

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

(Adopted at the Fourth Session of the Seventh National People's Congress on April 9, 1991, promulgated by Order No. 45 of the President of the People's Republic of China on April 9, 1991 and effective as of July 1, 1991)

Article 1 Income tax shall be paid in accordance with the provisions of this Law by enterprises with foreign investment within the territory of the People's Republic of China on their income derived from production, business operations and other sources.

Income tax shall be paid in accordance with the provisions of this Law by foreign enterprises on their income derived from production, business operations and other sources within the territory of the People's Republic of China.

Article 2 "Enterprises with foreign investment" referred to in this Law mean Chinese-foreign equity joint ventures, Chinese-foreign contractual joint ventures and foreign-capital enterprises that are established in China.

"Foreign enterprises" referred to in this Law mean foreign companies, enterprises and other economic organizations which have establishments or places in China and engage in production or business operations, and which, though without establishments or places in China, have income from sources within China.

Article 3 Any enterprise with foreign investment which establishes its head office in China shall pay its income tax on its income derived from sources inside and outside China. Any foreign enterprise shall pay its income tax on its income derived from sources within China.

Article 4 The taxable income of an enterprise with foreign investment and an establishment or a place set up in China to engage in production or business operations by a foreign enterprise, shall be the amount remaining from its gross income in a tax year after the costs, expenses and losses have been deducted.

Article 5 The income tax on enterprises with foreign investment and the income tax which shall be paid by foreign enterprises on the income of their establishments or places set up in China to engage in production or business operations shall be computed on the taxable income at the rate of

Special Economic Zones, foreign enterprises which have establishments or places in Special Economic Zones engaged in production or business operations, and on enterprises with foreign investment of a production nature in Economic and Technological Development Zones, shall be levied at the reduced rate of fifteen percent.

The income tax on enterprises with foreign investment of a production nature established in coastal economic open zones or in the old urban districts of cities where the Special Economic Zones or the Economic and Technological Development Zones are located, shall be levied at the reduced rate of twenty-four percent.

The income tax on enterprises with foreign investment in coastal economic open zones, in the old urban districts of cities where the Special Economic Zones or the Economic and Technological Development Zones are located or in other regions

After this Law enters into force, any modification to the provisions of the preceding three paragraphs of this Article on the exemption from or reduction of income tax on enterprises shall be submitted by the State Council to the Standing Committee of the National People's Congress for decision.

Article 9 The exemption from or reduction of local income tax on any enterprise with foreign investment which operates in an industry or undertakes a project encouraged by the State shall, in accordance with the actual situation, be at the discretion of the people's government of the relevant province, autonomous region or municipality directly under the Central Government.

Article 10 Any foreign investor of an enterprise with foreign investment which reinvests its share of profit obtained from the enterprise directly into that enterprise by increasing its registered capital, or uses the profit as capital investment to establish other enterprises with foreign investment to operate for a period of not less than five years shall, upon approval by the tax authorities of an application filed by the investor, be refunded forty percent of the income tax already paid on the reinvested amount. Where regulations of the State Council provide otherwise in respect of preferential treatment, such provisions shall apply. If the investor withdraws its reinvestment before the expiration of a period of five years, it shall repay the refunded tax.

Article 11 Losses incurred in a tax year by any enterprise with foreign investment and by an establishment or a place set up in China by a foreign enterprise to engage in production or business operations may be made up by the income of the following tax year. Should the income of the following tax year be insufficient to make up for the said losses, the balance may be made up by its income of the further subsequent year, and so on, over a period not exceeding five years.

Article 12 Any enterprise with foreign investment shall be allowed, when filing a consolidated income tax return, to deduct from the amount of tax payable the foreign income tax already paid abroad in respect of the income derived from sources outside China. The deductible amount shall, however, not exceed the amount of income tax otherwise payable under this Law in respect of the income derived from sources outside China.

Article 13 The payment or receipt of charges or fees in business transactions between an enterprise with foreign investment or an establishment or a place set up in China by a foreign enterprise to engage in production or business operations, and its associated enterprises, shall be made in the same manner as the payment or receipt of charges or fees in business transactions between independent enterprises. Where the payment or receipt of charges or fees is not made in the same manner as in business transactions between independent enterprises and results in a reduction of the taxable income, the tax authorities shall have the right to make reasonable adjustment.

Article 14 Where an enterprise with foreign investment or an establishment or a



purposes of tax payment.

Article 22 If any taxpayer fails to pay tax within the prescribed time limit, or if the withholding agent fails to turn over the tax withheld within the prescribed time limit, the tax authorities shall, in addition to setting a new time limit for tax payment, impose a surcharge for overdue payment, equal to 0.2 percent of the overdue tax for each day in arrears, starting from the first day the payment becomes overdue.

Article 23 The tax authorities shall set a new time limit for registration or submission of documents and may impose a fine of five thousand yuan or less on any taxpayer or withholding agent which fails to go through tax registration or make a change or cancellation in registration with the tax authorities within the prescribed time limit, or fails to submit income tax return, final accounting statements or withholding income tax return to the tax authorities within the prescribed time limit, or fails to report its financial and accounting systems to the tax authorities for reference.

Where the tax authorities have set a new time limit for registration or submission of documents, they shall impose a fine of ten thousand yuan or less on the taxpayer or withholding agent which again fails to meet the time limit for going through registration or making a change in registration with the tax authorities, or for submitting income tax return, final accounting statements or withholding income tax return to the tax authorities. Where the circumstances are serious, the legal representative and the person directly responsible shall be investigated for criminal responsibility by applying *mutatis mutandis* the provisions of Article 121 of the Criminal Law.

Article 24 Where the withholding agent fails to fulfil its obligation to withhold tax as provided in this Law, and does not withhold or withholds an amount less than that should have been withheld, the tax authorities shall set a time limit for the payment of the amount of tax that should have been withheld, and may impose a fine up to but not exceeding one hundred percent of the amount of tax that should have been withheld.

Where the withholding agent fails to turn the tax withheld over to the State Treasury within the prescribed time limit, the tax authorities shall set a time limit for turning over the taxes and may impose a fine of five thousand yuan or less on the withholding agent; if the withholding agent fails to meet the time limit again, the tax authorities shall pursue the taxes according to law and may impose a fine of ten thousand yuan or less on the withholding agent. If the circumstances are serious, the legal representative and the person directly responsible shall be investigated for criminal responsibility by applying *mutatis mutandis* the provisions of Article 121 of the Criminal Law.

Article 25 Where any person evades tax by deception or concealment or fails to

pay tax within the time limit prescribed by this Law and, after the tax authorities pursued the payment of tax, fails again to pay it within the prescribed time limit, the tax authorities shall, in addition to recovering the tax which should have been paid, impose a fine up to but not exceeding five hundred percent of the amount of tax which should have been paid. Where the circumstances are serious, the legal representative and the person directly responsible shall be investigated for criminal responsibility in accordance with the provisions of Article 121 of the Criminal Law.

State Council.

Article 28 Where the provisions of a tax agreement concluded between the government of the People's Republic of China and a foreign government are different from the provisions of this Law, the provisions of the agreement shall prevail.

Article 29 Rules for implementation shall be formulated by the State Council in accordance with this Law.

Article 30 This Law shall enter into force on July 1, 1991. The Income Tax Law of the People's Republic of China for Chinese Foreign Equity Joint Ventures and the Income Tax Law of the People's Republic of China for Foreign Enterprises shall be annulled as of the same date.