

➤ **Q: How to deduct the R&D expenses in computing the taxable income of the enterprises with foreign investment and foreign enterprises?**

A: Where the enterprises with foreign investment has increased their R&D expenses in China in the current year by 10% or more over the previous year, in addition to the actual expenses that may be deductible according to rules, 50% of the actual R&D expenses of the current year may, upon approval by the competent tax department, be deducted from the taxable income of the current year.

The above mentioned R&D expenses refers to the new product designing charges, craft procedure formulation charges, equipment test charges, raw material and semi-product expenses, technological book and material expenses, the interim test charges not covered by the State Planning Program, wages for researchers, depreciation of research equipment and other expenses related to the new product testing and technological study all of which are incurred by enterprises in a tax year in study and development of new products, new technology and new craft.

The R&D expenses incurred by foreign enterprises having establishment or places in China on production or business operation may be treated in reference to the above rules.

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