

➤ **Q: How much is Foreign Enterprise Income Tax rate? How to compute the tax payable?**

A: The Foreign Enterprise Income Tax adopts flat rate.

The enterprise income tax payable shall be computed on the basis of the taxable income and by applying 30% rate. The local enterprise income tax payable shall be computed on the basis of the taxable income and by applying 3% rate. Thus the aggregate tax rate is 33%.

The foreign enterprises having no establishment or place in China but deriving profits, interest, rental, royalties and other income from sources in China, or those having establishment or place in China but the said income is not effectively connected with such establishment or place, shall pay the income tax of 20% on such income. At present, the income of interest, rental, royalties and other income is taxed at lower rate of 10%.

The formula for computing the tax payable is as follows:

Income tax payable = Taxable income * Applicable tax rate

Example 1:

One joint venture has 10 million yuan taxable income for the year, then the income tax payable shall be computed as:

Income tax payable = 10 million * 30% = 3 million yuan

Local income tax payable = 10 million * 3% = 300,000 yuan

Example 2:

A foreign bank having no establishment or place in China obtained interest income of 20 million yuan from China. The income tax payable shall be computed as:

Tax payable = 20 million yuan * 10% = 2 million yuan

Example 3:

The China Office of one foreign company has sold, on the company's behalf, one building with the original value of 6 million yuan which belongs to the company and received an income of 12 million yuan and paid relevant taxes and charges of 3 million yuan. Then the income tax payable shall be computed as follows:

Taxable income = 12 million yuan – 6 million yuan – 3 million yuan = 3 million yuan

Income tax payable = 3 million yuan * 10% = 300,000 yuan

The Foreign Enterprise Income Tax payable shall be computed in terms of Renminbi (RMB). For taxpayers deriving income in foreign currencies, they should convert the income into Renminbi according to the exchange rates quoted by the People's Bank (or the rate worked out according to relevant rules) and then compute and pay the income tax. When pre-paying

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the income tax in quarterly installments, taxpayers should convert the income into Renminbi according to the exchange rates quoted on the last day of the quarter. In the final settlement at the end of the tax year, the income tax prepaid in quarterly installments shall not be converted again. Only the balance of the foreign currency income over the whole year on which the tax has not been paid shall be converted into RMB according to the exchange rate quoted on the last day of the year. The income tax shall be computed and paid on the basis of the income in Renminbi.

In case that any income obtained by the taxpayer is in the form of non-monetary assets or equity, such as raw materials, equipment and the use right of technical know-how, the income shall be computed or assessed with reference to the prevailing market price.



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