Trusture

China Tax Alert

Trusture Business Service Company Limited

Shanghai • China

SAT Bulletin [2011] No.34
Certain Issues Related to Enterprise Income Tax

The State Administration of Taxation (the "SAT") issued Bulletin [2011] No. 34 on 9 June 2011 concerning issues related to Enterprise Income Tax (the "EIT"), which is effective from 1 July 2011. Certain issues addressed by Bulletin 34 are highlighted as follows:

- Non-financial enterprise (the "NFE") should privde the "Financial Enterprise's Loan Interest Rate Fact Sheet of Common Type and Period" when it pays the interest to a NFE loaner and applys for the EIT deduction for the first time in order to prove the reasonableness of the interest cost;

- Expenses of dress uniform incurred due to enterprise's unified dressing code and tailored uniformly by the enterprise are tax deducitble as enterprise's reasonable expenses, which unifies previous argument regarding the dress uniform expenses should be classified as the "staff welfare expenses" or "labour protection expenses";

- Polit's aircrew training expenses incurred by an aviation enterprise are tax deductible as the freight cost rather than to classifying it as the "staff education expenses" follow the deductiable limit of 2.5% applied by a non-aviation enterprise;

- Where an enterprise rebuilds its buildings or structures before these assets are fully depreciated, the net value, i.e. original cost minus accumulated depreciated, should be added to the cost incurring for rebuilding as the tax basis of rebuilt assets rather than to recognise it as the diposal loss of fixed assets before the Bulletin No.34 was issued. When an enterprise improves or expands its buildings and structures, the cost incurred for improvement and expansion should be added to these assets' old tax basis and reassessed their depreciated periods; In the case of an expansion, where the remaining useful life of the asset is less than the minimum depreciation period under the tax law, the assets can be depreciated by its remaining useful life;

Release Date

8 August 2011

Jurisdiction

China

Issue / Topic

Enterprise Income Tax

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- Where an investing enterprise withdraws or reduces its capital investment in an investee enterprise, the amount of withdrawal or reduction equivalent to the original registered capital should be treated as return of investment; the amount of withdrawal or reduction equivalent to the accumulated undistributed profit and reserve fund should be treated as the dividend income in accordance with the proportion of withdrawn and reduced registered capital; the remaining capital gains are treated as the income from investing property transfer; and

- Cost and expenses incurred in current year by an enterprise, which can not be obtained the valid supporting documents or vouchers due to miscellaneous reasons, are tax deductible according to the amount reflected in the enterprise's management account when doing the quarterly EIT filing. However, the enterprise must provide the valid supporting documents or vouchers associated with these cost and expenses before/during the annual EIT filing.

Release Date

10 August 2011

Jurisdiction

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