

➤ **Q: How do the foreign enterprises with two or more business operation organizations in China report and pay income tax?**

A: Where the foreign enterprises have set up two or more business operation organizations in China, the enterprises may select one of them for consolidated report and payment of income tax. But this one operation organization should have the responsibility of monitoring the business operation of other business operation organizations and have complete accounting records and vouchers which can correctly reflect the revenue, costs, expenses and profits and losses of every operation organization.

Where consolidated report and payment of income tax is adopted, the selected business operation organization should submit application to the local tax authorities for examination. Where the business operation organizations are in the same province, autonomous region or municipality directly under the state council, it shall be approved by the tax department at provincial level. Where the business operation organizations are not in the same province, autonomous region or municipality directly under the state council, it shall be approved by the state administration of taxation. Any change of the business operation organization for the consolidated report and payment of tax shall be handled by the same rules.

In case of any additional organization set up, merging, merging, removal, termination of business operation, or shut down after approval for consolidated report and payment of income tax by the foreign enterprises, the organization responsible for the consolidation should report to the local tax authorities in advance.

Where the business organizations under the consolidation are subject to different tax rates, the taxable income should be respectively computed fairly and tax should be paid at different rates. Where any profit remains after offsetting of the profit and loss between different organizations, the tax should be paid at the rate applicable to the profit-making organization. In case of loss, the business organization should use the profit in later years to offset the loss and any profit remained after offsetting shall be subject to tax at the rate applicable to the organization, and the offsetting amount should be taxed at the rate applicable to the business organization devoting profits for offsetting the losses of the loss-making organization.

Where the responsible business organization fails to fairly and respectively compute the taxable income of every business organization, the local tax authorities may allocate the total taxable income between the different business operation organizations based on the percentage of business revenue, cost and expense ratio, assets proportion, number of employees or proportion of wage amount.

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