

➤ **Q: How does the tax department assess the amount of tax due for associated enterprises?**

A: The associate enterprises are the enterprises and other economic organizations with one of the following relations:

- a. Direct or indirect possession or control in terms of funds, business operation and sales and purchases.
- b. Directly or indirectly possessed or controlled by the third party.
- c. Other associations in terms of interest

The receipt or payment of charges or fees in business transactions between the establishments or places engaged in production or business operations established in China by an enterprise or foreign enterprise, and its associated enterprises should be made in line with transactions between independent enterprises (i.e., the transactions following the arm's length prices and normal practice in business between un-associated enterprises). Where the arm's length principle is not followed resulting in reduction of tax payable or taxable income the competent tax department may make reasonable adjustments to the assessable revenue or taxable income and assess the tax payable by use of the comparable prices method, resale method, cost plus method or other reasonable method.

Where the interest paid or received on the financing between the taxpayers and their associated enterprises is over or below the value as agreed between independent enterprises or where the interest rate is over or below the normal interest rate of similar businesses, the competent tax department may make adjustments in reference to the normal interest rate.

Unless the remuneration received or paid between the taxpayers and their associated enterprises for provision of labor services is in conformity with that between independent enterprises, the competent tax department may make adjustment in reference to the normal charges of similar labor services.

Where the taxpayers and their associated enterprises do not value the property transferred and property use right provided between them as the independent enterprises do, the competent tax department may make adjustment to the value in reference to the value that could be agreed between independent enterprises.

Taxpayers are obliged to provide the local competent tax department with the relevant information of prices and expenses charged with their associated enterprises.

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