

Corporate Tax - China

Further clarification on Enterprise Income Tax

Contributed by [Hwuason Lawyers](#)

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On February 20 2010 the State Administration of Taxation issued a further clarification of certain aspects of the Enterprise Income Tax Law in Circular 79/2010, which addresses common problem areas in th operation of the law.

The key clarifications include the following:

- 'Income from equity transfers' refers to the consideration from the transfer, less the original cost incurred to obtain the equity. Undistributed profits cannot be deducted from the transfer price for tax purposes.
- An enterprise obtaining equity investment income, such as dividends and bonus shares, is deemed to have received the income on the date on which the board of directors or shareholders' general meeting decides to distribute the profits or issue the bonus shares.
- A enterprise begins to calculate its profit and losses from the year in which it started commenced production and operation of its business. The costs and expenses incurred during preparations before the enterprise engaged in production and operation are not counted as a loss in the current period.
- Costs and expenses relating to exempt income may be deducted when the enterprise calculates its taxable income (unless otherwise specified).

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