

## Tax rates

### I Principal taxes that foreign-invested enterprises must pay (local tax excluded)

#### Income duty

Enterprises must pay 30 percent of the income as the corporate income tax and 3 percent as the local income tax after costs have been deducted from corporate revenues.

#### Value Added Tax(VAT)

The output tax is the total income of sales revenue plus processing service charges, and multiplied by 17 percent of the tax rate; the input tax is equal to the tax paid according to the goods purchased currently.

VAT payable = current output tax – current input tax

### II Major tax preferences that Dalian foreign-invested enterprises enjoy:

#### Income tax preferences

In order to encourage foreign enterprises to invest in Dalian, the government implements different preferential tax treatments to different regions and industries according to special industrial policies, including reduction of tax rates, regular tax reduction and exemption, accelerated depreciation, refund of the income tax paid on the reinvested amount, exemption of corporate income tax with the investment contributions by purchasing domestic made equipment and additional deduction of technical developing costs.

#### Reduction of tax rate

The legal corporate tax rate is 30 percent, but can be reduced to 15 percent and 24 percent, according to the situation.

#### 1. Corporate income tax is levied at a reduced rate of 15 percent:

(1) Dalian Eco-Tech Development Zone is one of the first state-level eco-tech development zones. The foreign-invested productive enterprises in the zone enjoy a reduced rate for corporate income tax at 15%.

(2) Enterprises that are set up in urban areas and open coastal economic area (Pulandian, Wafangdian and Zhuanghe) and engaged in the following projects enjoy a reduced rate of 15 percent: skill-intensive or knowledge-intensive projects; projects with an investment of over USD 30million and a long period for investment recovery; and projects related to energy, communications and port construction.

(3) Dalian High-Tech Industrial Zone is a state-level high-tech industrial zone. Foreign-invested high-tech enterprises set up in the zone enjoy a reduced rate for corporate income tax of 15 percent.

(4) For the Sino-foreign joint ventures engaged in construction of ports and docks, the corporate income tax is levied at a reduced rate of 15 percent.

(5) Foreign-invested banks and Sino-foreign joint venture banks with an operation period of more than 10 years or foreign investors have invested a capital or the head office has invested a working capital of over USD 10 million enjoy a reduced rate for corporate income tax of 15 percent.

#### 2. Corporate income tax is levied at a reduced rate of 24 percent

(1) Foreign-invested productive enterprises set up in urban areas and open coastal economic areas enjoy a reduced rate for corporate income tax of 24 percent.

(2) Dalian Golden Pebble Beach Tourist Resort is a state-level tourist resort in China. Foreign-invested enterprises set up in the resort enjoy a reduced rate for corporate income tax of 24 percent

### Regular tax reduction and exemption

1. Two-year exemptions and three-year reductions: any enterprise with foreign investment of a productive nature scheduled to operate for a period of not less than ten years shall from its first year of profit be exempted from corporate income tax in the first and second years and allowed a 50 percent reduction in the third to fifth year.

The newly established software manufacturing enterprises shall from the first year of profit be exempted from corporate income tax in the first and second years and allowed a 50 percent reduction in the third to fifth year.

2. Five-year exemption and five-year reduction: The Sino-foreign joint ventures engaged in construction of ports and docks scheduled to operate for a period of not less than fifteen years shall from the first year of profit be exempted from corporate income tax in the first to fifth year and allowed a 50 percent reduction in the sixth to tenth year.

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3. One-year exemption and two-year reduction: The foreign-invested banks and Sino-foreign joint venture banks scheduled to operate for a period of not less than 10 years in which foreign investors have invested a capital or the head office has invested a working capital of over USD 10 million shall from the first year of profit be exempted from corporate income tax in the first year and allowed a 50 percent reduction in the second and third years.

4. Two-year exemption: The Sino-foreign high-tech joint ventures set up in the high-tech industrial zones specified by the State Council shall from the first year of profit be exempted from corporate income tax in the first and second years.

5. Extension of the 50 percent reduction in corporate income tax: Advanced technology enterprises which remain advanced technology enterprises after the period of enterprise income tax exemptions or reductions has expired may continue to pay corporate income tax at a 50 percent reduced rate for another three years, but the rate must not be lower than 10 percent.

Export-oriented enterprises whose output value of export products reaches more than 70 percent of its total output may continue to pay corporate income tax at a 50 percent reduced rate, but the rate should not be lower than 10 percent.

#### **Local income tax**

All foreign-invested enterprises in Dalian shall from the first year of profit be exempted from local income tax in the first seven years according to the relevant regulation promulgated by Dalian Municipal Government. For the enterprises engaged in the projects encouraged by Dalian City could be exempted from local income tax for another three years. Accelerated depreciation

The term of depreciation for fixed assets (except for houses or buildings) and intangible assets of industrial enterprises in Dalian—one of the old industrial bases in Northeast China—could be curtailed by 40 percent, at most, based on the depreciation term specified in the existing provisions.

Refund of the income tax paid on the reinvested amount

Foreign investors in foreign-invested enterprises who reinvest the profits gained from their enterprises in the original enterprises to add the registration capital or as capital for investment in other foreign-invested enterprises, with an operation period of no less than 5 years, shall be returned 40 percent of the total income tax already paid for the reinvested portion. Those recognized as advanced technology enterprises or export-oriented enterprises shall be returned 100 percent.

Exemption of corporate income tax with the investment contributions by purchasing domestic made equipment

Any domestic equipment that is purchased by foreign-invested enterprises engaged in the projects encouraged by the government will have 40 percent of the purchasing investment of the domestic equipment as an income tax credit in the year that the equipment is purchased as compared to the previous year. If it is not enough to or not used to offset the newly increased tax in the current year, the following investment could continue to be used to offset the income tax. Technical developing cost offsets taxable income

For foreign-invested enterprises whose technical developing costs increase by 10 percent or more than the last year, 50 percent of the actual value of said total cost will offset the taxable income in the current year.

#### **Exemption and reduction of withholding income tax**

Profits gained by foreign investors from foreign-invested enterprises shall be exempted from income tax.

Foreign investors can enjoy a 10 percent reduced rate for withholding income tax on the income sourcing from interests, license fees and other aspects of Dalian City.

The preferential treatment of withholding income tax reduction and exemption after approval by the municipal government could be granted to the enterprises where preferential treatment is granted to capitals and equipment, and advanced technology is transferred.

#### **\* Preferential policy of VAT**

##### **Expand the scope of offset for VAT and allow the offset for fixed assets input VAT**

According to the provisions of VAT Law of the People's Republic of China, the VAT contained in machinery and equipment could not be offset, so enterprises shall pay a high VAT. In order to revitalize the northeast's industrial base, the country grants special treatment to industrial enterprises in northeast China: the VAT contained in the machinery and equipment newly purchased by the enterprises engaged in equipment manufacturing, petrochemical engineering, metallurgy, shipbuilding, automobile manufacturing and agricultural product processing could be offset according to relevant provisions.

##### **VAT exemption, offset and refund for export goods**

In respect of export sales, all export goods produced by foreign-invested enterprises shall be exempted from VAT. Input VAT of the raw materials offsets the VAT payable of the goods to be sold in the domestic market. If the amount of input VAT is bigger than the VAT payable, the excess is refundable. All export goods self-produced by foreign-invested enterprises shall be exempted from the consumption tax.

##### **VAT exemption for sales of self-produced agricultural products**

Sales of agricultural products produced by foreign-invested enterprises engaged in crop production, livestock breeding, forestry, animal husbandry or aquaculture are exempted from VAT. Policy of refunding upon payment of VAT for software products

As for recognized software manufacturing enterprises as general VAT payers selling autonomously developed software products, the policy of refunding upon payment of VAT is carried out for the part with the actual VAT burden over 3 percent after VAT is imposed by the legal rate of 17 percent.

VAT exemption for feedstuff

Sales of feedstuff are exempted from VAT.

Comprehensive utilization of resources

If coal refuses, stone coal and pulverized coal account for not less than 30 percent of the raw material used by an enterprise, the material is exempted from VAT.

New-type wall materials

VAT of some new-type wall materials is levied at a 50% reduced tax rate.

### **Preferential Tax Policy in Dalian**

#### **Unique Location Advantage**

Dalian is not only the earliest coastal area opening to the outside world, but also the Northeast Old Industrial Base, enjoying numbers of preferential tax policies. Its prominent location is superior to any other area.

As a coastal opening city, Dalian enjoys a preferential policy regarding income tax. The income tax rate for foreign-invested productive enterprises in the Development Zone is 15%, and for businesses in other regions (except Changhai County) is 24%, with tax relief executed regularly. Enterprises gain universal benefits. The actual income tax rate imposed on foreign-invested enterprises in Dalian in the year 2003 was only 10.01%, which was lower than 3/1 of the legal level and far below the national average (14.21%) as well.

As a Northeast Old Industrial Base, Dalian enjoys an expanded scope offset for VAT, and also a favorable policy on accelerated depreciation for fixed assets and intangible assets. In particular, the policy on the expanded scope of offset for VAT, as a special strategy produced by the state to revitalize the northeast old industrial base, will significantly reduce the enterprises' VAT burdens. Accelerated depreciation allows the enterprises to pay the duty later, which brings substantial benefits and convenience in cash to enterprises.

Integration of both these two preferential tax policies makes the other regions fall far behind Dalian in terms of location advantage.

#### **Wider and longer-term preferential policy of local income tax**

Local income tax shall be determined to levy by the provincial government as stipulated by Tax Law. All foreign-invested enterprises in Dalian are allowed from the first year of profit to be exempted from this tax for 7 years. Enterprises involved in projects encouraged by Dalian Municipal Government shall be exempted from local income tax for another 3 years. This preferential strength is enticing nationwide.

#### **Industrial parks of various types and functions**

Dalian has created full set of industrial parks, such as Eco-Tech Development Zone, High-Tech Industrial Zone, Free Trade Zone, Export Processing Zone, Tourist Resorts, Bonded Logistics Park and others. Enterprises enjoy reduction and exemption of income tax and also convenience in importing and exporting cargo.

All categories of favorable tax policies are executed under relevant laws.

Various foregoing tax preferences are given by the state pursuant to applicable laws or stipulated by Dalian Municipal Government in accordance with laws within the scope authorized by the state. Competent authorities shall not exceed their specified authority to relieve the taxes and shall implement administration, impose taxes, deduct the taxes according to the law, and shall keep the policy stable.