

May 2012

Circular Number	Issuance Date	Effective Date	Topic	What is new?
Decree of SAT [2012] No. 15	2012-4-24	2011-1-1	CIT deductions	<p>Decree [2012] No. 15 is effective retroactively from 1 January 2011. It provides clarifications on several items deductible before Corporate Income Tax ("CIT"):</p> <p>(1) Entertainment expenses and advertisement expenses incurred during the pre-operation period can be booked as pre-operation expenses.</p> <p>Pre-operation period is the period between the date of initial taxation registration by an enterprise to the date when the first tax invoice (<i>fapiao</i>) is issued by this enterprise.</p> <p>The pre-operation expenses can either be deducted in a lump sum in the year when the enterprise issues its first tax invoice or be amortized in 3 years.</p> <p>Under the existing tax regulations, deduction of these two kinds of expenses, i.e. entertainment expenses and advertisement expenses, is subject to caps calculated on the basis of the annual revenue. I.e. 60% of the entertainment expenses are deductible capped at 0.5% of the annual revenue. Advertisement expenses are deductible capped at 15% of the annual revenue.</p>

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				<p>Previously, it was not clear, if such kind of expenses incurred in the pre-operation period are deductible at all since there is no revenue during the pre-operation period. Decree [2012] No. 15 now clarifies the deductibility.</p> <p>(2) Expenses incurred in the previous years but not deducted are deductible in the year when the expenses took place. However, such expenses can only be carried back at the maximum 5 years.</p> <p>(3) Expenses recognized by relevant accounting regulations are deductible if the amount of such expenses does not exceed the relevant caps and scopes stipulated by tax regulations.</p>
Circular Caishui [2012] No. 27	2012-4-20	2011-1-1	CIT policies to further support software and integrated circuit ("CI") industries	<p>Circular Caishui [2012] No. 27 is effective retroactively from 1 January 2011. It replaces the treatments for software and CI industries stipulated in the Circular Caishui [2008] No.1. The new policies are as follows:</p> <p>(1) Officially recognized CI manufacturing enterprises can enjoy a CIT holiday of 2-years CIT exemption followed by 3-years CIT half-reduction ("2+3 CIT holiday"). For key CI manufacturing enterprises, a "5+5 CIT holiday" and a lower CIT rate of 15% can be also granted.</p> <p>(2) Newly established CI design enterprises and officially recognized software enterprises can</p>

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				<p>also enjoy the “2+3 CIT holiday”.</p> <p>(3) The above mentioned CIT holiday starts from the first profit-making year. However, first profit-making year cannot be later than 2017; otherwise no CIT holiday will be granted.</p>
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For further information, please contact:

Zhang Qi

Head of Tax Practice Area Group

E Qi.Zhang@cmslegal.cn

T +86 21 6289 6363

F +86 21 6289 0731