

➤ **Q: How to calculate the depreciation of fixed assets for the enterprises with foreign investment and foreign enterprises?**

A: The time period for computing the depreciation of fixed assets and the deduction of salvage value for the enterprises with foreign investment and foreign enterprises are the same as that for domestic enterprises except that the salvage value should not be less than 10% of the original value.

The depreciation of fixed assets should usually computed by straight-line method. The formula is as follows:

Annual depreciation rate = (1-expected residual rate)/years of depreciation *100%

Monthly depreciation rate = Annual depreciation rate/12

Monthly depreciation = Original value of the fixed assets*monthly depreciation rate

Where the taxpayers need to use other method for depreciation, they may submit application to the tax authorities for approval.

The minimum depreciation period is 20 years for houses and buildings, 10years for machinery and mechanical apparatus and 5 years for electric equipment and automobiles. The useful life for depreciation or amortization of the software purchase by taxpayers may, upon approval by the tax department, be properly shortened to minimum period of 2 years. In other cases of any need to shorten the period of depreciation on the fixed assets due to special reasons (such as seriously corroded machinery and equipment, the factory house and buildings in condition of shaking or shock all the year round, the machinery and equipment in operation day and night all the year round), an application shall be made by the said taxpayers to the competent tax department for approval.

For the used fixed assets obtained by enterprises with a remained useful life shorter than depreciation period specified by tax law, the depreciation may be computed on basis of the remained useful life upon approval by the competent tax department after examination of the application by the taxpayers.

In course of use of the fixed assets, the expenses incurred for value increase due to expansion, replacement rebuilding and /or technical renovation should be added to the original cost of the fixed assets. Moreover, the depreciation period should be properly prolonged for the fixed assets whose useful life may be prolonged. The computation of depreciation should be adjusted accordingly.

No depreciation shall be allowed for fixed assets that remain in use after the full depreciation

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period.

In case of transfer or disposal of fixed assets by enterprises the balance of the proceeds after deduction of the net value to be depreciated, salvage value and the handling fees shall be treated as profit or loss of the current year.



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