterprises in the special economic zones and economic and technological development zones and other such enterprises subject to enterprise income tax at the tax rate of 15% that qualify under the above-mentioned conditions shall pay enterprise income tax at the tax rate of 10%.

- (8) Advanced technology enterprises invested in and operated by foreign businesses which remain advanced technology enterprises after the period of enterprise income tax exemptions or reductions has expired in accordance with the provisions of the Tax Law may continue to pay for an additional three years enterprise income tax at the tax rate specified in the Tax Law reduced by one half.
- (9) Implementation of other provisions in respect of exemptions from or reductions of enterprise income tax promulgated or approved for promulgation by the State Council.

Enterprises with foreign investment shall, in applying for exemptions from or reductions of enterprise income tax in accordance with the provisions of Item (6), Item (7), or Item (8) of the preceding paragraph, submit relevant documents of proof issued by departments in respect of the examination, verification and confirmation, the application shall be subjected to approval by the local tax authorities after examination and verification.

Article 76 "The first profit-making year" mentioned in Article 8, paragraph 1 of the Tax Law and in Article 75 of these Rules means the first tax year in which profits are obtained by an enterprise following commencement of production or business operations. Where an enterprise suffers losses during the early stages after establishment, such losses may be made up by the income of the following tax year in accordance with the provisions of Article 11 of the Tax Law. The first profitmaking year shall be the year in which profits are obtained after such losses are made up. The period for exemptions from or reductions of enterprise income tax specified in the first paragraph of Article 8 of the Tax Law and Article 75 of these Rules shall be computed continuously commencing with the year in which the enterprise begins to make profits. The computation shall not be deferred because of losses incurred in any of the subsequent years.

Article 77 Enterprises with foreign investment which commence operations in the middle of a year and earn profits may, where the actual period of operations is less than six months, choose to use the following year as the period in which to begin the computation of tax exemptions or tax reductions; however, income tax shall be paid in accordance with the Tax Law on profits earned during the year.

Article 78 Unless otherwise provided by the State Council, the preferential tax provisions of Article 8, paragraph 1 of the Tax Law shall not apply to enterprises engaged in the exploitation of such natural resources as petroleum, natural gas, rare metals and precious metals.

Article 79 Enterprises with foreign investment that have received exemptions from or reductions of enterprise income tax pursuant to the provisions of Article 8, paragraph 1 of the Tax Law and Article 75 of these Rules shall, where the actual period of operations is less than the period stipulated therein, except in the case of major losses sustained due to natural disasters or unforeseen accidents, make up the amount of the exemptions from or reductions of enterprise income tax.

Article 80 "Direct reinvestment" mentioned in Article 10 of the Tax Law refers to profits received from an enterprise with foreign investment by foreign investor of that enterprise which prior to receipt are directly used to increase registered capital, or which following receipt are directly used to organize another enterprise with foreign investment. Foreign investors shall, in computing the amount of tax refundable in accordance with the provisions of Article 10 of the Tax Law, provide certificates confirming the use of the reinvested profits for the year; the local tax authorities shall adopt any reasonable method for the reckoning and determination thereof where certificates cannot be provided. Foreign investors shall, in respect of the application for a refund of tax, submit within one year of the date of the actual investment of the reinvested amount a record of the reinvested amount and a certificate for the investment period of the increased capital or contributed capital to the tax authorities in the place where the taxes were originally paid.

Article 81 "Other preferential provisions of the State Council" mentioned in Article 10 of the Tax Law refers to direct reinvestment in China by foreign investors for the organization and expansion of export-oriented enterprises or advanced technology enterprises, as well as profits of foreign investors earned from enterprises established in the Hainan Special Economic Zone that are directly reinvested in the Hainan Special Economic Zone in infrastructure projects and agriculture development enterprises and for which the entire portion of enterprise income tax that has already been paid on the reinvested amount may, in accordance with the provisions of the State Council, be refunded.

Foreign investors that apply for a refund of tax on reinvestments in accordance with the provisions of the preceding paragraph shall, in addition to completing the requirements pursuant to Article 80, paragraph 2 and paragraph 3 of these Rules, submit certificates issued by the examining, verifying and confirming departments confirming the organization and expansion of export-oriented enterprises or advanced technology enterprises. Enterprises in which foreign investors have reinvested in respect of the organization or expansion thereof which within three years of commencing production or operations have not achieved the standards in respect of export-oriented enterprises or have not continued to be confirmed as advanced technology enterprises shall repay 60% of the amount of tax refunded.

Article 82 "Tax refunds on reinvestments" mentioned in Article 10 of the Tax Law and Article 81, paragraph 1 of these Rules shall be computed according to the following formula:

Amount of tax refund = Reinvestment amount v [1 - (originally applicable enterprise income tax rate + local income tax rate)] X originally applicable enterprise income tax rate X tax refund rate Chapter VII Tax Credits

Article 83 "Income tax already paid abroad" mentioned in Article 12 of the Tax Law means income tax actually paid abroad by an enterprise with foreign investment on income from sources outside China and does not include taxes paid for which compensation is later received or assumed by other parties.

Article 84 "The amount of tax payable computed on income from sources outside China in accordance with the provisions of this Law" mentioned in Article 12 of the Tax Law means the amount of tax payable computed on taxable income arising from income from abroad of enterprises with foreign investment, following the deduction of costs, expenses and losses allowable in accordance with the relevant provisions of the Tax Law and these Rules attributable to that income. The limit of the amount of tax payable that can be deducted shall be computed on a country-by-country basis; the method of computation is as follows:Limit on deduction Total amount of tax Amount ofof tax payable on = payable on domestic \* income from abroad income and foreign sources income from ————abroad computed Total domestic in accordance with income and the Tax Law income from abroad

Article 85 Where the amount of income tax actually paid abroad on income from sources from abroad by enterprises with foreign investment is less than the deductible limit resulting from computation based on the provisions of Article 84 of these Rules, the actual amount of income tax paid abroad may be deducted from the amount of tax payable; where the deductible limit is exceeded, the portion in excess shall not be deducted from tax and shall not be itemized as an expense, however, the portion not exceeding the limit thereof may be used as a deduction against following year's taxes; the time limit for such supplemental deductions shall not exceed five years.

Article 86 The provisions of Article 83 to Article 85 of these Rules shall apply only to enterprises with foreign investment with head offices established within China. Enterprises with foreign investment that deduct taxes in accordance with the provisions of Article 12 of the Tax Law shall provide the original tax payment certificates signed and issued by the foreign tax authorities in respect of the same year; copies or tax payment certificates of different years shall not be used as tax deduction certificates.

#### Chapter VIII Tax Administration

Article 87 Enterprises shall, within 30 days of completing business registration, complete tax registration with the local tax authorities. Enterprises with foreign investment that establish or terminate branch offices outside China shall, within 30 days of the date of establishment or termination thereof, complete with the local tax authorities procedures in respect of tax registration, amendments to the registration, or cancellation of the registration. Enterprises that complete registrations in the preceding paragraph shall, in accordance with the provisions, present relevant documents, licenses and materials.

Article 88 Enterprises that undergo important registration changes such as changes of address, restructurings, mergers, spin-offs, terminations, as well as changes in the amount of capital and scope of business shall, within 30 days of

the completion of the change in business registration or prior to the cancellation of registration, complete the change in registration or cancellation of registration with the local tax authorities with the relevant documents.

Article 89 Foreign enterprises which establish two or more business organizations in China may use one of the selected business organizations in respect of the consolidated filing and payment of income tax. However, the business organization so selected shall meet the following conditions:

- (1) assumption of supervisory and management responsibility over the business operations of the other respective business organizations;
- (2) maintenance of complete account records and certificates which accurately reflect the income, cost, expense and profit and loss situations of the respective business organizations.

Article 90 In respect of foreign enterprises which in accordance with the provisions of Article 89 of these Rules consolidate the filing and payment of income tax, the business organization so selected thereunder shall submit an application for approval according to the following provisions after examination and verification thereof by the local tax authorities:

- (1) consolidated filing and payment of income tax in respect of business organizations located in the same province, autonomous region, or municipality directly under the Central Government shall be subject to approval by the tax authorities of the province, autonomous region or municipality directly under the Central Government;
- (2) consolidated filing and payment of income tax in respect of business organizations located in two or more provinces, autonomous regions, or municipalities directly under the Central Government shall be subject to approval by the State Tax Bureau.

Following approval for the filing and payment of tax on a consolidated basis by foreign enterprises, such circumstances as the establishment of additional business organizations, mergers, change of address, termination of operations, or shutdowns shall, prior to such event, be reported to the local tax authorities by the business organization responsible for the filing and payment of tax on a consolidated basis. Any change in respect of the business organization filing and paying tax on a consolidated basis shall be dealt with in accordance with the provisions of the preceding paragraph.

Article 91 Where business organizations related to foreign enterprises that file and pay income tax on a consolidated basis apply different tax rates in respect of the payment of tax, the amount of taxable income of the respective business organizations shall be separately computed on a reasonable basis and income tax shall be paid on the basis of the different tax rates. Where the respective business organizations mentioned in the preceding paragraph have losses and profits, tax shall be paid on the profit remaining after the offsetting of losses against profits according to the tax rate applicable to the profit-making business organization. A

business organization which incurs losses shall offset losses using profits of the subsequent year of the business organization; tax shall be paid on the profit remaining after the offsetting of such losses according to the tax rate applicable to the business organization; tax paid on the offsetting amounts shall be based on the tax rate applicable to the business organization that offsets the losses incurred by the other business organization.

Article 92 Notwithstanding the provisions of Article 91 of these Rules, where a business organization responsible for filings and payment of tax on a consolidated basis is unable to compute separately and reasonably the taxable income of the respective business organizations, the local tax authorities may make a reasonable apportionment among the respective business organizations of the gross taxable income based on the proportion of business revenues, the proportion of cost and expenses, the proportion of capital assets, and the proportion of the number of staff or salaries and wages.

Article 93 Enterprises with foreign investment which establish branch offices in China shall complete consolidated filings and payment of income tax with reference to the provisions of Article 91 and Article 92 of these Rules.

Article 94 Enterprises that pay taxes in advance on a quarterly basis in accordance with the provisions of Article 15 of the Tax Law shall pay in advance on the basis of actual quarterly profits; where difficulty exists in paying in advance on the basis of actual quarterly profits, the advanced quarterly payment of tax may be made according to one-fourth of the taxable income of the previous year or any other method approved by the local tax authorities.

Article 95 Enterprises, whether realizing profits or losses in a tax years, shall file income tax returns and final statements of account with the local tax authorities within the time limit prescribed in Article 16 of the Tax Law, and unless otherwise provided by the State, shall include when filing the final accounting statement an audit statement of a certified public accountant registered in China. Where, for special reasons, an enterprise cannot file an income tax return and final accounting statement within the period prescribed in the Tax Law, an application shall be submitted within the filing period and, upon approval of the local tax authorities, the filing period may be extended appropriately.

Article 96 Final accounting statements submitted by branches or business organizations to head offices or business organizations that file and pay income tax on a consolidated basis, shall be submitted at the same time to the local tax authorities.

Article 97 Enterprises that are merged, spun off, or terminated during the year shall, within 60 days of the termination of production or business operations, complete with the local tax authorities procedures for the settlement of any liability for and payment of income tax, with refunds for overpayments or supplementary

payments for deficiencies.

Article 98 Enterprises which must complete procedures for tax refunds in the case of overpayments of tax may, where income in foreign currency has already been converted into Renminbi according to the foreign exchange rate, convert the amount of the tax in Renminbi to be refunded into foreign currency according to the exchange rate in effect when the tax was originally paid, and then reconvert this amount of foreign currency into Renminbi according to the foreign exchange rate at the date of issuance of the tax refund certificate. Where it is necessary to complete procedures for supplementary tax payments in the case of underpayments of tax, the amount of supplementary tax payments shall be converted into Renminbi according to the foreign exchange rate at the date of issuance of the certificate for supplementary tax payments.

Article 99 Enterprises with foreign investment that undergo liquidation shall, prior to the completion of the cancellation of business registration, complete the filing of income tax returns with he local tax authorities.

Article 100 Except as otherwise provided by the State, enterprises shall maintain in China accounting vouchers, books and statements that support the correct computation of taxable income.

Accounting vouchers, books and statements, and reports of enterprises shall be completed in the Chinese language or completed in both the Chinese language and a foreign language. Enterprises that use electronic computers for purposes of book-keeping shall treat the accounting records in computer storage or in printed form as account books. All records on magnetic tape and diskette that have not been printed out shall be completely retained. Accounting vouchers, books and statements, and reports of enterprises shall be retained for at least 15 years.

Article 101 Invoices and certificates of receipts of enterprises shall be subjected to approval by the local tax authorities prior to printing and use.

Administrative measures in respect of the printing and use of invoices and certificates of receipts of enterprises shall be formulated by the State Tax Bureau.

Article 102 All enterprise income tax returns and certificates of tax payments shall be printed by the State Tax Bureau.

Article 103 If the final day of the period for payment of tax and the period for filing of a tax return falls on a Sunday or a legal holiday, the day following the holiday shall be used as the last day of the period.

Article 104 Tax authorities may pay withholding agents as specified in Article 19, paragraph 2 of the Tax Law and Article 67 of these Rules a handling fee based on a certain proportion of the amount of tax withheld; the specific methods shall be

formulated by the State Tax Bureau.

Article 105 Local tax authorities may, according to the seriousness of the case, impose a fine of 5,000 yuan (RMB) or less on taxpayers or withholding agents that refuse to accept examination by the tax authorities in accordance with the relevant provisions or that refuse to pay late payment penalties within the time limit prescribed by the tax authorities.

Article 106 The tax authorities may, according to the seriousness of the case, impose a fine of 5,000 yuan (RMB) or less on an enterprise which violates the provisions of Article 87; Article 90, paragraph 2; Article 95; Article 96; Article 97; Article 99: Article 100 and Article 101 of these Rules.

Article 107 "Tax evasion" mentioned in Article 25 of the Tax Law means the illegal actions of a taxpayer who has intentionally violated the provisions of the Tax Law such as by: falsifying, altering or destroying account books, receipts or accounting vouchers; falsely itemizing or overstating costs and expenses; concealing or understating taxable income or receipts; or avoiding taxes or fraudulently recovering taxes already paid.

Article 108 The tax authorities shall, in punishing taxpayers or withholding agents in accordance with the provisions of the Tax Law and these Rules, serve notice of contravention.

Article 109 Any entity or individual shall have the right to report a failure to comply with the Tax Law and the violators thereof. The tax authorities shall maintain confidentiality for informants and award them in accordance with the relevant provisions herein.

#### Chapter IX Supplementary Provisions

Article 110 Enterprises with foreign investment which completed business registration prior to the promulgation of the Tax Law may, in respect of the payment of income tax in accordance with the provisions of the Tax Law and where the liability for tax is higher than that prior to the entry into force of the Tax Law, use the original applicable tax rate during the approved period of operations. Where there is no established period of operations, income tax may be paid using the original applicable tax rate for five years commencing on the date of the entry into force of the Tax Law. However, in respect of the above-mentioned period, if during a tax year the tax liability is higher than that stipulated in the Tax Law, income tax shall be paid commencing with that tax year according to the tax rate stipulated in the Tax Law.

Article 111 Preferential treatment in terms of exemptions from and reductions of enterprise income tax enjoyed pursuant to the laws and administrative rules and regulations prior to the entry into force of the Tax Law by enterprises with foreign

investment which completed business registration prior to the promulgation of the Tax Law may continue to remain in effect until the termination of the period of exemptions and reductions.

Enterprises with foreign investment which completed business registration prior to the promulgation of the Tax Law but which have not earned profits or have earned profits for less than five years may, in accordance with the provisions of Article 8, paragraph 1 of the Tax Law, be granted a corresponding period of treatment in respect of exemptions from or reductions of enterprise income tax.

Article 112 Enterprises with foreign investment which completed business registration after the promulgation of the Tax Law but prior to the entry into force of the Tax Law may refer to the provisions of Article 110 and Article 111 of these Rules for implementation herein.

Article 113 The Ministry of Finance and the State Tax Bureau shall be responsible for the interpretation of these Rules.

Article 114 These Rules shall come into force on the effective date of the Income Tax Law of the People's Republic of China for Enterprises with Foreign Investment and Foreign Enterprises. The Detailed Rules for the Implementation of the Income Tax Law of the People's Republic of China Concerning Chinese-Foreign Equity Joint Ventures and the Detailed Rules for the Implementation of the Income Tax Law of the People's Republic of China for Foreign Enterprises shall be abrogated at the same time.

# National Development and Reform Commission, Ministry of Commerce jointly promulgated The new "Foreign Investment Industrial Guidance Catalogue"

Approved by the State Council, the National Development and Reform Commission and Ministry of Commerce issued October 31 Decree 57, published in full, "Foreign Investment Industrial Guidance Catalogue (2007 Amendment)" (hereinafter referred to as the new "directory"), since December 1, 2007 into effect. November 30, 2004 the National Development and Reform Commission and Ministry of Commerce issued the "Catalogue for the Guidance of Foreign Investment Industries (amended in 2004)" shall be repealed simultaneously.

New "directory" is in implementing the scientific concept of development, building a socialist harmonious society, further deepening reform and expanding opening up new situation amendments is to implement the party's congress's "innovative use of foreign capital, optimal use of foreign capital play in facilitating independent innovation, industrial upgrading and coordinated regional development, the positive role of "requirements, and guide the direction of foreign investment in the important policy measures. Improve macro-control on, and domestic development and opening up, promote the optimization and upgrading of industrial structure, improve the quality and level of utilization of foreign capital will play a positive role.

"Directory" amendments mainly involve five aspects:

First, insist on expanding opening up, promote industrial upgrading. Manufacturing sector and further encourage foreign investment in Chang's high-tech industries, equipment manufacturing, new materials, manufacturing and other industries. Service sector, "directory" in the full implementation of China's WTO accession commitments, actively and steadily open wider to increase the "undertaking service outsourcing," "modern logistics" and encouraged the content, and reduce the original restrictions and prohibited items. Meanwhile, the country has mastered a number of mature technologies, with strong production capacity of traditional manufacturing is no longer encourage foreign investment, a clear "Guiding Catalogue of Industrial Structure Adjustment"

restricted entry for foreign investment projects.

Second, conserve resources, protect the environment. Encourage foreign investment in the development of circular economy, clean production, renewable energy and environmental protection, comprehensive utilization of resources to encourage foreign investment. "divectory" added to the relevant entries encouraged. Our scarce or non-renewable mineral resources are no longer important to encourage foreign investment. Some of the important non-renewable mineral resources prospecting and mining to foreign investment is no longer to restrict or prohibit the high material consumption, high energy consumption, high pollution access to foreign investment projects.

The third is simply to encourage export-oriented adjustment policies. For China's trade surplus is too large, rapid increase in foreign exchange reserves and other new situation, not simply continue to encourage the export-oriented policies.

Fourth, promote balanced regional development. With the western development, central China, the revitalization of old industrial bases in Northeast China, the amendments to encourage foreign investment in the industry no longer included in the directory only "limited to the central and western regions," the entry. Where a need to encourage foreign investment in central and western regions and the northeast old industrial base competitive industries and specialized industry, in the next revision, "the central and western regions Catalogue of Industries for Foreign Investment," co-ordinate considered for inclusion.

Fifth, to safeguard national economic security. Some related to national economic security, strategic and sensitive industries, cautious openness, appropriate adjustments to related entries, and domestic development and opening up.

### PUBLIC FILE NON CONFIDENTIAL A ႃၣၟၣၟၛၟႜၜၛႃၟၟ 1.2.7

China ARW subsidies contained in WTO document 06-1762, Subsidies – New and Full Notification Pursuant to Article XVI:1 of the GATT 1994 and Article 25 of the SCM Agreement by the PEOPLE'S REPUBLIC OF CHINA.

#### G/SCM/N/123/CHN 13 April 2006 (06-1762).

- Preferential tax policies for foreign-invested enterprises.
- II. Preferential tax policies for foreign-invested export enterprises.
- VI. Preferential tax policies for enterprises with foreign investment which are technology-intensive and knowledge-intensive.
- VII. Preferential tax policies for enterprises with foreign investment in the border cities.
- VIII. Preferential tax policies for enterprises with foreign investment recognized as high or new technology enterprises established in the State high or new technology industrial development zones, and for advanced technology enterprises invested in and operated by foreign businesses.
- IX. Preferential tax policies for enterprises recognized as high or new technology enterprises established in the State high or new technology industrial development zones.
- X. Preferential tax policies for enterprises with foreign investment established in special economic zones excluding Shanghai Pudong area).
- XI. Preferential tax policies for enterprises with foreign investment established in the coastal economic open areas and in the economic and technological development zones.
- XII. Preferential tax policies for enterprises with foreign investment established in Pudong area of Shanghai.
- XIII. Preferential tax policies for enterprises with foreign investment established in the Three Gorges of Yangtze River Economic Zone (Shanghai, Zhejjang & Jiangsu).
- XIV. Preferential tax policies in the western regions.
- XV. Preferential tax policies for enterprises established in the poverty stricken areas.
- XIX. Preferential tax policies for enterprises which utilize the waste materials.
- XXII. Preferential tax policies for enterprises making little profits.
- XXIV. Preferential tax policies for enterprises which provide employment for unemployed people.
- XXVI. Preferential tax policies for the research and development of enterprises.
- XXVII. Preferential tax policies for the research and development of foreign-invested enterprises.
- XXVIII. Preferential tax policies for the enterprises transferring technology.
- XXXII. Development funds for SMEs.
- XXXIII. Fund for international market exploration by SMEs.
- XXXIV. Special fund for establishment of service system for SMEs.
- XXXV. Fund for subsidizing the training of the rural migrant labour force.
- LVIII. Preferential tax policies for foreign invested enterprises and foreign enterprises which have establishments or place in China and are engaged in production or business operations purchasing domestically produced equipments.
- LIX. Preferential tax policies for domestic enterprises purchasing domestically produced equipments for technology upgrading purpose.
- LX. Exemption of tariff and import VAT for the imported technologies and equipments.
- LXX. Preferential tax treatment for other products produced with integrated utilization of resources.
- LXXVI. Preferential tax treatment for casting and forging products.
- LXXVII. Preferential tax treatment to dies products.
- LXXVIII. Preferential tax treatment to numerically controlled machine tool products.