

## New Policy of Taxation

[1 October, 2008 Issues 21]

On 16 March 2007, the National People's Congress adopted the enterprise income tax law, which will be effective from 1 January 2008. It's a key signal of the end of different treatment between foreign investors and domestic investors. The State Council published the implementation Regulations of Corporate Income tax law to clarify the details of the enterprise income tax, which will also be effective from 1 January 2008. The other circular will be issued gradually.

1. Notification about energy-saving equipment Corporate Income Tax Discount Directory (2008 edition) and environmental protection equipment Corporate Income Tax Discount Directory (2008 version)

Date of Issue: August 20th, 2008

Date of Effective: January 1th, 2008

Document No.: 财税 2008 [115] 号

Description: If an enterprise acquires and actually uses specific equipment stipulated in this "catalogue", 10% of its investment in the specific equipment may be offset against its income tax payable for the current year. Any excess amount may be carried forward and deductible in the following 5 tax year.

2. Notification about the comprehensive utilization of resources Corporate Income Tax Discount Directory (2008 version)

Date of Issue: August 20th, 2008

Date of Effective: January 1th, 2008

Document No.: 财税 2008 [117] 号

Description: If an enterprise uses the resources stipulated in this "catalogue" as its major raw materials to produce products that are not restricted or prohibited by the State and satisfy the relevant State and industrial criteria, only 90% of the income derived shall be used to calculate its total income.

3. Notification about dealing with the issue of paying Corporate Income Tax for the provision of services between the parent and subsidiary companies

Date of Issue: August 14th, 2008

Date of Effective: August 14th, 2008

Document No.: 国税函 2008 [86] 号

Description: if parent company provides services to their subsidiary, the cost of service will accord "arms - length principle". If parent company received the fees from their subsidiary as "management fee", the amount paid by the subsidiary will not be deductible when calculating its own CIT payable.

4. Notification about dealing with the issue that Non-resident companies do not have the right to enjoy the preferential policies of Corporate Income Tax for Qualified Small and Thin profit Enterprises

Date of Issue: July 3th, 2008

Date of Effective: July 3th, 2008

Document No.: 国税函 2008 [650] 号

Description: The concept of "Qualified Small and Thin profit Enterprises" means this sort of company, whose revenue from all the activities will be levied on CIT of China. The Non- Tax Resident Enterprises whose CIT will only levied on revenue sourced China will not treated as "Qualified Small and Thin profit Enterprises" and application of reduced tax rate of 20%.

5. Notification about the issue of foreign enterprise income tax year

Date of Issue: April 3th, 2008

Date of Effective: January 1th, 2008

Document No.: 国税函 2008 [301] 号

Description: Beginning from 1 January 2008, the tax year for foreign enterprises shall be the Gregorian calendar year.

6. Notification about tax collection and management of external payments in service trade

Date of Issue: Match 6th.2008

Date of Effective: April 1th, 2008

Document No.: 国税函 2008 [219] 号

Description: If enterprises deal with the outbound payment of trade in services excess US \$50K, put on record to tax authority is required.

7. Notification about terminating implementation the policy of crediting purchases of domestically produced equipment as investments by enterprises against enterprise income tax

Date of Issue: May 16th.2008

Date of Effective: January 1th.2008

Document No.: 国税发 2008 [52] 号

Description: Beginning from 1 January 2008, the policy of crediting purchases of domestically produced equipment as investments by enterprises against enterprise income tax is terminated.

8. Notification about the policy of Embedded software value-added tax

Date of Issue: June 30th.2008

Date of Effective: June 30th.2008

Document No. 财税 2008 [92] 号

Description: The methodology for computing the VAT refund has been changed and it is more

beneficial for taxpayers. The notice clarified that, for general taxpayers engaged in the sale of self-developed and self-produced embedded software products together with computer networks, computer hardware, machines and equipment, the VAT refund for the embedded software sales is calculated according to "sales" if the "sales" of the software and hardware products can be accounted for separately.