

➤ **Q: How to handle the income tax in case of split-up of enterprises with foreign investment?**

A: Where the enterprises with foreign investment remain to be the enterprise with foreign investment after split-up, the relevant tax matters should be treated as follows:

a. Evaluation of assets

After split-up, the assets, liabilities and owner's equity of every enterprise should be valued on basis of the historical book costs prior to split-up, to which no adjustment shall be allowed in line with the evaluation of assets in the gain and loss accounting due to the realization of split-up of enterprises. Otherwise, adjustment shall be made when computing and reporting the annual taxable income.

b. Preferential tax treatment

The enterprises after split-up shall be subject to the proper reduced tax rate in consideration respectively of their production and business operation condition and according to tax law, and continue to enjoy the tax reductions and exemptions enjoyed by the enterprises before split-up.

Where the production and business operation after split-up are eligible for periodical tax reductions and exemptions according to tax law, the enterprises after split-up shall not be eligible for the preferential tax treatment anymore if the preferential tax treatment granted before split-up has expired, and the enterprises after split-up may continue to enjoy the preferential tax treatment until expiration if the preferential tax treatment granted before split-up has not expired yet. Where the production or business operation of the enterprises before split-up are not granted any preferential tax treatment and the enterprises after split-up are eligible for preferential tax treatment, the enterprises after split-up may enjoy the preferential tax treatment within the remaining period counting from the first profit-making year of the enterprises before split-up.

No preferential tax treatment shall be given if the production and business operation of the enterprises after split-up are not in conformity with the scope of preferential tax treatment stipulated in tax law.

c. loss offsetting

For the losses that have not yet been offset by the enterprises before split-up, the part of the losses shared by each enterprise after split-up as agreed in the splitting agreement may continue to be offset by each enterprise after split-up within the remaining loss offsetting period stipulated by tax law.

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