

Working Party on GATS Rules

SUBSIDIES FOR SERVICES SECTORS

INFORMATION CONTAINED IN WTO TRADE POLICY REVIEWS

Background Note by the Secretariat¹

Corrigendum

The table below replaces Table III.12 on page 50 of document S/WPGR/W/25/Add.5.

Table III.12
Income tax concessions and preferences for foreign-invested enterprises

Preferential tax rate of 15%

FIEs in the Shenzhen, Zhuhai, Shantou, Xiamen and Hainan SEZs;
FIEs engaged in production and established in economic and technological development zones approved by the State Council;
FIEs established in the Pudong New Area in Shanghai;
Technology-based FIEs in old urban districts of SEZs, economic and technological development zones, and coastal economic open areas approved by the State Council with long investment recovery periods and foreign investment exceeding US\$30 million;
FIEs engaged in energy, transport, and port construction projects;
FIEs engaged in export processing in bonded zones;
High technology FIEs in new and high technology industrial development zones at state level approved by the State Council.

Preferential tax rate of 24%

Production FIEs based in the old urban districts of coastal economic open areas, special economic zones, and economic and technological development zones where the 15% preferential tax rate is not applicable;
open coastal cities, open cities along the Yangtze River and in inland and border regions, as well as other areas designated by the State FIEs in Council;
FIEs in State tourist resorts.

Tax exemptions or reductions

Production FIEs with an operating period of over ten years (excluding oil, natural gas, and rare and precious metal exploration): eligible for tax exemption for the first two profit-making years and 50% reduction in the following three years; with SAT approval FIEs engaged in agriculture, forestry, and animal husbandry or established in economically backward and remote border areas may pay a reduced rate between 15% and 30% for another ten years;
Foreign joint ventures engaged in port and wharf construction and with an operating period of over 15 years: eligible for a corporate tax exemption for the first five-profit making years, followed by a 50% reduction in the corporate tax rate for the next five years;
Infrastructure projects in airports, ports, wharfs, railways, highways, power stations, coal mines and water conservation, as well as agricultural development in the Hainan SEZ with an operating period of over 15 years: eligible for a corporate tax exemption during the first five years, followed by a 50% reduction for the next five years;
FIEs providing services in the SEZs with foreign investment over US\$5 million and with an operating period of over ten years; and foreign invested banks, Sino-foreign joint venture banks and other financial institutions in SEZs and other areas designated by the State Council with foreign capital investment exceeding US\$10 million and with an operating period of over ten years: eligible for corporate tax exemption in the first profit-making year followed by a 50% reduction in the second and third years upon approval from the local tax authorities;
Recognized high tech Sino-foreign joint venture enterprises in state level high technology development zones with an operating period of over ten years: exempt from corporate income tax during the first two profit-making years with the approval of the tax authorities; foreign-invested export-oriented enterprises with export values of over 10% of their total output value, and foreign-invested high tech enterprises whose status remains unchanged: entitled to a lower corporate tax rate of 15% or 10% following the expiry of the corporate income tax exemption period.

* In English only.

¹ This document has been prepared under the Secretariat's own responsibility and without prejudice to the positions of Members and to their rights and obligations under the WTO.

Tax rebate

Reinvestment by an FIE of profits obtained from an enterprise in an enterprise with an operating period of at least five years: eligible for a 40% refund of the corporate income tax paid on the reinvested sum with approval from the competent tax authorities; 100% refund if profits are reinvested in establishing or expanding an export-oriented enterprise in China.

Other tax exemptions and reductions

Profits of foreign investors derived from FIEs: exempt from income tax;
Royalties paid to foreign enterprises for the provision of technology for scientific research, exploitation of energy resources, development of transportation, agriculture, forestry, and animal husbandry production and development of technologies: eligible for a reduced tax rate of 10% with SAT approval; companies provided advanced technologies income tax will be exempted;
FIEs engaged in production or business operations in China; can offset 40% of purchases of domestically produced equipment against the incremental corporate income tax of the prior year.
FIEs that have increased expenditure on technology development by more than 10% over the previous year: may offset their taxable income in the current year by 50% of the expenses on technology development; with the approval of the tax authorities;
Interest income of international financial institutions from loans to the Chinese Government or state banks, and interest income of foreign banks derived from loans to Chinese state banks at preferential rates: exempt from income tax;
Local income tax exemptions or reductions may also apply for those sectors or regions where foreign investment is encouraged.

Tax concessions for central and western regions

FIEs under the "encouraged" category in the western region of China that are eligible for a two-year income tax exemption followed by a three year tax reduction by half: eligible for a reduced corporate tax rate of 15% for three more years; FIEs recognized as high tech or export oriented, exporting over 70% of their annual output: eligible for a 50% reduction in corporate income tax during these three years although the tax cannot fall below 10%. It is not clear whether this means that the tax rate can be between 10% and 50%.

Source: Hong Kong TDC Research Department (undated), *Guide to Doing Business in China (2004/05)*. Available at: <http://www.tdctrade.com/chinaguide/eng/04/4-2.pdf>.
