

A horizontal banner image with a grid overlay. It contains several law-related icons: a scale of justice, a stack of books, a computer keyboard, and a gavel.

JONES DAY
COMMENTARY

CHINA EXTENDS TAX INCENTIVES IN WESTERN REGIONS

On July 27, 2011, the Ministry of Finance, the General Administration of Customs, and the State Administration of Taxation issued The Notice on the Relevant Tax Policies for the Implementation of the Strategy of Extensive Development of the Western Regions, Cai Shui [2011] No. 58 (the "Notice"). The Notice has extended certain tax incentives for another 10 years, from January 1, 2011 to December 31, 2020.

In 2000, China issued policies concerning the extensive development of the Western Regions. As part of the policies, tax incentives were given to investment in qualified industries in the Western Regions from January 1, 2001 through December 31, 2010. In 2010, Chinese government decided to continue its policies to encourage the development of the Western Regions. The Notice has clarified the tax incentive policies for next 10 years.

WESTERN REGIONS DEFINED

To qualify for the tax incentives, an enterprise must be set up in the Western Regions. The Western Regions defined in the Notice are the same areas provided in the old regulations, which include Chongqing, Sichuan, Guizhou, Yunnan, Tibet, Shanxi, Gansu, Ningxia, Qinghai, Xinjiang, Inner Mongolia, and Guangxi. The preferential incentives for the Western Regions also apply to Xiangxi Tujia-Miao Autonomous Prefecture in Hunan Province, Enshi Tujia-Miao Autonomous Prefecture in Hubei Province, and Yanbian Korean Autonomous Prefecture in Jilin Province.

TAX INCENTIVES EXTENDED

An enterprise investing in encouraged industries is exempt from Customs Duty on the import of equipment for self-use within its approved total investment.

A reduced Corporate Income Tax rate of 15 percent (a 10 percent reduction from the regular rate) is applicable to enterprises set up in the Western Regions with their main business in encouraged industries. The encouraged industries are those listed in The Catalog of Encouraged Industries in the Western Regions. To qualify for the reduced tax rate, an enterprise must derive 70 percent or more of its revenue from the business listed in the catalog. Although the preferential tax rate is the same as that for the first 10-year period, the industries may not be exactly same. Previously, the encouraged industries were based on different catalogs for domestic and foreign-invested enterprises. For domestic enterprises, the catalog was The Catalog of Industries, Products, and Technologies Whose Development Is Currently Encouraged by the State; for foreign invested enterprises, they were The Catalog of Industries for Guiding Foreign Investment and the Catalog of Preferred Industries for Foreign Investment in the Central and Western Region. Now, the qualification will be based on the unified catalog to be issued by the government.

Under the old preferential policy effective for the period from January 1, 2001 to December 31, 2010, an enterprise set up in the Western Region with its main business in the transportation, electricity, water resources, post, broadcasting, and television industries can enjoy a two-year exemption and three-year 50 percent reduction in the Corporate Income Tax rate from the first profit-making year for foreign-invested enterprises and from the first operating year for domestic enterprises. The Notice clarifies that enterprises that were set up prior to January 1, 2011 and are qualified for the tax incentives under the old preferential policy can continue to enjoy the preferential treatment for the term as prescribed under the old preferential policy.

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