

➤ **Q: What are the deductible items in computing the taxable income for Foreign Enterprise Income Tax?**

A: When computing the taxable income for Foreign Enterprise Income Tax, the following items are allowable for deduction:

- a. The reasonable interest on borrowings (that is the interest not higher than the commercial loans interest rate) incurred by the taxpayers in relation to production and business operation may be deductible upon approval by the local competent tax offices after examination on the relevant documents provided by the taxpayers.
- b. The wages paid by the taxpayers to their employees may be deductible upon approval by the local competent tax offices after examination of the relevant documents submitted by the taxpayers as requested.
- c. The technology development expenses incurred by the taxpayers.
- d. The entertainment expenses on public relation incurred by the taxpayers within the scope and limit as prescribed by rules.
- e. The exchange gain or loss incurred in course of preparation and production and business operation should be listed appropriately as profit or loss in the matching period.
- f. The bad debt provision made according to rules by the taxpayers engaged in the credit and leasing businesses.
- g. The donation expenses made by the taxpayers according to rules.
- h. The reasonable overhead expenses paid to the head offices by the foreign enterprises having establishment or places in China.
- i. The income tax paid overseas on the profits (dividends), interest, rentals, royalties and other income earned outside China by and effectively connected with the establishments or places set up within China by foreign enterprises may usually be deductible (unless otherwise stipulated by the State)

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