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**Enterprise Income Tax Law
of the People's Republic of China**
- National People's Congress -

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The 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, is hereby promulgated and shall come into effect on January 1, 2008.

Hu Jintao
President of the People's Republic of China
March 16, 2007

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**Enterprise Income Tax Law
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Chapter I General Provisions

Article 1

All enterprises and other organizations that obtain income within the People's Republic of China (hereinafter referred to as "enterprises") shall be the taxpayers of enterprise income tax and shall pay enterprise income tax in accordance with the provisions of this Law.

This Law shall not apply to sole proprietorship enterprises and partnership enterprises.

Article 2

Enterprises are divided into "resident enterprises" and "non-resident enterprises".

The phrase "resident enterprise" as a term used in this Law shall refer to an enterprise established in accordance with the law within the territory of the People's Republic of China, or established in accordance with the law of a foreign country (region) but whose actual administration institution is located within the territory of the People's Republic of China.

The phrase "non-resident enterprise" as a term used in this Law shall refer to an enterprise established in accordance with the law of a foreign country (region) whose actual administration institution is located outside the territory of the People's Republic of China but with organizations or establishments within the territory of the People's Republic of China; or without organizations or establishments within the territory of the People's Republic of China but which have income derived from the territory of the People's Republic of China.

Article 3

A resident enterprise shall pay enterprise income tax on its income derived from both within and outside China.



For a non-resident enterprise with organizations or establishments within China, it shall pay enterprise income tax on its income derived from within China as well as income derived from outside China but in fact related to such organizations or establishments.

For a non-resident enterprise without any organizations or establishments within China, or with organizations or establishments within China but its income is not in fact related to such organizations or establishments, it shall pay enterprise income tax on its income derived from within China.

Article 4

Enterprise income tax shall be levied at the rate of 25%.

With regard to the income of a non-resident enterprise as mentioned in paragraph 3 of Article 3 of this Law, the applicable tax rate shall be 20%.

Chapter II Taxable Income

Article 5

The balance derived from the total income of an enterprise in each taxable year after deducting the tax-free income, tax-exempt income, other deductible items as well as the permitted carry-forward loss of previous year(s) shall be the taxable income.

Article 6

The total income of an enterprise shall consist of monetary and non-monetary income derived from various sources, including:

- (i) income from the sale of goods;
- (ii) income from the provision of labor services;
- (iii) income from the transfer of property;
- (iv) dividend, bonus and other equity investment proceeds;
- (v) interest income;
- (vi) rental income;
- (vii) income from royalties and licenses;
- (viii) income from accepted donations; and
- (ix) other incomes.

Article 7

The following income from the total income shall be tax-free incomes:

- (i) fiscal appropriations;
- (ii) administrative charges for fiscal administration and government funds in accordance with the law; and
- (iii) other tax-free incomes as prescribed by the State Council.



Article 8

Reasonable expenditure actually incurred in connection with the income of an enterprise, including costs, expenses, taxes, losses and other payments, may be deducted when computing taxable income.

Article 9

Expenditure for public welfare donations may be deducted when computing taxable income if it is within 12% of the total annual revenue.

Article 10

The following items shall not be deductible when computing taxable income:

- (i) dividend, bonus and other equity investment proceeds paid to investors;
- (ii) enterprise income tax payments;
- (iii) surcharge on overdue tax payments;
- (iv) penalties, fines and losses from confiscated property;
- (v) expenditures for donations other than those prescribed in Article 9 hereof;
- (vi) sponsorship fees;
- (vii) unverified reserve expenditures; and
- (viii) other expenses incurred not for the purpose of earning income.

Article 11

When computing taxable income, depreciation expenses for fixed assets calculated in accordance with relevant regulations may be deducted.

No depreciation expenses may be deducted for the following fixed assets:

- (i) fixed assets not in use other than houses and buildings;
- (ii) fixed assets leased in through a business lease;
- (iii) fixed assets leased out through a finance lease;
- (iv) fully depreciated fixed assets that remain in use;
- (v) fixed assets not related to business operations;
- (vi) land separately appraised and recorded as fixed assets; and
- (vii) other fixed assets for which depreciation may not be calculated.

Article 12

When computing taxable income, an enterprise may deduct amortization expenses of intangible assets calculated in accordance with relevant regulations.

Amortization expenses for the following intangible assets may not be deducted:



- (i) intangible assets whose self-development expenses have been deducted when computing taxable income;
- (ii) self-created goodwill;
- (iii) intangible assets not related to business operations; and
- (iv) other intangible assets for which amortization expenses may not be calculated.

Article 13

The following expenses incurred by an enterprise shall be deemed as long-term prepaid expenses, and the relevant amortization expenses calculated in accordance with relevant regulations may be deducted when computing taxable income:

- (i) reconstruction expenses of fully depreciated fixed assets;
- (ii) reconstruction expenses of leased fixed assets;
- (iii) hefty renovation expenses of fixed assets; and
- (iv) other expenses to be deemed as long-term prepaid expenses.

Article 14

When an enterprise makes an outbound investment, the costs of the transferred assets during the investment period shall not be deducted when computing taxable income.

Article 15

Costs incurred by an enterprise for inventories used or sold, calculated in accordance with relevant regulations, may be deducted when computing taxable income.

Article 16

Where an enterprise transfers its assets, the net value of those assets may be deducted when computing taxable income.

Article 17

When computing enterprise income tax on a consolidated basis, an enterprise is not entitled to offset the losses incurred by its overseas business operations against the profits earned within the territory.

Article 18

Losses incurred by an enterprise in a tax year may be carried forward and offset against the taxable income in successive tax years not exceeding 5 years.

Article 19

Where a non-resident enterprise obtains income as prescribed in Paragraph 3 of Article 3 of this Law, its taxable income shall be calculated in the following manner:

- (i) With regard to dividend, bonus, as well as proceeds and interests from equity investment, rental income and royalty, the total income shall be the taxable income;



- (ii) With regard to income from the transfer of assets, the balance after deducting the net value of the assets from the total income shall be the taxable income;
- (iii) With regard to other incomes, taxable income shall be computed in accordance with the methods stipulated in the preceding paragraphs.

Article 20

The provisions governing the scope and standard for incomes and deductions as well as tax treatment of assets as contained in this Chapter shall be formulated by the treasury and tax administration departments of the State Council.

Article 21

Where the financial and accounting bases adopted by an enterprise in the computation of taxable income are inconsistent with tax laws and administrative regulations, taxable income shall be computed in accordance with the provisions of tax laws and administrative regulations.

Chapter III Income Tax Payable

Article 22

The income tax payable shall be the balance of taxable income multiplied by the applicable tax rate and minus tax deductions and exemptions as provided for by the provisions regarding tax preferential treatment of this Law.

Article 23

An enterprise shall be entitled to credit its tax payable by the amount of taxes already paid overseas in the current period on the incomes listed below; the credit shall be limited to the tax otherwise payable in accordance with the provisions hereof; any excess amount that cannot be credited in the current period can be offset against tax payable within the following 5 years:

- (i) taxable income derived from outside China by a resident enterprise;
- (ii) taxable income derived from outside China by a non-resident enterprise which is actually connected with its organizations or establishments within China.

Article 24

For dividends and other distributions with respect to equity investment derived from outside China that a resident enterprise receives from a foreign enterprise that it controls directly or indirectly, the portion of income tax on such incomes paid by the foreign enterprise outside China may be treated as the allowable tax credits of the resident enterprise and be deducted within the tax credit limit as prescribed in Article 23 of this Law.



Chapter VI Preferential Tax Treatment

Article 25

Preferential tax treatment shall be granted to industries and projects whose development is supported and encouraged by the State.

Article 26

The following incomes of an enterprise shall be tax-free incomes:

- (i) interest income from government bonds;
- (ii) dividends, bonuses and other equity investment proceeds distributed between qualified resident enterprises;
- (iii) dividends, bonuses and other equity investment proceeds which a non-resident enterprise with organizations or establishments within China receives from a resident enterprise and which have actual connection with such organizations or establishments; and
- (iv) incomes of qualified non-profit organizations.

Article 27

Enterprise income tax on the following incomes may be deducted or exempted:

- (i) income from projects in agriculture, forestry, animal husbandry and fishery;
- (ii) income from major public infrastructure investment projects supported by the State;
- (iii) income from qualified environmental protection, and energy and water conservation projects;
- (iv) income from qualified transfer of technology; and
- (v) income as prescribed in Paragraph 3 of Article 3 hereof.

Article 28

Enterprise income tax for a small-scale enterprise that meets the prescribed conditions shall be levied at a reduced rate of 20%.

Enterprise income tax for State-encouraged high and new technology enterprises shall be levied at a reduced rate of 15%.

Article 29

The autonomous authority of a minority autonomous region may choose to reduce or exempt taxes for the portion of enterprise income tax for local distribution paid by an enterprise located in such region. Tax deductions or exemptions decided upon by an autonomous prefecture or county are subject to approval from the people's government of the province, autonomous region or municipality directly under the central government.

Article 30



Supper deductions shall be allowed for the following expenditures incurred by an enterprise:

- (i) research and development expenses incurred for the development of new technology, new products and new techniques; and
- (ii) salaries paid to disabled employees and other personnel whom the State encourages to offer assistance to.

Article 31

A venture capital enterprise engaged in venture capital investments supported and encouraged by the State may deduct from the taxable income a certain percentage of the total investment amount.

Article 32

Where the depreciation of any fixed assets of an enterprise is accelerated due to technology advancement or any other cause, it may shorten depreciation period or apply accelerated depreciation method.

Article 33

The income of an enterprise derived from the production of goods in conformity with the industrial policies of the State and by way of comprehensive utilization of resources may be deducted from the taxable income.

Article 34

Investments made by an enterprise in specialized equipment for environmental protection, energy and water conservation, production safety, etc. may be deducted from the tax amount at a specified percentage set forth.

Article 35

The specific measures for the implementation of the preferential tax treatments as prescribed in this Law shall be formulated by the State Council.

Article 36

If national economic and social development needs so require, or in the event of an emergency, etc. that seriously affects the business operations of enterprises, the State Council may formulate special preferential policies pertaining to enterprise income tax and report to the Standing Committee of the National People's Congress for recording purposes.



Chapter V Withholding at Source

Article 37

Income tax payable by a non-resident enterprise in respect of the income earned in accordance with Paragraph 3 of Article 3 hereof shall be subject to withholding at source, with the payer acting as the withholding agent. The tax amount shall be withheld from the amount paid or due payable amount by the withholding agent when the tax payment is made or payable amount is due.

Article 38

For income tax payable on income derived within China from engineering projects or labor services by a non-resident enterprise, the tax authority may designate the payer of the contracted amount or labor service fee as the withholding agent.

Article 39

Should the withholding agent fail to withhold or be unable to perform its obligation to withhold the income tax that should be withheld in accordance with the provisions of Article 37 and 38 hereof, the taxpayer shall pay income tax at the place where the income is derived. If the taxpayer fails to do so, the tax authority is entitled to recover the tax payable of such enterprise from its other income derived within the territory of China.

Article 40

The withholding agent shall hand over the tax payments withheld to the State treasury within 7 days from the withholding date, and file withholding income tax returns with the local tax authority.

Chapter VI Special Tax Adjustment

Article 41

For business transactions between an enterprise and its affiliates that are not in conformity with the arm's length principle and thus resulting in reduced taxable revenue or income for such enterprise or its affiliates, the tax authority is entitled to make adjustments based on reasonable methods.

Costs associated with the joint development or transfer of intangible assets, or joint provision or receipt of labor services of an enterprise and its affiliates shall be apportioned in accordance with the arm's length principle when computing taxable income.

Article 42

If an enterprise wishes to enter into an advance pricing arrangement, it may furnish the tax authority with the pricing principles and computation methods it adopts in business transactions between itself and its affiliates, for discussion and negotiation about entering into such arrangement.



Article 43

When an enterprise files its annual income tax returns with the tax authority, it shall enclose an annual report on related party transactions during the year.

When the tax authority conducts an investigation on related party transactions, the enterprise and its affiliates as well as other enterprises related to such investigation shall provide relevant information in accordance with relevant regulations.

Article 44

If an enterprise fails to provide information in respect of its related party transactions, or provides false and incomplete information that does not accurately reflect its actual related party transactions, the tax authority is entitled to assess the taxable income of such enterprise in accordance with laws and regulations.

Article 45

For an enterprise established by a resident enterprise or jointly controlled by a resident enterprise and a Chinese resident and located in a country (region) where the actual tax burden is significantly lower than the tax rates as prescribed in Paragraph 1 of Article 4 hereof, and which fails to distribute profits or distributes profits lesser than it should for a cause not attributable to reasonable operational needs, the portion of such profits attributed to the resident enterprise shall be included in its income of the current period.

Article 46

When the ratio of debt and equity investment that an enterprise receives from its affiliates exceeds a prescribed standard and results in interest expenditure, such expenditure shall not be deductible when computing taxable income.

Article 47

If an enterprise enters into any business arrangement without bona fide commercial objectives that results in reduced taxable revenue or income, the tax authority is entitled to make adjustments based on reasonable methods.

Article 48

Where the tax authority makes adjustments to the taxable income in accordance with the provisions of this Chapter, tax arrears due to the adjustment will be subject to additional interest stipulated by the State Council.



Chapter VII Tax Assessment and Collection Administration

Article 49

The administration of the collection of enterprise income tax shall be governed by the *Law of the People's Republic of China on the Administration of Tax Collection* in addition to the provisions of this Law.

Article 50

Unless otherwise stipulated by tax laws and relevant administrative regulations, a resident enterprise shall pay tax at the place where it is registered. If the registered address is outside of China, the enterprise shall pay tax at the place where its actual management is located.

A resident enterprise which has established business institutions without legal person status in China shall compute and pay its enterprise income tax on a consolidated basis.

Article 51

A non-resident enterprise earning income in accordance with Paragraph 2 of Article 3 hereof shall pay tax at the place where the institution or establishment is located. A non-resident enterprise that has two or more institutions or establishments in China may, upon the examination and approval of the tax authority, choose to have its main institution or establishment pay the enterprise income tax on a consolidated basis.

A non-resident enterprise earning income in accordance with Paragraph 3 of Article 3 hereof shall pay tax at the place where the withholding agent is located.

Article 52

Unless otherwise stipulated by the State Council, an enterprise is not allowed to pay its enterprise income tax on a consolidated basis.

Article 53

Enterprise income tax shall be calculated on the basis of a tax year. A tax year shall commence on January 1 and end on December 31 of each calendar year.

If an enterprise commences or terminates its operating activities in the middle of a tax year so that its actual operational period for that tax year is less than 12 months, the actual business operation period shall constitute a tax year.

An enterprise that is liquidated in accordance with the law shall use the liquidation period as its tax year.



Article 54

Provisional enterprise income tax shall be paid in advance on a monthly or quarterly basis.

An enterprise shall, within 15 days after the end of each month or quarter, submit provisional enterprise income tax returns and make provisional tax payments to the tax authority.

The enterprise shall submit an annual enterprise income tax return to the tax authority and settle the amount of tax payable or refundable within 5 months after the end of each year.

When an enterprise submits an enterprise income tax return, it shall enclose financial statements and other relevant information in accordance with the relevant regulations.

Article 55

Where an enterprise terminates its operating activities in the middle of a year, it shall, within 60 days from the actual day of termination of its business operations, settle the enterprise income tax payment for the current period with the tax authority.

An enterprise shall, prior to the cancellation of its business registration, file its income tax return with and make tax payment to the tax authority for its liquidation income.

Article 56

Enterprise income tax paid in accordance with this Law shall be calculated in Renminbi. Income calculated in other currencies shall be converted into Renminbi and taxed accordingly.

Chapter VIII Supplementary Provisions

Article 57

Enterprises which have been approved and established prior to the promulgation of this Law and which enjoy preferential treatment in accordance with the tax laws and administrative regulations in force at that time are allowed for, according to the provisions of the State Council, a gradual transition to tax rates provided for herein within a five year period commencing from the effective date of this Law; enterprises which enjoy preferential treatment in the form of income tax exemption or reduction for a fixed term may, according to the provisions of the State Council, continue to enjoy such treatment after the promulgation of this Law until the expiry of the fixed term. However, for enterprises that have yet to enjoy preferential treatment due to their failure to make any profits, the preferential treatment period shall commence from the year this Law becomes effective.

State-encouraged high and new technology enterprises established within special zones developed in accordance with the law for the promotion of foreign economic cooperation



and technological exchanges and such other zones as administered by the State Council for the implementation of the above-mentioned special policies may continue to enjoy transitional preferential tax treatment with the specific measures to be formulated by the State Council.

Other enterprises under the encouraged category as already determined by the State may enjoy tax exemptions and reductions in accordance with the regulations of the State Council.

Article 58

Where the provisions of a tax treaty/agreement concluded between the government of the People's Republic of China and a foreign government are inconsistent with the provisions of this Law, the provisions of the treaty/agreement shall prevail.

Article 59

The State Council shall, in accordance with this Law, formulate the implementing regulations.

Article 60

This Law shall come into effect on January 1, 2008. The *Law of the People's Republic of China on the Enterprise Income Tax of Foreign-invested Enterprises and Foreign Enterprises* as adopted at the 4th session of the 7th National People's Congress on April 9, 1991 and the *Interim Regulations of the People's Republic of China on Enterprise Income Tax* as promulgated by the State Council on December 13, 1993 shall be repealed as of the same date.

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