

Preferential Policies for Foreign-owned Enterprises in China

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工商业协会

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Regional Preference

Coastal open areas and state-level development zones

- Manufacturing companies set up in economic and technological development zones should be taxed at 15% reduced enterprise income rate.

- Manufacturing companies FIEs set up in the old urban districts of coastal economic development zones and economic or technological development zones should be taxed at 24% reduced enterprise income rate.

- Foreign-funded enterprises in projects encouraged by the state policy such as energy, transportation, port, wharf, etc, while setting up in the old urban districts of coastal economic development zones, economic or technological development zones, or other areas provisioned by the State Council, should be taxed at 15% reduced enterprise income rate.

Central and Western regions

- From 1st Jan 2000, Foreign-funded enterprises set up in central and western regions and encouraged by the state, should be taxed at 15% reduced rate after enjoying the current favourable treatment for 3 years.

- During the 3 year period of favourable treatment, if a foreign-funded enterprise is recognized as "advanced technology enterprise" or, for an export-oriented enterprise, the annual value of exported products constitute over 70% of the total, could be taxed the half of the basis of the enterprises income rate.

Preferential enterprises and industries

Manufacturing -type FIEs

The income tax on the manufacturing -type FIEs whose term of operation is more than 10 years are exempted from enterprise income tax for the first two profit-making years, and levied at half rate for the next three years. The State Council prescribes those for the projects in the exploration of resources such as petroleum, natural gas, rare metals and precious metals separately.

Reinvestment

- If the profit gained from a foreign-invested enterprise is used for reinvestment like increasing the registered capital, or investing in other enterprises with foreign investment, and the enterprise's investment period lasted for more than 5 years as well, 40% of the paid income tax from the reinvestment part can be returned.

- For foreign investors who directly reinvest in China to set up and expand manufacturing -type FIEs or "advanced technology enterprises", the paid income tax from the reinvestment part could be returned, in accordance with the relevant regulations of the State Council.

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- The stock dividend gained from investing in other domestic enterprises by foreign-funded enterprise could be counted out of the enterprise income tax.

Export-oriented enterprises

- After the implementation of provisions in respect of exemptions from or reductions of enterprise income tax in accordance with the tax law, export-oriented enterprises invested by foreign investors could be taxed on half of the basis enterprise income tax under the precondition that the annual value of exported products constitute over 70% of the total. Meanwhile, separately for those who are located in special economic zone or economic and technological development zone, and those who had already been taxed at 15% on enterprise income, the enterprise income tax rate should be 10%.

-The export-oriented enterprises are exempted from state subsidies for Chinese workers, in spite of the labour insurance, welfare, and housing subsidy funds in accordance with relevant regulations.

High-tech enterprises

- If the recognition of "technologically advanced enterprise" remains after the implementation of provisions in respect of exempted from or reductions of enterprise income tax in accordance with the tax law, a high-tech enterprise invested by foreign investors could be taxed half of the regulated rate on enterprise income for the next 3 years.

- The high-tech enterprises are exempted from state subsidies for Chinese workers, in spite of the labour insurance, welfare, and housing subsidy funds in accordance with relevant regulations.

- The export rebate rate of the high-tech products should be levied in accordance with the rate of the added-value tax.

- Royalty Fee acquired from scientific research, energy development, transportation industry, agriculture, forestry, animal husbandry production, and developing important technique, could be taxed at 10% reduced income tax, and for those of advanced technology or favourable conditions, the tax could be exempted under the approval by the State Council

For encouraged industries

- For Chinese-foreign equity joint ventures engaged in port and dock construction which have run for over 15 years, the corporate income tax should be exempted for the first 5 profit-making years, and be levied at a half rate for the next 5 years.

- Production-type enterprises in energy and transportation infrastructure industries could be taxed at 15% reduced rate on enterprise income tax.

- For the agriculture, forestry, animal husbandry production industries, after the implementation of provisions in respect of exempted from or reductions of enterprise income tax, foreign-funded enterprises could be tax at 15%- 30% reduced rate in the next 10 years

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Other enterprises in encouraged fields

- Local government owns the authority to reduce or exempt local income tax for the foreign-invested enterprises encouraged by the state.
- insurance services on political risks, performance bond, and guarantee could be provided for major energy, communications, and other industries supported by the state.

Addition:

- Profits acquired by foreign investors from foreign-funded enterprises could be exempted from the income tax.
- The site rent could be exempted when the land use right is transmitted in the way of conveyance.
- For purchased domestic equipment by foreign invested enterprises, if they are covered by tax-free contents, their added-value tax can be fully returned.
- The Chinese-funded commercial banks are allowed to accept guarantee from foreign shareholders when foreign-funded enterprises raise fund inside China.
- For Chinese investors, special fund could be found up to ease the shortage of equity funds caused by the capital increase from foreign investors. Meanwhile, equity loan under 50% within 10-years term could be issued by domestic commercial banks, under the condition that the capital increase from foreign shareholders is in place.
- Mandatory value certifications on equipment imported by exclusively foreign-owned enterprises have already been cancelled.