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## Enterprise Income Tax Law of the People's Republic of China

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### Chapter 1 GENERAL General Provisions

**Article 1** Within the territory of the People's Republic of China, enterprises and other organizations deriving income (hereinafter collectively referred to as enterprises) shall be taxpayers of enterprise income tax and shall pay enterprise income tax in accordance with the provisions of this Law.

The Law does not apply to sole proprietorships and partnerships.

**Article 2** Enterprises are divided into resident enterprises and non-resident enterprises.

The term "resident enterprise" in this Law refers to an enterprise established in China in accordance with the law, or established in accordance with the laws of a foreign country (region) but with its actual management office in China.

Non-resident enterprises referred to in this Law are those established in accordance with the laws of foreign countries (regions) and whose actual management offices are not located in China, but which have set up an establishment or premises in China, or those which have not set up an establishment or premises in China but have income derived from China.

**Article 3** Resident enterprises shall pay enterprise income tax on their income derived from sources within or outside China.

If a non-resident enterprise establishes an establishment or premises in China, it shall pay enterprise income tax on the income derived from the establishment or premises in China, as well as the income that occurs outside China but has a physical connection with its establishment or premises.

If a non-resident enterprise does not have an establishment or premises in China, or if it has established an establishment or premises but the income it obtains is not physically connected to its establishment or premises, it shall pay enterprise income tax on the income it derives from the territory of China.

**Article 4** The corporate income tax rate shall be 25 per cent.

The tax rate applicable to non-resident enterprises acquiring the income specified in paragraph 3 of Article 3 of this Law is 20%.

## **Chapter 2          Taxable Income**

**Article 5** The total income of an enterprise for each taxation year, less non-taxable income, tax-exempt income, deductions and allowable losses of previous years, shall be the taxable income.

**Article 6** The income obtained by an enterprise from all sources, in monetary and non-monetary form, shall be the total income. Inclusive

Includes:

- (i) Revenue from the sale of goods;
- (ii) Income from the provision of labour services;
- (iii) Income from the transfer of property;
- (iv) Dividends, dividends and other equity investment income;
- (v) Interest income;
- (vi) Rental income;
- (vii) Royalty income;
- (viii) Receiving income from donations;
- (ix) Other income.

**Article 7** The following income from gross revenue is non-taxable income:

- (i) Financial allocation;
- (ii) Administrative fees and government funds collected in accordance with the law and placed under financial management;
- (iii) Other non-taxable income as prescribed by the State Council.

**Article 8** Expenses actually incurred by an enterprise in connection with the acquisition of income and which are reasonable, including costs, expenses, taxes, losses and other expenses, shall be allowed for deduction in the calculation of taxable income.

**Article 9** The public welfare donation expenditure incurred by the enterprise, within 12% of the total annual profit, is allowed in

Deductions are allowed in the calculation of taxable income; any excess of 12% of total annual profits is allowed to be carried forward for deduction in the calculation of taxable income within the next three years.

**Article 10** In calculating taxable income, the following expenses are not deductible:

- (i) Payments of equity investment income such as dividends and bonuses to investors;
- (ii) Corporate income tax;
- (iii) Late payment of taxes;
- (iv) Fines, penalties and losses of confiscated property;
- (v) Expenditure on donations other than those provided for in Article 9 of this Law;
- (vi) Sponsorship expenditure;
- (vii) Unauthorised expenditure on reserves;

(viii) Other expenses not related to the acquisition of income.

**Article 11** In calculating the taxable income, the depreciation of fixed assets calculated by an enterprise in accordance with the regulations shall be allowed as a deduction.

No depreciation deduction is allowed for the following fixed assets:

- (i) Fixed assets other than houses and buildings that are not put into use;
- (ii) Fixed assets leased in under operating leases;
- (iii) Fixed assets leased out under finance leases;
- (iv) Fixed assets that have been fully depreciated and continue to be used;
- (v) Fixed assets that are not related to business activities;
- (vi) Land that is separately valued and accounted for as a fixed asset;
- (vii) Other fixed assets for which depreciation deductions are not allowed.

**Article 12** In calculating taxable income, enterprises shall be allowed to deduct the amortization expenses of intangible assets calculated in accordance with the regulations.

The following intangible assets are not deductible for the purpose of calculating amortisation expenses:

- (i) Intangible assets for which self-developed expenditure has been deducted in the computation of taxable income;
- (ii) Self-generated goodwill;
- (iii) Intangible assets not related to business activities;
- (iv) Other intangible assets for which amortization expense deduction is not allowed.

**Article 13** In calculating taxable income, the following expenses incurred by an enterprise shall be allowed as long-term amortization expenses and shall be deductible if they are amortized in accordance with the provisions:

- (i) Expenditure on alterations to fixed assets that have been fully depreciated;
- (ii) Expenditure on alterations to leased-in fixed assets;
- (iii) Expenditure on major repairs to fixed assets;
- (iv) Other expenses that should be treated as long-term amortization.

**Article 14** During the period of an enterprise's foreign investment, the cost of the invested assets shall not be deducted in calculating the taxable income.

**Article 15** The cost of inventory used or sold by an enterprise, calculated in accordance with the provisions, is permitted to be included in the calculation of the amount of inventory payable

Deductions are made against taxable income.

**Article 16** Where an enterprise transfers an asset, the net value of that asset shall be

allowed as a deduction in the calculation of taxable income.

**Article 17** When an enterprise calculates and pays enterprise income tax on an aggregated basis, the losses of its overseas business establishments shall not be offset against the profits of its domestic business establishments.

**Article 18** Losses incurred in the taxation year of an enterprise shall be allowed to be carried forward to future years and used the income of the subsequent year to be made up, subject to a maximum carry-over period of five years.



**Article 19** A non-resident enterprise that acquires the income specified in paragraph 3 of Article 3 of this Law shall calculate its taxable income in accordance with the following methods:

- (i) Income from equity investments such as dividends and bonuses and income from interest, rent and royalties shall be taxable in the full amount of the income;
- (ii) Income from the transfer of property shall be taxable as the full amount of the income less the net value of the property;
- (iii) For other income, the taxable income shall be calculated by reference to the methods specified in the first two items.

**Article 20** The specific scope and criteria of income and deductions and the specific methods of tax treatment of assets under this Chapter shall be prescribed by the competent departments of finance and taxation of the State Council.

**Article 21** In calculating taxable income, the financial and accounting treatment of enterprises and the tax laws and regulations

If the provisions of the administrative regulations are inconsistent, they shall be calculated in accordance with the provisions of the tax laws and administrative regulations.

### **Chapter 3      Due pay Tax      Amount**

**Article 22** The balance of the taxable income of an enterprise multiplied by the applicable tax rate, less the amount of tax deducted and credited in accordance with the provisions of this Law on tax incentives, shall be the taxable amount.

**Article 23** The amount of income tax already paid abroad on the following income obtained by an enterprise may be deducted from its current income tax payable. The credit shall be set off against the amount of tax payable in respect of that income calculated in accordance with the provisions of this Act; any excess of the credit limit may be set off against the balance of the tax credit payable in respect of that year in each of the following five years by applying the credit limit:

- (i) Taxable income derived by a resident enterprise from sources outside China;
- (2) A non-resident enterprise that establishes an establishment or venue in China and derives taxable income that occurs outside China but has a physical

connection with that establishment or venue.

**Article 24** The share of a resident enterprise from a foreign enterprise directly or indirectly controlled by it that originates outside China

The portion of the foreign enterprise's actual income tax paid abroad in respect of dividends, dividends and other equity investment income that is attributable to the burden of that income may be credited as the amount of foreign income tax creditable by that resident enterprise within the credit limit set forth in Article 23 of this Law.

**Chapter 4    TAXATION            Revenue            Preferences    Concessions**

**Article 25** The State shall grant preferential corporate income tax to industries and projects that are key to support and encourage development.

**Article 26** The following income of an enterprise is exempt from taxation:

- (i) Interest income from treasury bonds;
- (ii) Income from equity investments such as dividends and bonuses between eligible resident enterprises;
- (iii) A non-resident enterprise that has set up an establishment or premises in China receives from a resident enterprise dividends, bonuses and other equity investment income that is effectively linked to that establishment or premises;
- (iv) Income from eligible non-profit organisations.

**Article 27** The following income of an enterprise may be exempted or reduced from corporate income tax:

- (i) Income from projects in agriculture, forestry, animal husbandry and fisheries;
- (ii) Income from investment in and operation of public infrastructure projects supported by the State;
- (iii) Proceeds from engaging in eligible environmental protection, energy and water conservation projects;
- (iv) Proceeds from eligible technology transfers;
- (v) The income specified in Article 3, paragraph 3, of this Law.

**Article 28** Enterprise income tax shall be levied at a reduced rate of 20 per cent on qualified small and slightly profitable enterprises. High and new technology enterprises that the State needs to focus on supporting shall be subject to a reduced enterprise income tax rate of 15 per cent.

**Article 29** The organs of self-government of the national autonomous areas shall pay to the enterprises of the national autonomous areas the enterprise's

The part of the income tax that belongs to the local share may be decided to be reduced or exempted. If the autonomous prefecture or county decides to reduce or exempt the tax, it must be reported to the people's government of the province, autonomous region or municipality directly under the central government for approval.

**Article 30** The following expenses of an enterprise may be added to the calculation of taxable income:

- (i) Research and development costs incurred in developing new technologies, products and processes;
- (ii) Wages paid for the placement of disabled persons and other employed persons encouraged to be placed by the State.

**Article 31** Venture capital enterprises engaging in venture capital investments that the State needs to focus on supporting and encouraging may deduct a certain percentage of their investment amount from their taxable income.

**Article 32** If the fixed assets of an enterprise really need accelerated depreciation due to technological progress, etc., the depreciation may be shortened depreciable life or by means of accelerated depreciation.

**Article 33** Income derived from the comprehensive use of resources by an enterprise to produce products in line with the provisions of the State's industrial policy may be deducted from income when calculating taxable income.

**Article 34** The amount of investment for the purchase of special equipment for environmental protection, energy and water conservation and safe production by enterprises may be subject to tax credits at a certain percentage.

**Article 35** The specific measures for the tax concessions provided for in this Law shall be prescribed by the State Council.

**Article 36** According to the needs of national economic and social development, or due to unexpected events and other reasons that have a significant impact on the business activities of enterprises, the State Council may formulate special preferential policies on enterprise income tax and report them to the Standing Committee of the National People's Congress for the record.

## **Chapter 5      SOURCE      source      Withholding      Payment**

**Article 37** The income tax payable by non-resident enterprises in respect of the acquisition of the income specified in paragraph 3 of Article 3 of this Law shall be withheld at source, with the payer being the withholding agent. The tax shall be withheld by the withholding agent from the amount paid or due and payable at the time of each payment or payment due and payable.

**Article 38** Income payable by a non-resident enterprise in respect of income derived from engineering operations and labour services in China  
The tax authorities may designate the payer of the price of the work or labour as the person liable for withholding tax.

**Article 39** Where income tax is required to be withheld in accordance with the provisions of Articles 37 and 38 of this Law and the withholding agent fails to withhold the tax in accordance with the law or is unable to perform the withholding obligation, the taxpayer shall pay the tax in the place where the income is derived. If the taxpayer fails to pay in accordance with the law, the taxation authority may recover the tax payable by the taxpayer from the amounts payable by the payer of other income items within China.

**Article 40** Each tax withheld by the withholding agent shall be paid into the State Treasury within seven days from the date of withholding, and

Submit a withholding enterprise income tax report form to the tax authorities in your location.

## **Chapter 6      Special Tax Adjustments**

**Article 41**      Where business transactions between an enterprise and its related parties do not conform to the principle of independent transactions and reduce the taxable income or income of the enterprise or its related parties, the tax authorities shall be entitled to make adjustments in accordance with reasonable methods.

Costs incurred by an enterprise and its related parties in jointly developing or transferring intangible assets, or jointly providing or receiving labour services, should be apportioned in accordance with the principle of separate transaction when calculating taxable income.

**Article 42**      An enterprise may propose to the tax authorities the pricing principles and calculation of business transactions between its related parties  
The calculation method is negotiated and confirmed by the tax authority and the enterprise, and then a reservation pricing arrangement is reached.

**Article 43** When filing annual enterprise income tax returns with the tax authorities, enterprises shall attach annual related business transaction report forms in respect of their business transactions with related parties.

When the tax authorities conduct an investigation of connected business, the enterprise and its related parties, as well as other enterprises related to the investigation of connected business, shall provide relevant information in accordance with the regulations.

**Article 44** An enterprise does not provide information on business transactions with its related parties, or provides false or incomplete  
If the information does not truly reflect its connected business transactions, the tax authorities are entitled to approve its taxable income in accordance with the law.

**Article 45:** A resident enterprise, or an enterprise controlled by a resident enterprise and a Chinese resident, established in a place where the effective tax liability is clearly defined, shall be liable to tax.

Where an enterprise in a country (region) with a significantly lower tax rate than that prescribed in paragraph 1 of Article 4 of this Law does not distribute or reduces the distribution of its profits for reasons other than reasonable business needs, the portion of said profits attributable to such resident enterprise shall be included in the current income of such resident enterprise.

**Article 46** The ratio of debt to equity investments received by an enterprise from its related parties exceeds the prescribed threshold  
Interest expenses incurred for the purpose of calculating taxable income are not deductible.

**Article 47** Where an enterprise implements other arrangements that do not have a reasonable commercial purpose and reduce its taxable income or income, the tax authorities shall be entitled to make adjustments in accordance with reasonable methods.

**Article 48** Where the tax authorities make tax adjustments in accordance with the provisions of this Chapter and additional tax is required, additional tax shall be levied  
The amount of the payment shall be subject to interest in accordance with the provisions of the State Council.

**Article 49**    The collection and administration of enterprise income tax shall be carried out in accordance with the provisions of the Law of the People's Republic of China on Tax Collection and Administration, except for the provisions of this Law.

**Article 50**    Unless otherwise provided by tax laws and administrative regulations, a resident enterprise shall be registered in the place of registration of the enterprise as a The place of taxation; however, if the place of registration is outside the country, the place of taxation shall be the place of the actual management body.

Where a resident enterprise establishes an unincorporated business establishment in China, it shall calculate and pay enterprise income tax on an aggregated basis.

**Article 51**    A non-resident enterprise that acquires the income specified in paragraph 2 of Article 3 of this Law shall be required to have its establishment or premises in  
The place of taxation shall be the place of taxation. Where a non-resident enterprise establishes two or more institutions or locations in China and meets the conditions prescribed by the taxation authorities under the State Council, it may choose to have its principal institution or location pay enterprise income tax in aggregate.



A non-resident enterprise that obtains the income specified in paragraph 3 of Article 3 of this Law shall be taxed at the place where the withholding agent is located

Points.

**Article 52** Unless otherwise provided by the State Council, no enterprise shall pay enterprise income tax on a consolidated basis between enterprises.

**Article 53** Corporate income tax shall be calculated on the basis of the taxation year. The taxable year shall commence on January 1 and end on December 31 of the Gregorian calendar.

Where an enterprise opens for business in the middle of a tax year or terminates its business activities so that the actual period of operation for that tax year is less than twelve months, the actual period of its operation shall be taken as a tax year.

When an enterprise is legally liquidated, the period of liquidation should be taken as a tax year.

**Article 54** Enterprise income tax shall be paid in advance in monthly or quarterly instalments.

An enterprise should submit an advance enterprise income tax return to the tax authorities for prepayment of tax within fifteen days from the end of the month or quarter.

Enterprises should file their annual enterprise income tax returns with the tax authorities within five months from the end of the year, and remit the tax payments and settle the tax refunds due.

When filing the enterprise income tax return, enterprises should attach financial accounting reports and other relevant information in accordance with the regulations.

**Article 55** If an enterprise terminates its business activities in the middle of the year, it shall, from the date of actual termination of its business, be liable for a fine of sixty  
Within three days, you should settle the current enterprise income tax remittance with the tax authorities.

An enterprise should declare and pay the enterprise income to the tax authorities in accordance with the law on its liquidation proceeds before registering for cancellation  
Tax.

**Article 56** The enterprise income tax paid in accordance with this Law shall be calculated in RMB. Where such tax is calculated in a currency other than RMB, it shall be converted into RMB and the tax shall be paid.

## **Chapter 8      BYLAWS      RULES**

**Article 57** Enterprises which have been approved for establishment prior to the promulgation of this Law and which, in accordance with the then existing tax laws and administrative regulations, enjoy preferential low tax rates may, in accordance with the provisions of the State Council, gradually transition to the tax rates stipulated in this Law within five years after the enforcement of this Law; enterprises which enjoy preferential periodic tax reductions may, in accordance with the provisions of the State Council, continue to enjoy such preferential rates after the enforcement of this Law until their expiry, except for those which have not yet enjoyed the preferential rates because they have not made any profits. The preferential period shall be calculated from the year in which this Law comes into force.

High-tech enterprises newly established within the specific regions set by law for the development of foreign economic cooperation and technological exchanges, as well as those newly established in regions where the State Council has stipulated the implementation of special policies for the above-mentioned regions, may enjoy transitional tax concessions, the specific methods of which shall be stipulated by the State Council.

Other encouraged enterprises that have been identified by the State may enjoy tax breaks in accordance with the provisions of the State Council.

**Article 58** Where the agreements on taxation concluded between the Government of the People's Republic of China and foreign governments differ from the provisions of this Law, the provisions of the agreements shall be followed.

**Article 59** The State Council shall formulate implementing regulations in accordance with this Law.

**Article 60** This Law shall come into force on January 1, 2008, and the Law of the People's Republic of China on Income Taxation of Foreign-invested Enterprises and Foreign Enterprises adopted at the Fourth Session of the Seventh National People's Congress on April 9, 1991 and the Provisional Regulations of the People's Republic of China on Enterprise Income Tax issued by the State Council on December 13, 1993 shall be repealed at the same time.

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No.5 West Yangfangdian Road, Haidian District,  
Beijing

