

➤ **Q: What are the rules concerning the depreciation of the fixed assets of Individual Industrial and Commercial Households?**

A: The houses, buildings, machinery, equipment, transportation tools and other production-related or business-related equipment, tools and appliances with unit value over 1000yuan and used for more than one year in production or business operation shall be defined as the fixed assets.

Depreciation may be allowed for houses and buildings, machinery and equipment in use, apparatus and meters, tools and appliance, the equipment suspended for use due to seasonal reason or repair, and the fixed assets leased out in form of business operation and rented in form of financial leasing. No depreciation shall be allowed for the fixed assets not in use or not needed (excluding houses and buildings), the fixed assets rented in form of business operation (the rentals may be deductible) and the fixed assets still in use after fully depreciated.

The valuation methods for fixed assets are: the fixed assets purchased are valued on the basis of purchasing price, package charges, freight and installation charges actually paid; the fixed assets self-constructed are valued by the total expenses incurred during the construction; the fixed assets as investment are valued in line with the appraised value or the value agreed in the contracts (agreements); the fixed assets re-constructed or expanded are valued by the original book value of the assets minus the price change during the re-construction or expansion plus the expenses increased due to the reconstruction or expansion; the fixed assets with inventory gains are valued according to the complete appraised value of similar assets; the fixed assets rented by financial lease are valued in accordance with the sum of rentals, freight, insurance and installation and test charges as determined in the leasing agreements or contracts.

Before computing depreciation for fixed assets, the salvage value should be estimated and deducted from the original value of the fixed assets. The salvage value is determined at 5% of the original price of the fixed assets.

After examination by the competent tax department, the useful life for depreciation of fixed assets should not be less than the following period: 20 years for houses and buildings, 10 years for steamships, machinery, apparatus and other production equipment, and 5 years for electric equipment, transportation tools (excluding steamships) and production-related or business-related tools, appliances and furniture. In case of need to shorten the useful life for depreciation, the taxpayers may apply to the local tax bureaus at provincial level of their location for approval.

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The depreciation of fixed assets shall be computed by composite life method or by units-of-output method. The formula for composite life method is the same as the enterprise income tax. The formula for the units-of-output method is:

Depreciation per unit of distance (per work hour) = (original value-residual)/Total distance (hours)

Monthly depreciation = monthly distance (work hour) *depreciation per unit of distance (per work hour)



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